

**Kremmling Sanitation District
Kremmling, Colorado**

Financial Statements

December 31, 2016 and 2015

**Kremmling Sanitation District
Financial Statements
December 31, 2016 and 2015**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

We have audited the accompanying financial statements of Kremmling Sanitation District (the "District"), as of and for the years ended December 31, 2016 and 2015, as listed in the table of contents, and the related notes to the financial statements.

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 opinions 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 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 opinions.

Opinions

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

Member: American Institute of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis in Section B 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 Management's Discussion and Analysis in Section B in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The individual fund budgetary comparison in section E is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards included in section F is presented for the purpose of additional analysis, as required by Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is not a required part of the District's basic financial statements. The supplementary information in section E and the Schedule of Expenditures of Federal Awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 information in section E and the Schedule of Expenditures of Federal Awards is fairly stated in all material aspects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and on compliance.



**McMahan and Associates, L.L.C.
July 14, 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Kremmling Sanitation District Management's Discussion and Analysis December 31, 2016 and 2015

We, the financial managers of Kremmling Sanitation District (the "District"), offer readers of the District's financial statements this narrative summary of the financial activities of the District for the fiscal years ended December 31, 2016 and 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) financial statements; and 2) notes to the financial statements. These components are discussed below.

Financial Statements: The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets and liabilities (both short-term and long-term), with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position shows how the government's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned revenue that will be received in subsequent years.)

The Statement of Cash Flows shows the District's sources of cash inflows and outflows for the years presented. Cash flows are categorized among operating, non-capital financing, capital and related financing and investing activities, and unlike items reported in the Statement of Revenues, Expenses and Changes in Fund Net Position, these amounts are reported on the cash basis of accounting.

The business-type activity of the District relates to sanitation services. There are currently no governmental-type activities occurring at the District.

The District's basic financial statements can be found in Section C of this report.

Proprietary Fund: The District maintains a proprietary fund commonly known as an enterprise fund. Enterprise funds are used to report business-type activities. The District uses an enterprise fund to account for its sanitation services.

Notes to the Financial Statements: The notes provide a background of the entity, certain required statutes, and accounting policies utilized by the District. They also provide additional information that will aid in the interpretation of the financial statements. The Notes to the Financial Statements can be found in Section D of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also contains certain supplementary information. The Schedule of Revenues and Expenditures - Budget (Non-GAAP Basis) and Actual with Reconciliation to GAAP Basis provides a detailed comparison of the District's actual revenues and expenditures to budgeted amounts. As the District's budget was adopted in a manner that is not consistent with Generally Accepted Accounting Principles ("GAAP"), this statement is presented on a non-GAAP basis with a reconciliation to GAAP basis. This supplementary information can be found in Section E of this report.

Overview of the Financial Statements (continued)

Financial Analysis of the District: The following table shows the District's assets, liabilities and net position at the end of 2016 and 2015:

Kremmling Sanitation District - Net Position

	<u>2016</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 547,960	483,679
Capital assets	4,004,213	2,651,925
Total Assets	<u>4,552,173</u>	<u>3,135,604</u>
Liabilities:		
Current liabilities	239,624	80,669
Long - term liabilities	469,286	517,699
Total Liabilities	<u>708,910</u>	<u>598,368</u>
Deferred Inflows of Resources	<u>28,760</u>	<u>28,595</u>
Net Position:		
Net investment in capital assets	3,495,001	2,077,529
Restricted	86,378	83,719
Unrestricted	233,124	347,393
Total Net Position	<u>\$ 3,814,503</u>	<u>2,508,641</u>

In 2016, the District's total assets increased by \$1,416,569; this was largely the result of increased capital construction funded by grant revenues.

The net increase in capital assets between 2016 and 2015 is comprised of \$1,590,554 of additions (the majority of which was related to ongoing construction of plant improvements and buildings) less depreciation expense of \$238,266. The increase in current assets was the result of higher cash balances, as cash and investments increased by \$83,635 during 2016.

The District's total liabilities and deferred inflows of resources at the end of the past fiscal year were \$110,707 higher than at the end of the preceding year. Non-current liabilities, which are comprised of long-term capital loans and accrued vacation pay, decreased \$48,413 due to scheduled loan principal repayments. During 2016, the District completely retired a long-term loan from DOLA. Current liabilities, which consist primarily of trade, construction, and retainage, were higher by \$158,955 due to construction-related liabilities. Deferred inflows of resources, which consist of unavailable property tax revenue, are higher by \$165 at December 31, 2016.

Traditionally, the largest portion of any special district's net position is its investment in capital assets used to deliver or provide services to its constituents and other users. The District's investment in capital assets accounted for approximately 92% of its total net position at the end of 2016. This portion of the District's net position is not available for future spending. Of the remaining \$319,502 of net position at December 31, 2016, \$86,378 has been restricted for an operations and maintenance reserve for the wastewater system, as required by CWRPDA loan covenants. The remaining net position balance of \$233,124 may be used to meet the District's ongoing costs of operations.

At the end of the 2016 fiscal year, the District is able to report positive balances in all three categories of net position. Overall, the District's net position increased \$1,305,862 during 2016 and increased \$711 during 2015. These changes are further analyzed on the following pages.

Overview of the Financial Statements (continued)

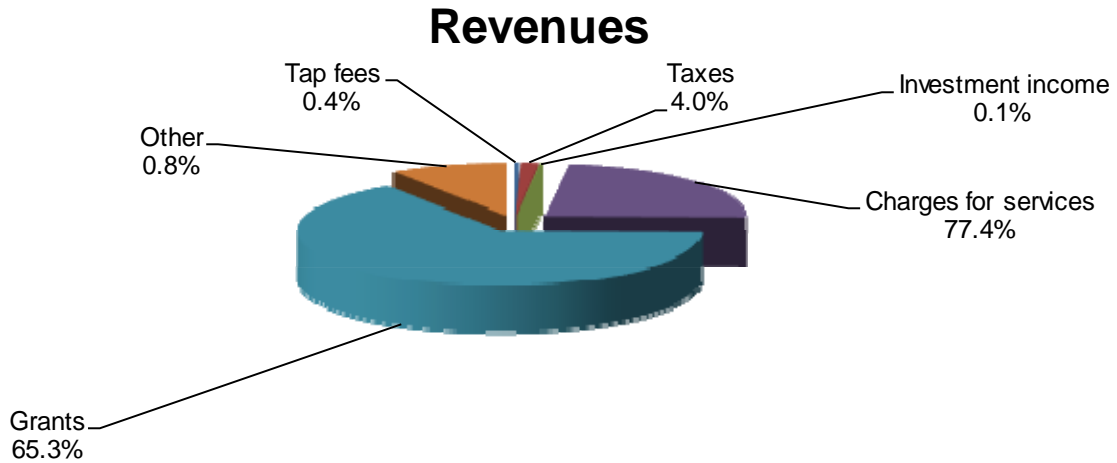
Financial Analysis of the District (continued): The following table summarizes information from the District's Statement of Revenues, Expenses and Changes in Fund Net Position:

Kremmling Sanitation District - Change in Net Position

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 492,143	468,600
General revenues:		
Property taxes	28,806	22,735
Specific ownership taxes	1,720	1,335
Grants	1,377,940	102,269
Investment income	2,177	694
Other revenues	3,436	4,782
Insurance recoveries	193,882	-
Tap fees	9,000	5,000
Total Revenues	<u>2,109,104</u>	<u>605,415</u>
Expenses:		
Administration	55,547	55,663
Sewage collection and treatment	727,150	524,262
Treasurer's fees	1,440	1,137
Interest expense	19,105	23,642
Total Expenses	<u>803,242</u>	<u>604,704</u>
Change in Net Position	1,305,862	711
Net Position - Beginning of Year	<u>2,508,641</u>	<u>2,507,930</u>
Net Position - End of Year	<u>\$ 3,814,503</u>	<u>2,508,641</u>

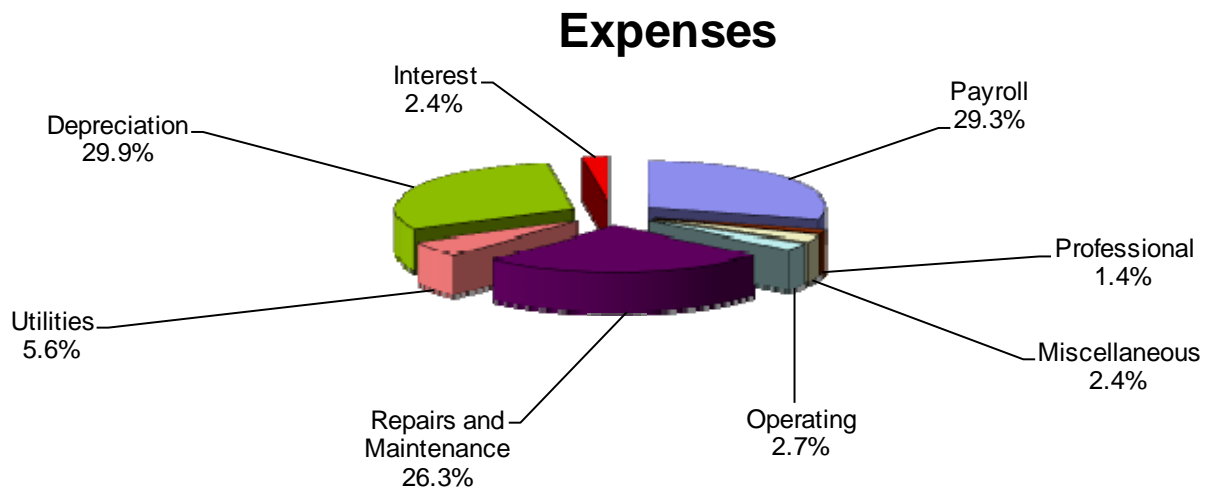
Overview of the Financial Statements (continued)

Financial Analysis of the District (continued): The following chart summarizes the District's revenue sources during 2016:



The District's total revenues increased \$1,503,689 between 2015 and 2016 due to increased grant receipts and insurance proceeds.

The following chart summarizes the District's expenses, by natural classification, during 2016:



Total expenses for the District increased by \$198,538 between 2015 and 2016, primarily due to higher repair and maintenance costs incurred to repair storm damage to a lagoon

Budget Variances

During 2016, no supplemental appropriations were made to the District's budget. 2016 revenues were \$398,621 less than budgeted for the year, while actual 2016 expenditures for the District were \$492,830 lower than budget. Significant budget variances were as follows:

<u>Account</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>	<u>Reason</u>
<u>Revenues:</u>				
Customer service charges	\$ 462,910	492,143	29,233	Conservative budgeting.
Grants	2,005,470	1,377,940	(627,530)	Capital construction not completed in 2016; project and related grant funding to extend into 2017.
Insurance proceeds	-	193,882	193,882	Insurance claim to cover cost of storm damage to lagoon.
<u>Expenditures:</u>				
<i>Sewage collection and treatment:</i>				
Payroll expenses	193,235	208,970	(15,735)	Summer employee worked for an additional four months in 2016.
Repairs and maintenance	19,800	209,323	(189,523)	Repairs to lagoon for storm damages; covered by insurance claim.
Capital outlay	2,255,100	1,590,550	664,550	Capital construction not completed in 2016; project and related grant funding to extend into 2017.

Capital Asset and Debt Administration

Capital Assets: The District's net capital assets increased by \$1,352,288 in 2016 and decreased by \$7,479 in 2015. A detailed classification of the District's capital assets can be found in Note III.B to the 2016 financial statements.

Long-term Debts: The District has outstanding debt obligation at December 31, 2016 for a loan with CWRPDA, as the final principal payment on the loan from DOLA was made during 2016. Additional information about the District's long-term debt can be found in Note III.C of this report.

Next Year's Budget and Rates

The District's net position at the end of 2016 was \$3,814,503. The District's 2017 budget anticipates an increase in net position of \$214,886, with revenues of \$1,187,276 and expenditures of \$972,390.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Kremmling Sanitation District
P.O. Box 538
Kremmling, Colorado 80459

FINANCIAL STATEMENTS

**Kremmling Sanitation District
Statement of Net Position
December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Assets:		
Current assets:		
Cash and cash equivalents - Unrestricted	408,040	324,405
Receivables, net:		
Property taxes	28,760	28,595
Other governments	111,160	130,542
Prepaid expenses	-	137
Total - Current assets	<u>547,960</u>	<u>483,679</u>
Non-current assets:		
Capital assets:		
Non-depreciable capital assets	1,490,742	135,282
Depreciable capital assets, net of accumulated depreciation	2,513,471	2,516,643
Total - Non-current assets	<u>4,004,213</u>	<u>2,651,925</u>
Total Assets	<u>4,552,173</u>	<u>3,135,604</u>
Liabilities:		
Current liabilities:		
Trade payables	11,565	11,660
Construction	70,416	-
Retainage	105,623	-
Interest payable	2,970	3,825
Current portion of long-term debt	49,050	65,184
Total - Current liabilities	<u>239,624</u>	<u>80,669</u>
Non-current liabilities:		
Accrued compensated absences - Due in more than one year	9,124	8,487
Loans payable, net of current portion	460,162	509,212
Total - Non-current liabilities	<u>469,286</u>	<u>517,699</u>
Total Liabilities	<u>708,910</u>	<u>598,368</u>
Deferred Inflows of Resources		
Property taxes	28,760	28,595
Total Deferred Inflows of Resources	<u>28,760</u>	<u>28,595</u>
Net Position:		
Net investment in capital assets	3,495,001	2,077,529
Restricted for operations and maintenance	86,378	83,719
Unrestricted	233,124	347,393
Total Net Position	<u>3,814,503</u>	<u>2,508,641</u>

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

Kremmling Sanitation District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Charges for services	492,143	468,600
Shared employee reimbursement	1,953	3,874
Miscellaneous	<u>1,483</u>	<u>908</u>
Total Operating Revenues	<u>495,579</u>	<u>473,382</u>
Operating Expenses:		
Administration	55,547	55,663
Sewage collection and disposal	<u>727,150</u>	<u>524,262</u>
Total Operating Expenses	<u>782,697</u>	<u>579,925</u>
Operating Income (Loss)	(287,118)	(106,543)
Non-operating Revenues (Expenses):		
Property taxes	28,806	22,735
Specific ownership taxes	1,720	1,335
Grants	1,377,940	102,269
Insurance recoveries	193,882	-
Investment income	2,177	694
Interest expense	(19,105)	(23,642)
Treasurer's fees	<u>(1,440)</u>	<u>(1,137)</u>
Total Non-operating Revenues (Expenses)	<u>1,583,980</u>	<u>102,254</u>
Income (Loss) Before Capital Contributions	1,296,862	(4,289)
Capital Contributions:		
Tap fees	<u>9,000</u>	<u>5,000</u>
Total Capital Contributions	<u>9,000</u>	<u>5,000</u>
Change in Net Position	1,305,862	711
Net Position - Beginning of Year	<u>2,508,641</u>	<u>2,507,930</u>
Net Position - End of Year	<u><u>3,814,503</u></u>	<u><u>2,508,641</u></u>

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

Kremmling Sanitation District
Statement of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from customers and others	514,961	470,928
Cash paid for goods and services	(310,877)	(177,369)
Cash paid to employees for salaries and benefits	(232,875)	(214,858)
Net Cash Provided (Used) by Operating Activities	(28,791)	78,701
Cash Flows From Non-capital Financing Activities:		
Cash received from property and specific ownership taxes, net	29,086	22,933
Net Cash Provided (Used) by Non-capital Financing Activities	29,086	22,933
Cash Flows From Capital and Related Financing Activities:		
Insurance proceeds	193,882	-
Cash received from tap fees	9,000	3,761
Cash received from grants	1,377,940	102,269
Cash paid for loan principal	(65,184)	(62,721)
Cash paid for loan interest	(19,960)	(22,423)
Cash paid for capital acquisitions	(1,414,515)	(222,907)
Net Cash Provided (Used) by Capital and Related Financing Activities	81,163	(202,021)
Cash Flows From Investing Activities:		
Interest received	2,177	694
Cash paid to purchase investments	-	275,628
Net Cash Provided (Used) by Investing Activities	2,177	276,322
Net Increase (Decrease) in Cash and Cash Equivalents	83,635	175,935
Cash and Cash Equivalents - Beginning of Year	324,405	148,470
Cash and Cash Equivalents - End of Year	408,040	324,405
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	(287,118)	(106,543)
Adjustments:		
Depreciation	238,266	230,387
(Increase) decrease in accounts receivable	19,382	(2,454)
(Increase) decrease in prepaid expenses	137	454
Increase (decrease) in accounts payable	(95)	(44,504)
Increase (decrease) in payroll liabilities	637	1,361
Total Adjustments	258,327	185,244
Net Cash Provided (Used) by Operating Activities	(28,791)	78,701

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

NOTES TO THE FINANCIAL STATEMENTS

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016**

I. Summary of Significant Accounting Policies

Kremmling Sanitation District (the "District") is a quasi-municipal corporation organized and operated pursuant to provisions set forth in the Colorado Special District Act. The District's service area is located in Grand County, Colorado, and was formed to provide sanitation services. The District is governed by an elected, five-member Board of Directors (the "Board")

The District's financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

B. Financial Reporting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its sole activity, providing wastewater treatment services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Measurement Focus and Basis of Accounting

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

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

D. Financial Statement Accounts

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within 3 months of the date acquired by the District.

Investments are stated at fair value. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The District follows Colorado state statutes as an investment policy, which permits investments in the following type of obligations which corresponds with state statutes:

- U.S. Treasury obligations (maximum maturity of 60 months)
- Federal instrumentality securities (maximum maturity of 60 months)
- FDIC-insured certificates of deposit (maximum maturity of 18 months)
- Corporate bonds (maximum maturity of 36 months)
- Prime commercial paper (maximum maturity of 9 months)
- Eligible banker's acceptances
- Repurchase agreements
- General obligations and Revenue obligations
- Local government investment pools
- Money market mutual funds

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)**

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. However, no allowance for uncollectible accounts has been established at December 31, 2016 and 2015, as the District considers all accounts to be collectible.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable and a deferred inflow of resources.

4. Capital Assets

Capital assets, which include land, sewer collection systems and related improvements and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed.

Sewer collection systems and improvements, equipment, and lagoons are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Sewer collection system/improvements - Existing system	30
Equipment	5 - 15
Sewer collection system/improvements - New combined system	20 - 50
Lagoons	30 - 50

5. Idle Capital Assets

At December 31, 2016 and 2015, the District held certain lagoon equipment which had not been placed in productive use. No depreciation expense is taken for idle capital assets.

6. Compensated Absences

Earned but unused vacation and sick leave benefits are accrued when incurred in the financial statements.

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

7. Deferred Inflows and Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District does not have any item that qualifies for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report 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 District has only one type of item that qualifies for reporting in this category. Accordingly, the item – unavailable property taxes – is deferred and recognized as an inflow of resources in the period that the amount becomes available.

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

9. Net Position

Governments report reservations of net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. At December 31, 2016 and 2015, the District reported \$86,378 and \$83,719, respectively, of restricted net position for an operation and maintenance reserve required by debt covenants, as discussed in Note III.C.1.

10. Restricted and Unrestricted Resources

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

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the Board formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. Annual appropriations are adopted for all funds. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

The budget for the District's sole proprietary fund is adopted on a non-GAAP basis. A reconciliation to GAAP basis is included in the budgetary comparison schedule at page E1.

As required by Colorado statutes, the District followed the timetable noted below in preparing, approving, and enacting its budget for 2016.

1. For the 2016 budget year, prior to August 25, 2015, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The Manager of the District submitted, on or before October 15, 2015, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
3. Prior to December 15, 2015, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

The District also followed the required budget timeline in preparing, approving, and enacting its budget for 2015.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2015 were collected in 2016, and taxes certified in 2016 will be collected in 2017. Taxes are due on January 1 in the year of collection; however, they may be paid in either one installment (no later than April 30) or two equal installments (not later than February 28 and June 15) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)**

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

The District's voters approved the following TABOR ballot question on November 5, 1997:

Without any increase in the property tax mill levy, which is currently 2.273, shall the Kremmling Sanitation District, be authorized to collect, retain and expend all revenue and other funds from any source effective January 1, 1996, and continuing thereafter, notwithstanding the limitation of Article X, Section 20 of the Colorado Constitution or any other law?

District management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

III. Detailed Notes on All Funds

A. Deposits and Investments

The District held the following deposits and investments at December 31, 2016 and 2015:

	2016	2015
Deposits	\$ 182,985	322,764
Local government investment pools	225,055	1,641
Total	\$ 408,040	324,405

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances for accounts over \$250,000 are collateralized as required by PDPA.

The District measures and records its investments using fair value measurement guidelines established by GAAP. At December 31, 2016, the District had the following investments measured at net asset value:

Investments Measured at Net Asset Value	Total
<i>Local government investment pools:</i>	
COLOTRUST	\$ 225,055

The local government investment pool represents an investment in the Colorado Government Liquid Asset Trust ("COLOTRUST"), which is a 2a7-like pool. The fair value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool.

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. As a result of the limited length of maturities, the District has limited its interest rate risk.

Credit Risk. The District limits its investments to those authorized by Colorado statutes, as outlined in Note I.D.1. The District's general investment policy is to apply the "prudent person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

At December 31, 2016 and 2015, the District had the following deposits and investments, which had the following maturities:

2016				
	Standard & Poor's Rating	Carrying Amounts	Maturities	
			Less than one year	One to five years
<i>Deposits:</i>				
Interest-bearing checking	Not rated	\$ 70,770	70,770	-
Money market	Not rated	112,215	112,215	-
<i>Investments:</i>				
Investment pools	AAAm	225,055	225,055	-
		<u>\$ 408,040</u>	<u>408,040</u>	<u>-</u>

2015				
	Standard & Poor's Rating	Carrying Amounts	Maturities	
			Less than one year	One to five years
<i>Deposits:</i>				
Interest-bearing checking	Not rated	\$ 59,037	59,037	-
Money market	Not rated	263,727	263,727	-
<i>Investments:</i>				
Investment pools	AAAm	1,641	1,641	-
		<u>\$ 324,405</u>	<u>324,405</u>	<u>-</u>

The District's deposits and investments are reported in the following financial statement captions:

	2016	2015
Cash and investments - Unrestricted	<u>\$ 408,040</u>	<u>324,405</u>

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets

The District's capital asset activity for 2015 and 2016 was as follows:

	<u>1/1/15</u> <u>Beginning</u> <u>Balance</u>	<u>Additions</u> <u>and</u> <u>Transfers</u>	<u>Disposals</u> <u>and</u> <u>Transfers</u>	<u>12/31/15</u> <u>Ending</u> <u>Balance</u>	<u>Additions</u> <u>and</u> <u>Transfers</u>	<u>Disposals</u> <u>and</u> <u>Transfers</u>	<u>12/31/16</u> <u>Ending</u> <u>Balance</u>
Capital assets, not being depreciated:							
Land	\$ 103,576	-	-	103,576	-	-	103,576
Construction in progress	136,696	74,664	(211,360)	-	1,355,460	-	1,355,460
Idle lagoon equipment	31,706	-	-	31,706	-	-	31,706
Total capital assets, not being depreciated	<u>271,978</u>	<u>74,664</u>	<u>(211,360)</u>	<u>135,282</u>	<u>1,355,460</u>	<u>-</u>	<u>1,490,742</u>
Capital assets, being depreciated:							
New wastewater system	3,107,172	321,718	-	3,428,890	-	-	3,428,890
Buildings	6,999	37,886	-	44,885	-	-	44,885
Sewer lines	524,239	-	-	524,239	-	-	524,239
Lagoons	87,566	-	-	87,566	235,094	-	322,660
Furniture and equipment	316,926	-	-	316,926	-	-	316,926
Total capital assets being depreciated	<u>4,042,902</u>	<u>359,604</u>	<u>-</u>	<u>4,402,506</u>	<u>235,094</u>	<u>-</u>	<u>4,637,600</u>
Less accumulated depreciation for:							
New wastewater system	(1,087,347)	(185,484)	-	(1,272,831)	(186,672)	-	(1,459,503)
Buildings	(2,275)	(1,297)	-	(3,572)	(2,244)	-	(5,816)
Sewer lines	(343,082)	(12,083)	-	(355,165)	(12,083)	-	(367,248)
Lagoons	(61,324)	(1,928)	-	(63,252)	(6,630)	-	(69,882)
Furniture and equipment	(161,447)	(29,595)	-	(191,043)	(30,637)	-	(221,680)
Total accumulated depreciation	<u>(1,655,475)</u>	<u>(230,387)</u>	<u>-</u>	<u>(1,885,863)</u>	<u>(238,266)</u>	<u>-</u>	<u>(2,124,129)</u>
Total capital assets, being depreciated, net	<u>2,387,427</u>	<u>129,217</u>	<u>-</u>	<u>2,516,643</u>	<u>(3,172)</u>	<u>-</u>	<u>2,513,471</u>
Total capital assets, net	<u>\$2,659,405</u>	<u>203,881</u>	<u>(211,360)</u>	<u>2,651,925</u>	<u>1,352,288</u>	<u>-</u>	<u>4,004,213</u>

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

III. Detailed Notes on All Funds (continued)

C. Long-term Liabilities

1. Colorado Water Resources and Power Development Authority (“CWRPDA”) Loan

On September 13, 2005, the District executed a \$950,000 loan agreement, with interest accruing at 3.5% per annum, with CWRPDA, the proceeds of which were utilized to upgrade and expand the District’s wastewater system.

Starting in 2006, principal, interest, and administrative surcharge (included with interest expense) payments totaling \$33,223 are due May 1 and November 1, through 2025. As set forth in the loan agreement, the District received a credit against interest payments for the amount of capitalized interest and investment income available to be applied. This one-time credit in the amount of \$14,218 was used to reduce interest payments in 2006.

The loan constitutes an irrevocable and first lien on the District’s wastewater system revenues (excluding ad valorem property taxes, capital grant revenues, and other funds borrowed and used to provide capital improvements to the wastewater system). The loan is not a general obligation debt of the District.

The loan agreement contains various restrictive covenants and requirements, including maintenance of a three-month operating and maintenance reserve. The District has restricted \$86,378 and \$83,719 of net position at December 31, 2016 and 2015, respectively, for this purpose, which are the approximate required reserves. If the operations and maintenance reserve falls below this requirement, the shortfall must be made up in 24 substantially equal monthly installments beginning the second month after such shortfall. In addition, the loan agreement requires the District to establish service rates at a level sufficient to cover operating expenses, as defined in the agreement, 110% of the current year debt service costs on this loan, debt service for the current year on any subordinated debt, and any other amounts to be paid out of current year operations. The District may prepay the loan, in whole or in part without penalty, upon prior written notice to CWRPDA.

2. Colorado Department of Local Affairs (“DOLA”) Loan

On May 23, 2007, the District executed a \$150,000 loan agreement, with interest accruing at 5% per annum, with the State of Colorado, through DOLA, the proceeds of which were utilized to upgrade and expand the District’s wastewater system.

Starting in 2007, principal and interest payments totaling \$18,697 are due annually on September 1, through 2016.

The loan agreement requires the District to establish service rates at a level sufficient to cover the financial requirements of the Project, as defined in the agreement. The District is not permitted to reduce services rates from those in effect at the inception of the agreement without written consent from the State of Colorado.

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

III. Detailed Notes on All Funds (continued)

C. Long-term Liabilities (continued)

3. Long-term Liability Activity

Long-term liability activity for 2016 and 2015 was as follows:

	<u>CWRPDA Loan</u>	<u>DOLA Loan</u>	<u>Compensated Absences</u>	<u>Total</u>
January 1, 2015 balance	\$ 602,351	34,766	7,113	644,230
Additions	-	-	1,374	1,374
Reductions	<u>(45,762)</u>	<u>(16,959)</u>	<u>-</u>	<u>(62,721)</u>
December 31, 2015 balance	556,589	17,807	8,487	582,883
Additions	-	-	637	637
Reductions	<u>(47,377)</u>	<u>(17,807)</u>	<u>-</u>	<u>(65,184)</u>
December 31, 2016 balance	<u>\$ 509,212</u>	<u>-</u>	<u>9,124</u>	<u>518,336</u>
Due within one year - 2015	<u>\$ 47,377</u>	<u>17,807</u>	<u>-</u>	<u>65,184</u>
Due within one year - 2016	<u>\$ 49,050</u>	<u>-</u>	<u>-</u>	<u>49,050</u>

4. Debt Service Schedule

Aggregate remaining annual debt service requirements at December 31, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Administrative Surcharge</u>	<u>Total</u>
2017	\$ 49,050	12,397	5,000	66,447
2018	50,782	11,665	4,000	66,447
2019	52,575	9,872	4,000	66,447
2020	54,431	9,016	3,000	66,447
2021	56,353	8,094	2,000	66,447
2022 - 2025	<u>246,021</u>	<u>13,766</u>	<u>6,000</u>	<u>265,787</u>
Total	<u>\$ 509,212</u>	<u>64,810</u>	<u>24,000</u>	<u>598,022</u>

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2016
(Continued)

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and general liability. The District carries commercial coverage for these risks and does not expect claims to exceed their coverage. There have been no reductions in coverage in 2015 and 2016, settlements have not exceeded coverage during the past two years.

B. Deferred Compensation Plan – Section 457

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457 (the “Plan”). The Plan permits employees to defer a portion of the salary until future years. The deferred compensation is not available to employees until termination, retirement, or death.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are to be held in trust for the exclusive benefit of the Plan participants and their beneficiaries.

The accrual basis of accounting is used for the Plan. Revenues are recognized when earned and expenditures are recognized when incurred. Investments are recorded at market value.

The District has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The Plan is administered by ICMA Retirement Corporation.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, since the District is not a trustee of the deferred compensation plan, it does not report the plan as a fund in the financial statements.

In addition to Social Security, the District matches a four percent (4%) payroll deduction. District employees contributed \$5,621 and \$5,478 to the Plan for 2016 and 2015 respectively. These amounts were matched by the District, equal to its required contribution for these years.

Permanent full-time (budgeted for forty (40) hours per week) employees participate in the Plan. Employees may contribute additional amounts, up to maximum allowable limits as established under IRC, but these amounts are not matched by the District.

C. Intergovernmental Agreement – Town of Kremmling

On January 13, 2003, the District entered into an Intergovernmental Agreement with the Town of Kremmling, Colorado for mutually beneficial cooperative use of personnel and equipment. The agreement has an initial one-year term, but renews automatically unless otherwise terminated by the parties. Under the terms of the agreement, each entity is to invoice the other, on a monthly basis, for hours worked and equipment used.

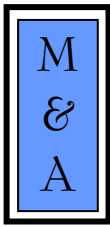
SUPPLEMENTARY INFORMATION

Kremmling Sanitation District
Schedule of Revenues and Expenditures
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2016
(With Comparative Actual Amounts for 2015)

	2016		Final Budget Variance: Positive / (Negative)	2015
	Original and Final Budget	Actual		Actual
Revenues:				
Customer service charges	462,910	492,143	29,233	468,600
Grants	2,005,470	1,377,940	(627,530)	102,269
Tap fees	-	9,000	9,000	5,000
Property taxes	28,595	28,806	211	22,735
Specific ownership taxes	800	1,720	920	1,335
Investment income	500	2,177	1,677	694
Shared employee reimbursements	8,450	1,953	(6,497)	3,874
Miscellaneous	1,000	1,483	483	908
Insurance recoveries	-	193,882	193,882	-
Total Revenues	2,507,725	2,109,104	(398,621)	605,415
Expenditures:				
Administration:				
Payroll expenses	27,830	24,542	3,288	25,832
Audit and legal	10,500	10,960	(460)	9,200
Insurance	15,850	14,537	1,313	14,370
Miscellaneous	1,975	1,948	27	2,404
Operating supplies and expenses	2,500	2,051	449	2,347
Repairs and maintenance	1,500	-	1,500	25
Utilities	1,600	1,508	92	1,485
Treasurer's fees	1,430	1,440	(10)	1,137
Total - Administration	63,185	56,986	6,199	56,800
Sewage Collection and Treatment:				
Payroll expenses	193,235	208,970	(15,735)	190,387
Miscellaneous	3,500	1,104	2,396	180
Operating supplies and expenses	33,695	19,254	14,441	30,006
Repairs and maintenance	19,800	209,323	(189,523)	21,874
Utilities	48,190	42,781	5,409	42,691
Engineering and technical services	12,500	7,453	5,047	8,737
Capital outlay	2,255,100	1,590,550	664,550	222,908
Total - Sewage Collection and Treatment	2,566,020	2,079,435	486,585	516,783
Debt Service:				
Principal and interest	85,150	85,144	6	85,144
Total Expenditures	2,714,355	2,221,565	492,790	658,727
Excess (Deficiency) of Revenues Over Expenditures - Budget Basis	(206,630)	(112,461)	94,169	(53,312)
Reconciliation to GAAP Basis:				
Depreciation expense		(238,266)		(230,387)
Accrued interest change		855		(1,219)
Debt principal payments		65,184		62,721
Capitalized assets		1,590,550		222,908
Change in Net Position - GAAP Basis		1,305,862		711

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

SINGLE AUDIT INFORMATION



McMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kremmling Sanitation District (the "District") as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit on the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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INDEPENDENT AUDITOR'S REPORT
To the Board Directors
Kremmling Sanitation District
Kremmling, Colorado

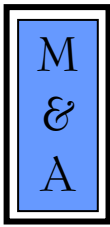
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McMahan and Associates, L.L.C.
July 14, 2017



MCMAHAN AND ASSOCIATES, L.L.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

Report on Compliance for Each Major Program

We have audited the compliance of Kremmling Sanitation District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2016. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance with those requirements.

Member: American Institute of Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report in internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**McMahan and Associates, L.L.C.
July 14, 2017**

Kremmling Sanitation District
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

Part I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued Unmodified

Internal control over financial reporting:

Material weakness identified	None noted
Significant deficiency identified	None noted
Noncompliance material to financial statements noted	None noted

Federal Awards:

Internal control over major programs:

Material weakness identified	None noted
Significant deficiency identified	None noted
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2, U.S. Code of Federal Regulations, Part 200	No

Major programs:

Energy & Mineral Impact Assistance Funds	CFDA #15.227
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Dollar threshold used to identify Type A from Type B programs: \$750,000

Identified as low-risk auditee No

Part II – Findings Related to Financial Statements

Findings related to financial statements as required by *Government Auditing Standards* None noted

Auditor-assigned reference number Not applicable

Part III – Findings Related to Federal Awards

Internal control findings None noted

Compliance findings None noted

Questioned costs None noted

Auditor-assigned reference number Not applicable

Kremmling Sanitation District
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

There were no findings for the year ended December 31, 2015.

**Kremmling Sanitation District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016**

<u>Federal Grantor / Pass-through Agency / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Project Award Number</u>	<u>Federal Expenditures</u>
U.S Department of the Interior, Bureau of Land Management:			
Passed through Colorado Department of Local Affairs:			
Energy and Mineral Impact Assistance Fund	15.227	EIAF 8082	\$ 608,855
Energy and Mineral Impact Assistance Fund	15.227	EIAF 7758	150,231
Total - U.S Department of the Interior, Bureau of Land Management			<u>759,086</u>
Total Federal Financial Awards			<u>\$ 759,086</u>

Notes to the Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2016:

Note 1. Basis of Presentation:

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Kremmling Sanitation District (the "District") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the District's general purpose financial statements.

Note 2. Pass-through Sub-recipients:

The District had no sub-recipients for grants awarded during 2016.

Note 3. Indirect Facilities and Administration Costs

The District does not use the 10% de minimis cost rate allowed in §200.414, *Indirect (F&A) Costs*, of the Uniform Guidance. Instead, the District prepares an annual cost allocation plan to allocate indirect costs.