
Norwood Sanitation District
Norwood, Colorado
Financial Statements and
Report of Independent Certified Public Accountants
As of
December 31, 2016



RECEIVED

By the Office of the State Auditor at 7:33 am, Sep 08, 2017

Norwood Sanitation District
Norwood, Colorado

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Required Supplementary Information	
Schedule of Revenues and Expenditures – Budget and Actual	17

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Norwood Sanitation District
Norwood, Colorado

We have audited the accompanying financial statements of the business-type activities of the Norwood Sanitation 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 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Norwood Sanitation District, as of December 31, 2016, 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.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Blair and Associates, P.C.

Cedaredge, Colorado

August 9, 2017

**Norwood Sanitation District
Management's Discussion and Analysis
Year Ended December 31, 2016**

This narrative overview and analysis of the Norwood Sanitation District (the District), performance through December 31, 2016 is provided as a supplement to the District year-end financial statements. Please read it in conjunction with the transmittal letter at the beginning of this report, the basic financial statements following this section and the notes to the basic financial statements.

Financial Highlights

- The assets of the District exceeded the liabilities at December 31, 2016 by \$ 494,406, (net position). Of this amount \$ 365,701 is unrestricted and may be used to meet ongoing obligations, \$ 128,705 is invested in capital assets.
- The District total net position increased by \$ 826 from the prior year.
- Revenues were down by \$ 387 (<1%), in comparison to the budget. Mainly because of tap fees were down by \$2,950.
- Expenses were down by \$ 10,823, (9%), in comparison to the budget. Mainly because of salary reimbursement and utilities were down by \$ 4,421 and \$ 3,054. Operating supplies costs were up by \$ 1,805.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District basic financial statements are comprised of two components: 1) the Basic Financial Statements and 2) Notes to the Basic Financial Statements that provide additional disclosure of some of the information in the basic financial statements.

The balance sheets present information on the District's assets, liabilities and deferred inflow of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators as to whether the District's financial health is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position present information showing how the District's net position changed during the fiscal year. 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. Therefore, revenues and expenses are reported for some items that will only result in cash flows in future years.

The Statement of Cash Flows report how the District’s cash and cash equivalents were used in and provided by its operating, noncapital financing, capital and related financing, and investing activities during the periods reported. The net of these activities is added to the beginning year cash balance to reconcile to the cash and cash equivalents balances at December 31, 2016. The District uses the direct method of presenting cash flows, which includes a reconciliation of operating activities to operating income. These statements provide answers to such questions as where did cash come from, how cash was used and what was the change in the cash balance during the year.

Notes to the Basic Financial Statements provide financial statement disclosures that are an integral part of the basic financial statements. Such disclosures are essential to a comprehensive understanding of the information provided in the basic financial statements.

Financial Analysis

Net position is summarized in the table below:

	2015	2016
Current assets	\$ 375,955	\$ 385,298
Capital assets, net	138,311	128,705
Total assets	\$ 514,266	\$ 514,003
Current liabilities	\$ 8,039	\$ 7,816
Total liabilities	8,039	7,816
Deferred Inflows of resources	12,647	11,781
Net investment in capital assets	138,311	128,705
Unreserved	355,269	365,701
Total net position	\$ 493,580	\$ 494,406

The District’s current ratio reflects the relationship between current assets and current liabilities and is a measure of the District’s ability to pay short-term obligations. At December 31, 2016, the District’ current ratio is 20:1.

A large portion of the District’s net position, (26%), consists of its net investment in capital assets net of outstanding related debt. The District utilizes the capital assets to fulfill its mission of providing sewer treatment services to residents of Norwood.

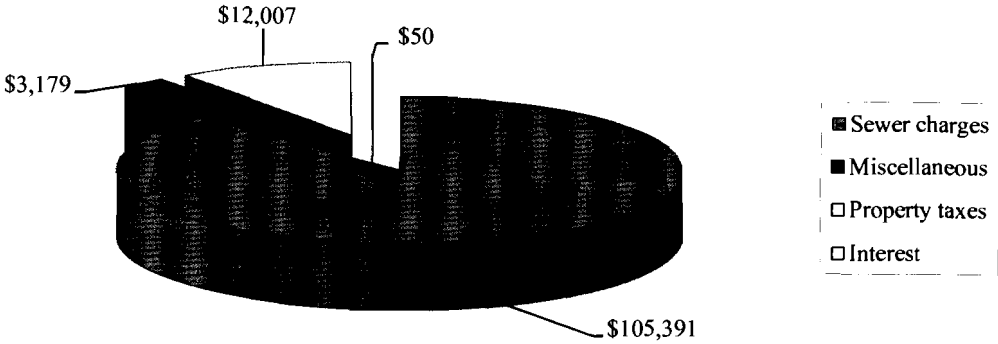
The remaining portion of net position is unrestricted and represents resources that could be used to meet ongoing obligations.

Changes in net position are summarized in the table below:

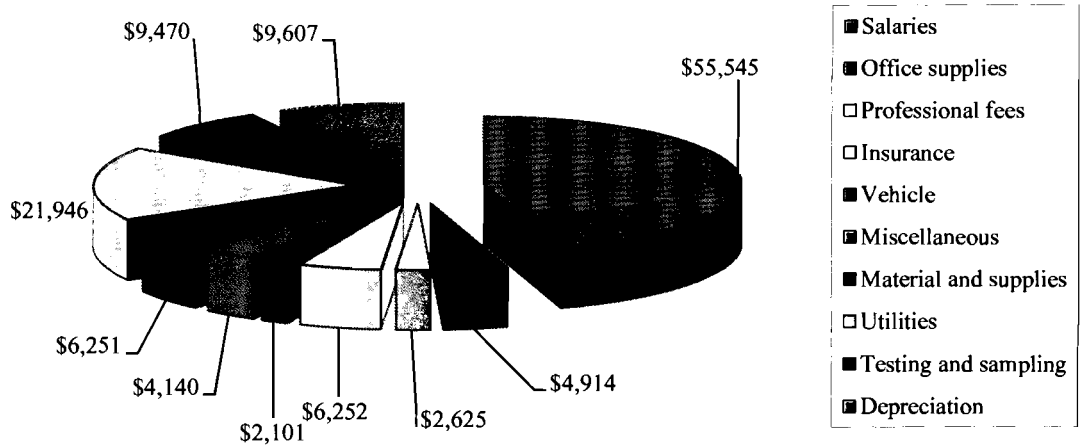
The District had an overall increase in net position of \$ 826 in 2016.

	2015	2016
Operating revenues	\$ 106,229	\$ 108,570
Operating expenses	134,217	122,851
Operating income	<u>(27,988)</u>	<u>(14,281)</u>
Nonoperating revenues expenses	12,902	12,057
Contributed capital tap fees	<u>-</u>	<u>3,050</u>
Changes in net position	(15,086)	826
Net position, January 1	<u>508,666</u>	<u>493,580</u>
Net position, December 31	<u>\$ 493,580</u>	<u>\$ 494,406</u>

Revenues By Source



Expenses by Source



Capital Assets and Debt Administration

The District's capital assets are summarized in the table below:

	2015	2016
Land	\$ 3,044	\$ 3,044
Treatment plant	471,217	471,217
Collection system	11,176	11,176
Equipment and vehicles	28,661	28,661
Storage shed	4,915	4,915
Total assets	<u>519,013</u>	<u>519,013</u>
Less: accumulated depreciation	<u>(380,702)</u>	<u>(390,308)</u>
Total	<u><u>\$ 138,311</u></u>	<u><u>\$ 128,705</u></u>

Economic Factors and 2016 Budget

The Norwood Sanitation District is a special taxing district within San Miguel County that serves 380 customers. The Norwood Sanitation district serves the Town of Norwood and three subdivisions located in close proximity. The Norwood Sanitation District receives a small percentage of its operating revenue from a mill levy set at 2.643. The majority of the District's operating costs are funded by monthly fees charged for service.

The Norwood Sanitation District conducted an infiltration study to determine if water was leaking into the three cell lagoon system. The District continues to funds to test for ammonia per regulation 35. The Norwood Sanitation District continues to perform annual preventative measures such as cleaning and videoing 3,500 feet of sewer mains.

Request for Information

This report is designed to provide a general overview of the Norwood Sanitation District's finances. Please contact Patti Grafmyer, Administrator, at (970) 327-4288 or by email at grafmyer@norwoodtown.com, with questions concerning any to the information provided in the report, 2015 budget or requests for additional financial information.

Norwood Sanitation District
Patti Grafmyer, Administrator
Norwood, Colorado 81423

Norwood Sanitation District
Statement of Net Position
December 31, 2016

	2016
Assets	
Current assets	
Cash	\$ 359,946
Receivables	
Accounts	13,571
Property taxes	11,781
Total current assets	385,298
Utility plant in service	
Land	3,044
Treatment plant	471,217
Collection, transmission and distribution systems	11,176
Equipment and vehicles	28,661
Storage shed	4,915
	519,013
Accumulated depreciation	(390,308)
Total utility plant in service	128,705
Total assets	\$ 514,003
Liabilities and net position	
Current liabilities	
Accounts payable	\$ 524
Accrued wages	4,116
Customer deposits	3,176
Total current liabilities	7,816
Deferred inflows of resources	
Deferred property tax revenue	11,781
Net position	
Net Investment in capital assets	128,705
Unreserved	365,701
Total net position	\$ 494,406

See accompanying notes to the basic financial statements.

Norwood Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

	2016
Operating revenues	
Sewer charges	\$ 105,391
Miscellaneous income	3,179
Total operating revenues	108,570
 Operating expenses	
Collection and treatment	
Depreciation	9,607
Superintendent and labor	23,261
Materials and supplies	6,251
Utilities	21,946
Contract labor	3,363
Sewer lines testing	9,470
Administration and general	
Salaries	28,921
Office supplies	4,914
Professional services	2,625
Insurance	6,252
Automobile	2,101
Miscellaneous	4,140
Total operating expenses	122,851
Operating income or (loss)	(14,281)
 Non-operating revenues (expenses)	
General property taxes and etc.	12,007
Interest	50
Total non-operating revenues (expenses)	12,057
Income (loss) before transfers and capital contributions	(2,224)
Capital contributions - tap fees	3,050
Change in net position	826
Net position, January 1	493,580
Net position, December 31	\$ 494,406

See accompanying notes to the basic financial statements.

Norwood Sanitation District
Statement of Cash Flows
For the Year Ended December 31, 2016

	2016
Cash flows from operating activities	
Cash received from charges for services	\$ 105,772
Cash payments for goods and services	(60,488)
Cash payments for employees for services	(52,979)
Net cash provided (used) by operating activities	(7,695)
 Cash flow from noncapital financing activities	
Property taxes	12,007
Net cash provided (used) by noncapital activities	12,007
 Cash flows from capital and related financing activities	
Tap fees	3,050
Net cash provided (used) by capital and related financing activities	3,050
 Cash flows from investing activities	
Interest on investments	50
Net increase (decrease) in cash and equivalents	7,412
Cash balances, January 1	352,534
Cash balances, December 31	\$ 359,946
 Reconciling of operating income (loss) to net cash provided (used) by	
operating activities:	
Operating income (loss)	\$ (14,281)
Adjustments to reconcile operating income (loss) to net cash provided (used)	
by operating activities:	
Depreciation expense	9,607
Assets (increase) decrease:	
Accounts receivable	(2,798)
Liabilities increase (decrease)	
Accounts payable	524
Accrued wages	(797)
Customer deposits	50
Total adjustments	6,586
Net cash provided (used) by operating activities	\$ (7,695)

See accompanying notes to the basic financial statements.

Norwood Sanitation District
Norwood, Colorado
Notes to the Financial Statements
December 31, 2016

Note A - Summary of Significant Accounting Policies

Reporting Entity

The Norwood Sanitation District operates as a special district under Colorado State Statutes. The District operates under an elected board form of government and provides sanitation services for the Town of Norwood, Colorado and certain areas surrounding the Town.

For financial reporting purposes, the District, is a stand-alone entity; there are no component units included in the accompanying financial statements and the District is not considered a component unit of another entity.

Basis of Accounting

The accounting policies of the Norwood Sanitation District conform to generally accepted accounting principles. The following is a summary of such significant policies:

The accounting and reporting policies of the District relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board.

The financial statements of the District are prepared on the accrual basis of accounting for proprietary funds, which are similar to those used by private business enterprises.

The assets, liabilities and net position of the District are reported in a self-balancing set of accounts, which include restricted and unrestricted resources, representing funds available for support of the District's programs.

Operating Revenues and Expenses – The District's operating revenues and expenses consist of revenues earned and expenses incurred in providing sanitation services.

Major sources of operating revenues are sewer charges and tap fees.

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

Note A - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Budgetary Control

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

Budgets are required by state law for proprietary funds. During October the proposed budget is submitted to the Board of Directors for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.

A public hearing is conducted by the Directors to obtain taxpayers comments.

Prior to December 31, the budget is adopted and appropriations made by formal resolution.

Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.

Budget appropriations lapse at the end of each year.

The budget is adopted on a basis that differs from generally accepted accounting principles. The District does not budget for depreciation costs on equipment and budgets for the purchase of equipment.

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

Note A - Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditures of money are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because it is at present considered not necessary to assure effective budgetary control or facilitate effective cash planning and control.

Property Taxes

Property taxes are levied on January 1 and attach as a lien on property as of December 31. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in the current year and payable in the following year are reported as a receivable at December 31, net of an estimated uncollectible portion. However, since taxes are not available to pay current liabilities, the net receivables are recorded as deferred inflow of resources.

Property and Equipment

Property and equipment are recorded at cost or, if contributed property, at their fair market value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Utility plant	50 years
Machinery and equipment	5-10 years
Storage shed	10 years

Pension Plan

The District does not provide a pension plan for its employees.

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

Note A - Summary of Significant Accounting Policies (continued)

Compensated Absences

The District currently has an agreement with the Town of Norwood whereby salaries, wages and benefits are paid for and reported by the Town and reimbursed by the District. Reimbursements are reported as wages by the District; however, all related liabilities are recorded by the Town.

Note B - Contingent Liabilities

Risk Management

The District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District, a member of the Colorado Intergovernmental Risk Sharing Agency (CIRSA). CIRSA is a public entity risk pool currently operating as a common risk management and insurance program for the member entities. The District pays an annual premium to CIRSA for its property and casualty coverage. The agreement for formation of CIRSA provides that CIRSA will be self-sustaining through member premium and will reinsure through commercial companies for excess claims.

Note C - Deposits and Investments

Deposits - Colorado state statutes govern the entity's deposits of cash. The Public Deposit Protection Act for banks and savings and loans require the state regulators to certify eligible depositories for public deposits. The act requires the eligible depositories with public deposits in excess of the federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the State. The pool is to be maintained by another institution or held in trust for all the un-insured public deposits as a group. The market value of the assets in the pool must be at least equal to the un-insured deposits. Collateral in the pool is considered to be equal to depository insurance, pursuant to definitions listed in GASB Statement No. 40.

At year-end carrying value of the District's deposit was \$359,909 and the bank balance was \$360,437. Of the total bank balance, \$ 250,000 deposits were covered by FDIC of FSLIC insurance and the remainder was collateralized by the bank.

Norwood Sanitation District
Norwood, Colorado
Notes to the Financial Statements
December 31, 2016

Note C - Deposits and Investments (continued)

Investments – At December 31, 2016 the District had no investments or formal investment policy.

Interest rate risk – The District does not have a formal policy limiting investment maturities, other than that established by the state statute of five years, which would help manage its exposure to fair value losses from increasing interest rates.

Note D - Reconciliation of Revenues and Expenses - Budget Basis to GAAP Basis

Excess of revenue over expenses, (Non-GAAP budgetary basis)	\$ 10,433
Adjustments	
Add: capital outlay	-
Less: depreciation	<u>(9,607)</u>
Changes in net position	<u>\$ 826</u>

Note E - Tax, Spending and Debt Limitations

In November 1992, Colorado voters passed an amendment (Amendment One) to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of the state and local governments.

The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending as defined by the amendment excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards and fund reserves (balances).

The amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the District under specified voting requirements by the entire electorate. The amendment also requires that reserves be established for declared emergencies, with 3% of fiscal year spending required in 1994 and thereafter.

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

Note E - Tax, Spending and Debt Limitations (continued)

The District had a ballot issue on November 5, 1996. The election authorizing the District to collect and spend all revenues generated by the existing mill levy (2.643), by state grants and taxes, by fees assessed for new development and by all other lawful sources of district revenues, in the fiscal year 1995 and for each subsequent years was approved by the voters.

The District's management believes it is in compliance with the remaining provisions of TABOR; however, TABOR is complex and subject to interpretation.

Note F - Capital Assets

	Balance January 1, 2016	Additions	Dispositions	Balance December 31, 2016
Business - Type Activities				
Capital assets not being depreciated				
Land and source of supply	\$ 3,044	\$ -	\$ -	\$ 3,044
Capital assets being depreciated				
Utility and distribution systems	482,393	-	-	482,393
Equipment and other	33,576	-	-	33,576
Less accumulated depreciation	(380,701)	(9,607)	-	(390,308)
Capital assets being depreciated, net	135,268	(9,607)	-	125,661
 Total Business-Type Activities Capital Assets	 \$ 138,312	 \$ (9,607)	 \$ -	 \$ 128,705

Norwood Sanitation District
Schedule of Revenues and Expenditures - Budget and Actual
Budgetary Basis of Accounting
For the Year Ended December 31, 2016

	Original	Final		Variance
	Budget	Budget	Actual	Favorable
Revenues				(Unfavorable)
General taxes	\$ 11,940	\$ 11,940	\$ 12,007	\$ 67
Sewer charges	104,001	104,001	105,391	1,390
Interest income	-	-	50	50
Miscellaneous	2,123	2,123	3,179	1,056
Tap fees	6,000	6,000	3,050	(2,950)
Total revenues	<u>\$ 124,064</u>	<u>\$ 124,064</u>	<u>\$ 123,677</u>	<u>\$ (387)</u>
Expenditures				
Board salary	\$ 600	\$ 600	\$ 490	110
Salary - reimbursement	56,113	56,113	51,692	4,421
Public notices	200	200	80	120
Travel	200	200	-	200
Office supplies	1,100	1,100	991	109
Chemicals	600	600	299	301
Auto expenses	3,200	3,200	2,101	1,099
Permits	1,350	1,350	1,245	105
Utilities and telephone	25,000	25,000	21,946	3,054
Postage	1,500	1,500	1,416	84
Contract labor	2,604	2,604	3,363	(759)
Legal and audit	3,500	3,500	2,625	875
Elections	1,200	1,200	877	323
Operating supplies	1,500	1,500	3,350	(1,850)
Insurance and bonds	7,543	7,543	6,252	1,291
Miscellaneous supplies	100	100	185	(85)
Miscellaneous services	300	300	236	64
Lab and testing	5,300	5,300	4,978	322
Computer support	2,000	2,000	1,928	72
Copier support	300	300	237	63
Freight	400	400	157	243
Safety and training	500	500	-	500
Engineering	500	500	-	500
Clean out - sewer lines	4,500	4,500	4,492	8
Capital outlay	1,357	1,357	1,357	-
Miscellaneous	2,600	2,600	2,947	(347)
Total expenditures	<u>\$ 124,067</u>	<u>\$ 124,067</u>	<u>\$ 113,244</u>	<u>\$ 10,823</u>