

PALMER LAKE SANITATION DISTRICT

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2016



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CPA

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Certified Public Accountant

PALMER LAKE
SANITATION DISTRICT
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Palmer Lake Sanitation District
Palmer Lake, Colorado

I have audited the accompanying financial statements of the business-type activities and each major fund of (the) Palmer Lake 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the business-type activities and each major fund of Palmer Lake Sanitation District as of December 31, 2016, and the respective changes in financial position and 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 on pages 3 through 6 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Palmer Lake Sanitation District's basic financial statements. The supplemental information on pages 22 and 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Bruce L. Fosdick, CPA, PC.
Castle Rock, Colorado
June 2, 2017

**PALMER LAKE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis is designed to provide an analysis of the District's financial condition and operating results and to inform the reader on the District's financial issues and activities.

The Management's Discussion and Analysis (MD & A) should be read in conjunction with the District's basic financial statements.

Management elected to adopt the provisions of a new accounting standard (GASB 63) which changed the presentation of the District's equity (now called "Net Position"). This election required the restatement of the financial statements for 2011. The change had no other material impact on cash flows, budget reporting or other compliance reporting.

Overview of the Financial Statements

The basic financial statements of the District are presented as a special purpose government engaged only in business type activities providing sanitary sewer utility services.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the 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* represent information which reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports the District's cash flows from operating, capital and investing activities.

These financial statements distinguish functions of the District that will be principally supported by service charges. The functions of the District include effective and economical operation of sanitation systems within the jurisdictional boundaries of the District.

In addition to the basic financial statements and accompanying notes, this report presents certain supplementary information concerning the District's budgetary comparisons presented for additional analysis.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

Year Ended December 31	2016	2015
ASSETS		
Current Assets	\$1,321,664	\$ 871,898
Other Assets	85,956	86,936
Capital Assets	<u>2,794,865</u>	<u>2,281,950</u>
Total Assets	4,202,285	3,240,784
LIABILITIES		
Current Liabilities	213,341	88,551
Long-term Liabilities	<u>165,000</u>	<u>195,000</u>
Total liabilities	378,341	283,551
NET POSITION		
Net Investment in capital assets	2,599,665	2,061,948
Unrestricted	1,156,678	829,065
Restricted		
Emergency Reserves	25,491	25,110
Loan Debt Covenant	<u>41,110</u>	<u>41,110</u>
Total net position	\$3,823,944	\$2,957,233

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$3,823,944. Significant changes noted in the assets and liabilities of the District for 2016 in comparison with 2015 were reduction of \$813,717 for Construction in Progress and in increase in Waste Water Plant of \$1,240,835. None noted for liabilities.

The largest portion of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

**REVIEW OF REVENUE, EXPENSES AND
CHANGES IN NET POSITION**

REVENUE	2016	2015
Operating Revenue	\$ 670,692	\$ 529,762
Non-operating Revenue	<u>182,327</u>	<u>307,244</u>
Total revenue	853,019	837,006
 EXPENSES		
Operating Expenses	312,314	310,669
Administrative and general	279,671	320,628
Non-operating expenses	<u>13,295</u>	<u>14,637</u>
Total expenses	605,280	645,934
 EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS AND TRANSFERS		
	<u>247,739</u>	<u>191,072</u>
 CAPITAL CONTRIBUTIONS AND TRANSFERS		
	<u>618,970</u>	<u>182,100</u>
Total capital contributions	<u>618,970</u>	<u>182,100</u>
 CHANGE IN NET POSITION		
	866,709	373,172
 NET POSITION - BEGINNING OF YEAR		
	<u>2,957,233</u>	<u>2,584,061</u>
 NET POSITION - END OF YEAR		
	<u>\$ 3,823,942</u>	<u>\$ 2,957,233</u>

The sanitation rate increase that went into effect January 2016 increased sewer operating revenues by 1%. Investment income, included in non-operating revenue, increased 20%.

Total expenses of the sewer operations decreased \$40,654.

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of debt issuance, sale of assets and debt repayments, as well as capital outlay in addition to operations and non-operating revenue and contributions. Capital contributions of facilities and depreciation are not reflected on the budget since they do not affect "funds available." Additionally, the budget includes the separation of the enterprise and government functions within the District.

The total budgeted revenue of the District was less than actual revenues by \$11,094. The total actual expenditures of the District were less than budgeted by \$508,734.

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets at December 31, 2016 amounts to \$2,794,865 (net of accumulated depreciation). This investment in capital assets includes operating system, building and land, equipment and vehicles. Analysis of changes in capital assets were as follows:

	2016	2015	Percentage Change
Construction in Progress	\$ 0	\$ 813,717	(100.00%)
Building and Land	0	283,965	(100.00%)
Operating system	606,346	1,182,735	(195.00%)
Equipment and vehicles	<u>0</u>	<u>1,532</u>	(100.00%)
Total capital assets	\$ 606,346	\$2,281,949	

There was \$606,346 of capital assets put into operation during the year.

Additional information on the District's capital assets can be found in Note B of this report.

Long Term Debt

The District's Special Limited Obligation Bonds, Series 2003 in the amount of \$470,000 were sold effective January 1, 2003. The principal balance of the District's outstanding Bonds as of December 31, 2016 is \$195,000.

Additional detail on debt is in Note H in the Notes to Financial Statements.

Requests for Information

This report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Palmer Lake Sanitation District Board of Directors, PO Box 687, Palmer Lake, CO 80133.

**PALMER LAKE SANITATION DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

ASSETS

CURRENT ASSETS

Cash	\$ 431,997
Accounts Receivable - Note F	27,271
Investments	854,451
Prepaid Expenses	<u>7,945</u>
Total Current Assets	1,321,664

CAPITAL ASSETS - Notes B-1 & 3

Waste Water Plant	2,919,353
Sewer System	1,655,247
Equipment and tools	24,727
Office Equipment	54,737
Building	330,964
Land	<u>52,634</u>
	5,037,662
Accumulated Depreciation	<u>(2,242,997)</u>
Total Capital Assets	2,794,665

OTHER ASSETS

Rental Deposits	975
Easements	21,000
Bond Issue Costs (Net) - Note H	5,871
Restricted Cash - Note E	<u>58,110</u>
Total Other Assets	85,956

Total Assets \$4,202,285

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	159,750
Accrued Leave	22,600
Accrued Interest Payable	841
Payroll Withholding	150
Current Portion of Long Term Debt	<u>30,000</u>
Total Current Liabilities	213,341

LONG TERM LIABILITIES

Bonds Payable (Net of Current Portion) - Note H	<u>165,000</u>
Total Long Term Liabilities	165,000

Total Liabilities 378,341

NET POSITION

Net Investment in Capital Assets	2,599,665
Unrestricted	1,157,678
Restricted - Debt Covenant	41,110
Restricted - Emergency Reserves	<u>25,491</u>
Total Net Position	<u>\$3,823,944</u>

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

**PALMER LAKE SANITATION DISTRICT
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016**

OPERATING REVENUE	
Sewage Treatment Fees	\$ 631,408
Other Fees	<u>39,284</u>
Total Operating Revenue	670,692
OPERATING EXPENSES	
Operating Expenses	312,314
Administrative and General Expenses	<u>279,671</u>
Total Operating Expenses	591,985
GAIN (LOSS) FROM OPERATIONS	78,707
NON-OPERATING REVENUE AND (EXPENSE)	
Donated Assets	179,228
Interest Expense	(13,295)
Earnings on Investments	<u>3,099</u>
Total Non-Operating Revenue and (Expenses)	169,032
EXCESS (DEFICIENCY) BEFORE CONTRIBUTIONS	247,739
CAPITAL CONTRIBUTIONS	
Tap Fees	<u>618,970</u>
Total Capital Contributions	618,970
CHANGE IN NET POSITION	866,709
NET POSITION - BEGINNING OF YEAR	<u>2,957,235</u>
NET POSITION - END OF YEAR	<u><u>\$3,823,944</u></u>

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

**PALMER LAKE SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	621,927	
Cash Payments for Goods & Services	(226,241)	
Cash Payments to Employees for Services	(112,705)	
Net Cash Flow from Operating Activities		282,981

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payments on Debt	(25,000)	
Interest Paid on Debt	(13,295)	
Acquisition of Capital Assets	(427,118)	
Tap Fees Collected	618,970	
Net Cash Flow from Capital and Related Financing Activities		153,557

CASH FLOWS FROM INVESTING ACTIVITIES

Increase in Investment Securities	(217,007)	
Interest on Investments	3,099	
Net Cash Flow required by Investing Activities		<u>(213,908)</u>
Net Increase(Decrease) in Cash and Restricted Cash		222,630
Cash and Restricted Cash - January 1, 2016		<u>267,477</u>
Cash and Restricted Cash - December 31, 2016		490,107

**RECONCILIATION OF OPERATING GAIN TO CASH FLOWS
PROVIDED (REQUIRED) BY OPERATING ACTIVITIES:**

Operating Income (Loss)	78,707	
Adjustments to Reconcile Operating Income (Loss) to Cash Flows Provided (Required) by Operating Activities -		
Depreciation	93,631	
Amortization	980	
Effect of Changes in Operating Assets and Liabilities -		
Increase In Receivables	(9,620)	
Increase in Prepaid Expenses	(506)	
Increase in Accounts Payable	116,794	
Increase in Other Liabilities	<u>2,995</u>	

NET CASH FLOW FROM OPERATING ACTIVITIES		282,981
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The accompanying notes are an integral part of these financial statements.

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE A - DEFINITION OF REPORTING ENTITY

The District, a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District was established on October 29, 1971. The District's service area is located in El Paso County. The District was established to provide sanitation services.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles applicable to local governments. A summary of the Palmer Lake Sanitation District's significant accounting policies consistently applied in the preparation of these financial statements follow:

PRINCIPLES USED IN DETERMINING THE SCOPE OF THE REPORTING ENTITY

The District's combined financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- * the organization is legally separate (can sue and be sued in their own name)
- * the District holds the corporate powers of the organization
- * the District appoints a voting majority of the organization's board
- * the District is able to impose its will on the organization
- * the organization has the potential to impose a financial benefit/burden on the District
- * there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the Palmer Lake Sanitation District has no component units, nor is it a component unit of any other primary governmental entity.

The District is part of a joint use agreement for the management of the Tri-Lakes Waste Water Treatment Plant, which is owned jointly by the Palmer Lake Sanitation District, the Monument Sanitation District and the Woodmoor Sanitation District. Each Board appoints a member and one alternate to represent them on the Joint Use Committee and the respective districts pay their share of the operating expenses and administrative expenses.

No single agency controls the actions of the Tri-Lakes Waste Water Treatment Plant, and it is considered to be a separate entity for reporting purposes. Copies of financial statements for the Tri-Lakes Wastewater Treatment facility are available at the treatment facility.

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE A - DEFINITION OF REPORTING ENTITY (CONTINUED)

Billings for services of the treatment plant are expensed on the books of the Palmer Lake Sanitation District as they are presented to the District by the Tri-Lakes Waste Water Treatment Plant and amounted to \$168,365 for the year ended December 31, 2016. Palmer Lake's share of capital improvements in the plant are capitalized as part of property and equipment - \$427,118. An advance of \$17,000 is listed as part of restricted cash under other assets.

A summary of the most current information available of audited financial information for the Tri-Lakes Waste Water Treatment Plant as of and for the year ended December 31, 2016 is as follows:

Current Assets	\$ 546,277
Capital Assets	8,164,985
Deferred Outflows of Resources	<u>122,005</u>
Total Assets & Deferred Outflows of Resources	<u>\$ 8,833,267</u>
Current Liabilities	\$ 614,519
Non Current Liabilities - Pension	432,863
Deferred Inflows of Resources	33,225
Net Position	<u>7,752,660</u>
	<u>\$ 8,833,267</u>
Operating Revenue	\$ 2,084,308
Operating expenses	<u>1,064,345</u>
Operating (loss)	1,019,963
Other income	<u>893</u>
Net income (loss)	<u>\$ 1,020,856</u>

There is no current debt outstanding. Under Government Accounting Standards Board Statement 68, pension liabilities have been added as non current debt - \$432,863. The current liabilities represent accounts payable and other current liabilities, as well as deposits from the three owning districts.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1) Basis of Accounting

The District's accounting records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets. Redemption of notes is recorded as a reduction in liabilities. Tap fees are recorded as capital contributions when received.

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

2) Budgets

The District follows the following procedures in establishing budgetary data reflected in these financial statements.

- 1) Prior to October 1, a proposed budget for the fiscal year beginning the following January 1, is submitted to the Board of Directors.
- 2) A Public Hearing is conducted to obtain taxpayer comments.
- 3) Prior to December 31, the budget is legally enacted through resolution.

Encumbrance accounting (open purchase orders, contracts in process and other commitments for the expenditures of funds in future periods) is not used by the District for budget or financial reporting purposes.

The following is a reconciliation of generally accepted accounting principles (GAAP) to the budgetary basis (actual) with comparisons and excess revenue over (under) expenditures to the adopted budget.

Net Income - GAAP	\$ 247,739
Add : Tap Fees	618,970
: Depreciation	93,631
: Amortize Bonds Issue Cost	980
Subtract : Principal Payments	(25,000)
: Capital Expenditures	(427,118)
: Donated Assets	(179,228)
	\$ 329,974
Net Income - Budget	\$ 329,974

Capital contributions of facilities and depreciation are not reflected in the budget since they do not reflect "funds available".

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3) Capital Assets

Capital Assets are recorded at cost. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives.

<u>Type</u>	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Waste Water Plant	40 years	2,919,353	1,273,013
Sewer System	40 years	1,655,247	783,170
Equipment & tools	5-10 years	24,727	24,727
Office Equipment	5-10 years	54,737	54,180
Land		52,634	-
Buildings	40 years	330,964	107,907
		<u>5,037,662</u>	<u>2,242,997</u>

Depreciation expense for the year ended December 31, 2016 was \$93,631. Nine hundred seventy-five dollars (\$975) of this amount was allocated to Administrative and General Expenses, \$49,465 to collection costs, and \$43,191 to Treatment Costs.

<u>Type</u>	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Deletions & Adjustments</u>	<u>Balance 12/31/16</u>
Waste Water Plant	1,678,518	1,240,835	-	2,919,353
Sewer System	1,476,019	179,228	-	1,655,247
Equipment & tools	24,727	-	-	24,727
Office Equipment	54,737	-	-	54,737
Land	52,634	-	-	52,634
Buildings	330,964	-	-	330,964
Construction in Progress	813,717	427,118	1,240,835	-
	<u>4,431,316</u>	<u>1,847,181</u>	<u>1,240,835</u>	<u>5,037,662</u>

4) Cash Flow Statement

For purposes of the Cash Flow Statement, Cash and Cash Equivalents are those accounts that are either cash or are readily convertible to cash.

Amortization of Bond Issue Costs resulted in a non-cash interest expense of \$980. See Note H.

5) Operating Revenue

Operating revenues are those revenues derived from daily operations. Non-operating revenues are derived from other sources, i.e. taxes, grants, and earning on investments.

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6) Net Position

The business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- * Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.
- * Restricted Net Position are liquid assets, which have third party limitations on their use.
- * Unrestricted Net Position represents assets that do not have any third party limitation on their use. While the District's management may have categorized and segmented portion for various purposes, the District's Board has the unrestricted right to revisit or alter these managerial decisions.

NOTE C - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Material Violations of Financial related, legal and contractual provisions

None

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE D - SUMMARY DISCLOSURE OF CONTINGENCIES

Litigation

On February 19, 2015, the Woodmoor Water and Sanitation District No. 1 ("Woodmoor") filed a Complaint for Declaratory Relief in El Paso County District Court naming the District and Monument Sanitation District ("Monument") as defendants. The three districts are co-owners of the Tri-Lakes Wastewater Treatment Facility ("Tri-Lakes Facility") located in El Paso County, Colorado. The dispute concerns the parties' respective financial obligations in connection with certain construction work to be completed at the Tri-Lakes Facility (the "Project") and whether the work to be completed on the Project should be characterized as repair/maintenance (as alleged by Woodmoor) or as an expansion (as alleged by the District and Monument). The contemplated costs of the first phase of the Project are currently estimated to exceed Three Million Dollars, with the estimated costs of phases two and three of the Project likely to exceed such amount. Woodmoor alleges that the Project costs should be equally shared among the three districts, whereas the District and Monuments believe that the costs should be apportioned based upon each party's flow contributions to the Tri-Lakes Facility. If the District and Monument prevail, their financial obligations will be significantly reduced. The District intends to vigorously defend its position in the litigation.

The District court ruled in favor of "Woodmoor". The litigation is now before the Court of Appeals in June of 2017.

NOTE E - CASH

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is specified by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 100% of the uninsured deposits.

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

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE E - CASH (CONTINUED)

At December 31, 2016, the District had cash balances on deposit as follows:

	<u>BALANCE</u>	<u>FDIC INSURED</u>	<u>COLLAT- ERALIZED</u>
Integrity Bank - Operating	\$ 453,542	-	-
- Equalization	19,365	-	-
	<u>\$ 472,907</u>	<u>\$250,000</u>	<u>222,907</u>
 Petty cash	 <u>200</u>		
	\$ 473,107		
Restricted Bond Fund	<u>(41,110)</u>		
Unrestricted Cash	<u>\$ 431,997</u>		

Restricted Cash consists of:

Restricted Bond Fund (Note H) &	41,110
Joint Use Agreement (Note A)	<u>17,000</u>
	<u>\$ 58,110</u>

NOTE F - ACCOUNTS RECEIVABLE

Accounts receivable include amounts due from customers for sewage treatment operations and refunds that are due. All are thought to be collectible and no allowance has been made for uncollectability.

NOTE G - INVESTMENTS

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

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

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

Colorado statutes specify in which instruments the units of local government may invest which include:

- * Repurchase agreements
- * Obligations of the United States or obligations unconditionally guaranteed by the United States
- * Obligations of the State of Colorado and most general obligations of units of local governments

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE G - INVESTMENTS (CONTINUED)

- * Guaranteed investment contracts
- * Federally insured mortgages and student loans
- * Certain money market funds
- * Participation with other local governments in pooled investment funds (trusts). These trusts are supervised by participating governments and must comply with the same restrictions on cash deposits and investments.

At December 31, 2016, the District had the following Investments with Integrity Bank & Trust:

Investment	Maturity	Fair Value
Integrity Bank Money Market Fund	Weighted Average Under 180 days	<u>854,451</u>
		854,451

Integrity Bank and Trust of Monument, Colorado has been given a three star/good rating by Baver Financial as of December 31, 2016. As of December 31, 2016, the District had \$854,451 invested in Integrity Bank & Trust.

NOTE H - CHANGES IN LONG TERM DEBT

The following is a summary of changes in long term debt for the district.

	Balance at December 31 <u>2015</u>	New Issue	Refunding/ Retirements	Balance at December 31 <u>2016</u>
Wastewater Revenue Bonds - 2003	\$ 220,000	0	25,000	\$195,000

The following represents the debt service requirements to maturity of the debt of the district.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Rate</u>	<u>Total</u>
2017	30,000	10,935	5.40%	40,935
2018	30,000	9,315	5.50%	39,315
2019	30,000	7,665	5.50%	37,665
2020	35,000	5,984	5.65%	40,984
2021	35,000	4,008	5.70%	39,008
2022	35,000	2,011	5.75%	37,013

Terms of the bonds require that funds in the amount of \$41,110 be reserved (See Also Note E).

Total interest costs incurred for the year were \$13,295, including \$150 in bond agent payment fees, and \$980 in amortization of bond issue costs.

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE I - COMPENSATED ABSENCES

Effective March 1, 2010, employees with six months of employment accrue 1 week of vacation. Employees with 2-5 years of employment with the District accrue 2 weeks of vacation pay. Employees with 5-10 years employment accrue 3 weeks. Employees with 10-15 years of District employment accrue 4 weeks and workers with greater than 15 years of service accrue 5 weeks of vacation pay. They may not accrue any sum greater than 60 days - 480 hours. The District has accrued \$8,511 in vacation pay for employees as of 12/31/16.

Employees with six months of employment also accrue sick leave at the rate of eight (8) hours per month. An employee terminating employment with the District will not be paid for more than 240 hours of accrued sick time. Therefore, the maximum amount to be paid out (up to 240 hours earned per employee) has been accrued as a liability to the District. The accrued amount is \$14,088 for 2016.

NOTE J - TABOR AMENDMENT (TABOR)

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

The District's financial activity for 1992 provides the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth. Subsequent to 1992, revenue in excess of the District's "spending limit" must be refunded unless voters approve the retainage of such excess revenue. TABOR generally requires voter approval for any new tax, tax increases and new debt.

As part of the TABOR amendment, the District may be required to set aside an amount equal to 3% of total cash revenues as an Emergency Reserve. These funds may be used for declared emergencies only.

In anticipation of grant revenues for 2014/2015, a ballot issue was placed on the ballot for the May 2014 election. It stated;

Shall Palmer Lake Sanitation District be authorized to collect, retain, and expend state grants awarded to the District (and not be repaid to the state) for wastewater treatment facility planning, design, construction, or improvements needed to comply with the state wastewater nutrients management control regulations and, during any calendar year in which state and local grant monies exceed 10% of annual District revenue, shall the District be authorized to collect, retain, and spend all amounts received by the District annually from all revenue sources as a voter approved revenue charge without regard to any spending, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution.

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE J - TABOR AMENDMENT (TABOR) (CONTINUED)

The election ballot issue passed.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

NOTE K - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District has elected to manage its risk of losses through an Intergovernmental Agreement with the Special District Association of Colorado. Premiums are based on revenues with surcharges and assessments being available to the Risk Management Pool for Excessive Claims. During 2016 the pool provided liability coverage in the amount of \$1,000,000.

The District is one of 1,392 special districts which are members of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, general liability, automobile physical damage and liability, public officials liability, employee dishonesty and crime, equipment breakdown and workers' compensation coverage to its members. The Pool provides coverage for property claims up to \$50,000,000 and liability coverage for claims up to \$1,000,000. Workers' compensation claims are covered up to statutory limits, with claims related to employer's liability up to \$2,000,000. Settled claims have not exceeded this coverage during 2016. Settled claims have not exceeded policy coverage in any of the years prior to 2016.

The District pays annual premiums to the Pool for their liability insurance and property insurance. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and surplus accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess unassigned surplus which the Pool determines is not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**PALMER LAKE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

NOTE L - SAVINGS INCENTIVE MATCH PLAN

The District provides a Savings Incentive Match Plan for Employees (SIMPLE), an IRA plan under Section 408(p) of the Internal Revenue Code. The District, on an annual basis, provides matching contributions, dollar for dollar, for contributions made by an eligible employee to a qualifying account, in an amount up to, but not to exceed, three percent (3%) of such eligible employees gross annual compensation. Participation in the plan is optional for all eligible employees. The plan allows eligible employees to defer a portion of their salary until future years. The District's contributions to the plan for the year ending December 31, 2016 were \$2,443.

NOTE M - OTHER COMMITMENTS

The District has an unused Letter of Credit in an amount equal to the investments. Currently this is \$854,451 (See Note E).

PALMER LAKE SANITATION DISTRICT
OTHER SUPPLEMENTAL INFORMATION
DECEMBER 31, 2016

PALMER LAKE SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

ENTERPRISE REVENUE	ORIGINAL and FINAL <u>BUDGET</u>	<u>ACTUAL</u>	VARIANCE FAVORABLE (UNFAVORABLE)
Sewer Service Fees	\$ 620,314	631,408	\$ 11,094
Other Fees	1,500	39,284	37,784
Interest Income	1,000	3,099	2,099
Tap Fees	100,000	618,970	518,970
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
Total Enterprise Revenue	722,814	1,292,761	569,947
 EXPENSES			
Operating Expenses	268,370	219,658	48,712
Administrative Expenses	276,029	278,697	(2,668)
Debt Service	37,273	37,314	(41)
Capital Expenditures	<u>889,846</u>	<u>427,118</u>	<u>462,728</u>
Total Expenditures	1,471,518	962,787	508,731
 Excess of Enterprise Revenue over Enterprise Expenditures	 (748,704)	 329,974	 1,078,678
 Funds Available - Beginning of year		 <u>808,349</u>	
Increase in Restricted Cash		0	
Funds Available - End of year		<u>\$1,138,323</u>	

Funds Available at December 31, 2016 is computed as follows:

Current Assets	\$1,321,664
Current Liabilities	(213,341)
Current Portion of Long-term Debt	<u>30,000</u>
	<u>\$1,138,323</u>

**PALMER LAKE SANITATION DISTRICT
FOR THE YEAR ENDED DECEMBER 31, 2016**

SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES

Accounting and Auditing	\$ 24,041
Engineering	22,307
Salaries & Wages	86,481
Education and Seminars	758
Payroll Taxes and Benefits	24,316
Directors' Fees	6,630
Repairs	1,182
Insurance	7,067
Lawn Care/Snow Removal	3,139
Legal	80,978
Other Expenses	3,347
Office Expense	14,238
Depreciation	975
Utilities	<u>4,213</u>
Total administrative and general expenses	\$279,672

SCHEDULE OF OPERATING EXPENSES

COLLECTION COSTS	
Salaries	\$ 23,276
Payroll Taxes & Benefits	1,805
Depreciation	49,465
Cleaning	18,503
Repairs	3,510
Supplies	3,908
Other Costs	<u>291</u>
	100,758
TREATMENT COSTS	
Depreciation	43,191
Contract Costs	<u>168,365</u>
	211,556
Total Operating Costs	\$312,314