

**SOUTH ARAPAHOE SANITATION DISTRICT**  
Arapahoe County, Colorado

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



**RECEIVED**

*By Electronic Submission at 1:53 pm, May 10, 2017*

## TABLE OF CONTENTS

	<b>PAGE</b>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>I</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS .....</b>	<b>III</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position.....	1
Statements of Revenues, Expenses and Changes in Net Position .....	2
Statements of Cash Flows .....	3
Notes to Financial Statements .....	5
<b>SUPPLEMENTARY INFORMATION .....</b>	<b>17</b>
Schedule of Revenues, Expenditures and Funds Available Budget and Actual (Budgetary Basis) .....	18
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses and Changes in Net Position.....	19

## **Independent Auditor's Report**

Board of Directors  
South Arapahoe Sanitation District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of South Arapahoe Sanitation District for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

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

## **Other Matters**

The management's discussion and analysis information on pages III through VII is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



L. Paul Goedecke, P.C.  
April 6, 2017

SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016

The management of South Arapahoe Sanitation District (the District) offers the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2016.

**Financial Highlights**

- Net position increased \$193,952 during 2016.
- The District had \$4,251,830 of operating revenue for sewer services as compared to revenue of \$4,258,996 in 2015, and \$3,725,429 of operating expenses for sewer as compared to expenses of \$3,660,908 in 2015.
- Operating revenues, exclusive of service treatment fees, and operating expenses, exclusive of depreciation and sewage treatment expense (which is offset dollar for dollar by service treatment fees), decreased 0.78% and increased 9.04% over 2015 revenues and expenses, respectively.
- Three new sewer taps were issued in 2016, bringing the total number of Single Family Equivalents (SFE) in the District to 11,114.
- Funds available (current assets less current liabilities and deferred inflows of resources) decreased \$631,542 from \$5,129,843 in 2015 to \$4,498,301 in 2016.
- The District constructed \$1,111,943 of capital improvements during 2016.

**Overview of the Financial Statements**

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of Financial Statements and Notes to Financial Statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The financial statements of the District are presented as a special purpose government engaged only in business type activities - providing sewer utility services.

The *statement of net position* presents information on all of the District's assets, liabilities and deferred inflow of resources, with the difference between the three 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* presents information that 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 revenue 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, noncapital financing, capital and investing activities.

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

SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016

The *supplemental information* contained in this report provides a schedule of budget and actual information and a reconciliation of budgetary basis to the statement of revenues, expenses and changes in net assets.

The statement of net position and reviews of revenue and expenses are condensed with comments and presented as follows:

**Statement of Net Position**

	December 31,		
	2016	2015	2014
Current assets	\$ 5,422,581	\$ 6,049,482	\$ 5,584,143
Capital assets	7,247,413	6,421,919	6,621,800
Total assets	12,669,994	12,471,401	12,205,943
Current liabilities	924,280	919,639	916,312
Total liabilities	924,280	919,639	916,312
Net assets invested in capital assets	7,247,413	6,421,919	6,621,800
Unrestricted net position	4,498,301	5,129,843	4,667,831
Total net position	\$ 11,745,714	\$ 11,551,762	\$ 11,289,631

The District increased its net position by \$193,952 during 2016 and \$262,131 during 2015. Current assets decreased \$626,901 from 2015 primarily due to the construction of over \$1.1 million of capital improvements in 2016. The District's deferred transmission fee revenue was 44% of Englewood's service treatment fees. The "Funds Available" (current assets less current liabilities and deferred inflows of resources) calculates to \$4,498,301 for 2016 and \$5,129,843 for 2015, which is available primarily for future operations and capital projects.

SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016

**Review of Change in Net Position**

	December 31,		
	2016	2015	2014
Operating revenue			
Sewer services	\$ 4,251,830	\$ 4,258,996	\$ 4,125,001
Total operating revenue	<u>4,251,830</u>	<u>4,258,996</u>	<u>4,125,001</u>
Nonoperating revenue (expenses)			
Investment income	26,356	34,948	57,110
Other income	39,757	8,851	2,513
Total nonoperating revenue	<u>66,113</u>	<u>43,799</u>	<u>59,623</u>
Capital contributions			
Tap fees	13,485	3,000	-
Capital contributions from third parties	-	-	143,200
Total nonoperating revenue	<u>13,485</u>	<u>3,000</u>	<u>143,200</u>
Total revenue	<u>4,331,428</u>	<u>4,305,795</u>	<u>4,327,824</u>
Operating expenses			
Sewer	3,725,429	3,660,908	3,493,482
Total operating expenses	<u>3,725,429</u>	<u>3,660,908</u>	<u>3,493,482</u>
General and administrative	125,598	111,709	159,898
Depreciation	286,449	271,047	261,325
Total expenses	<u>4,137,476</u>	<u>4,043,664</u>	<u>3,914,705</u>
Change in net position	193,952	262,131	413,119
Net position - Beginning	<u>11,551,762</u>	<u>11,289,631</u>	<u>10,876,512</u>
Net position - Ending	<u>\$ 11,745,714</u>	<u>\$ 11,551,762</u>	<u>\$ 11,289,631</u>

Total revenue increased \$25,633 in 2016. Sewer services decreased \$7,166, which were offset by an increase of \$22,314 for non-operating revenue. In 2016, tap fees increased by \$10,485. The decrease in net investment income was due mostly to a decrease in the market value and interest earnings on the District's governmental securities. The City of Englewood's rate increases are planned to fund a major expansion for the Littleton/Englewood Wastewater Treatment Plant. The City bills annually in advance in June, September, and December. The 2016 billings were billed at the same rate as 2015. The 2015 billings were increased an average of 3% over 2014. District transmission fees are a percentage of the City's service treatment fees, which were 44% in 2016, 2015, and 2014. Operating and general and administrative expenses increased \$78,410 over 2015 expenses.

SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016

**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 nonoperating revenue and contributions. Capital contributions of facilities and depreciation are not reflected on the budget since they do not affect "funds available." This budgetary accounting is required by State statutes.

Total revenue of the District was less than the budgeted revenue by \$90,722, due mainly to negative variances for service treatment fees, district transmission fees, and investment income, which were offset by insurance reimbursements paid for electrical damage to the District's lift station.

Actual expenditures of the District were less than the budgeted appropriation by \$262,030, which included positive variances for sewage treatment, repairs and maintenance, and capital improvements. The positive variances were offset by negative variances for legal fees and locates.

**Capital Assets Activity**

The activity related to capital assets during 2016, 2015, and 2014 is as follows:

	<u>December 31, 2015</u>	<u>Net Changes</u>	<u>December 31, 2016</u>
Land and easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer system	343,026 <u>13,646,545</u>	- 1,111,943	343,026 <u>14,758,488</u>
Total capital assets	<u>14,053,628</u>	<u>1,111,943</u>	<u>15,165,571</u>
Accumulated depreciation	<u>(7,631,709)</u>	<u>(286,449)</u>	<u>(7,918,158)</u>
Net capital assets	<u>\$ 6,421,919</u>	<u>\$ 825,494</u>	<u>\$ 7,247,413</u>
	<u>December 31, 2014</u>	<u>Net Changes</u>	<u>December 31, 2015</u>
Land and easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer system	343,026 <u>13,575,379</u>	- 71,166	343,026 <u>13,646,545</u>
Total capital assets	<u>13,982,462</u>	<u>71,166</u>	<u>14,053,628</u>
Accumulated depreciation	<u>(7,360,662)</u>	<u>(271,047)</u>	<u>(7,631,709)</u>
Net capital assets	<u>\$ 6,621,800</u>	<u>\$ (199,881)</u>	<u>\$ 6,421,919</u>

SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2016

	<u>December 31, 2013</u>	<u>Net Changes</u>	<u>December 31, 2014</u>
Land and easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer system	343,026	-	343,026
Total capital assets	<u>13,326,233</u>	<u>656,229</u>	<u>13,982,462</u>
Accumulated depreciation	<u>(7,099,337)</u>	<u>(261,325)</u>	<u>(7,360,662)</u>
Net capital assets	<u>\$ 6,226,896</u>	<u>\$ 394,904</u>	<u>\$ 6,621,800</u>

The 2016 capital asset activity of \$1,111,943 and the 2015 capital asset activity of \$71,166 were spent for engineering, design and construction of sewer pipe by cured-in-place rehabilitation, manhole rehabilitation, plus the purchase of new pumps for the lift station. A majority of the 2015 planned construction was delayed until 2016.

Additional information on the District's capital assets can be found in Note 4 of this report.

### **Economic and Other Factors**

The District expects to maintain a customer base of approximately 11,000 Single Family Equivalents (SFE). The planned continuing maintenance schedule of the District will videotape all clay lines over a two-year period, all PVC lines over a four-year period, and all outfall lines over a four-year period. All line types will be jet cleaned at least every four years. The District is also developing a Geographic Information System (GIS) that will provide detailed information on the District's sewer assets.

The District intends to maintain its percentage for transmission fees at a rate that will generate revenues to produce a funds available balance that will be sufficient to provide a capital reserve for future replacement of the District's sewer system assets, as well as unforeseen contingencies. The District's targeted reserves for capital replacement at December 31, 2016, was \$2,982,646.

### **Request 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:

South Arapahoe Sanitation District  
8390 E. Crescent Parkway, Suite 500  
Greenwood Village, CO 80111

## **BASIC FINANCIAL STATEMENTS**

**SOUTH ARAPAHOE SANITATION DISTRICT  
STATEMENTS OF NET POSITION  
December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 815,203	\$ 809,837
Investments	3,820,162	4,410,962
Accounts receivable	778,131	823,852
Interest receivable	8,842	4,831
Prepaid expenses	243	-
Total current assets	5,422,581	6,049,482
<b>CAPITAL ASSETS, NET</b>		
Capital assets not being depreciated	407,083	407,083
Capital assets, net of accumulated depreciation	6,840,330	6,014,836
Total capital assets, net	7,247,413	6,421,919
<b>TOTAL ASSETS</b>	<b>\$ 12,669,994</b>	<b>\$ 12,471,401</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 132,227	\$ 121,965
Unearned revenue	792,053	797,674
Total current liabilities	924,280	919,639
<b>NET POSITION</b>		
Net investment in capital assets	7,247,413	6,421,919
Unrestricted	4,498,301	5,129,843
Total net position	11,745,714	11,551,762
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 12,669,994</b>	<b>\$ 12,471,401</b>

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

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

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES</b>		
Service treatment fees	\$ 2,942,606	\$ 2,939,473
District transmission fees	1,293,474	1,303,173
Industrial pretreatment program	15,750	16,350
Total operating revenues	4,251,830	4,258,996
<b>OPERATING EXPENSES</b>		
Sewage treatment	2,942,606	2,939,473
Repairs and maintenance	515,303	494,759
Depreciation	286,449	271,047
Engineering management	208,572	172,088
Accounting	53,033	50,684
Audit	3,500	3,500
Conferences/seminars	765	-
Customer communications	387	1,124
Directors' fees	4,800	5,400
Dues/licenses	1,238	1,238
Insurance and fidelity bonds	5,351	4,320
Legal fees	54,093	43,625
Locates	33,304	19,058
Miscellaneous	841	57
Plan review/construction observation	25,644	35,530
Utilities	1,590	1,761
Total operating expenses	4,137,476	4,043,664
<b>OPERATING INCOME</b>	114,354	215,332
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment income	26,356	34,948
Plan review/construction observation fees	2,682	6,985
Other income	37,075	1,866
Total nonoperating revenues	66,113	43,799
<b>CAPITAL CONTRIBUTIONS</b>		
Tap fees	13,485	3,000
Total capital contributions	13,485	3,000
<b>CHANGE IN NET POSITION</b>	193,952	262,131
<b>TOTAL NET POSITION - BEGINNING OF YEAR</b>	11,551,762	11,289,631
<b>TOTAL NET POSITION - END OF YEAR</b>	\$ 11,745,714	\$ 11,551,762

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

**SOUTH ARAPAHOE SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 1,345,505	\$ 1,356,718
Payment for operating expenses	(898,402)	(828,112)
Net cash provided by operating activities	447,103	528,606
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tap fees	13,485	3,000
Other nonoperating revenue	43,576	5,032
Net cash provided by noncapital financing activities	57,061	8,032
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(1,111,943)	(71,166)
Net cash (required) by capital and related financing activities	(1,111,943)	(71,166)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Certificate of deposit maturity	490,000	245,000
Purchase of certificate of deposit	(495,000)	(490,000)
Maturity of U.S Government investments	(14,441)	72,565
Interest received	22,345	30,142
Net cash provided (required) by investing activities	2,904	(142,293)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(604,875)	323,179
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	2,237,406	1,914,227
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,632,531	\$ 2,237,406

(Continued)

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

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

	<b>2016</b>	<b>2015</b>
<b>Reconciliation of operating income (loss) to net cash provided (required) by operating activities</b>		
Income from operations	\$ 114,354	\$ 215,332
Adjustments to reconcile income (loss) from operations to net cash flows provided by operating activities		
Depreciation/amortization	286,449	271,047
Net (increase) decrease in accounts receivable	41,902	34,719
Net (increase) decrease in prepaid expenses	(243)	4,181
Net increase (decrease) in accounts payable	10,262	851
Net increase (decrease) in unearned revenue	(5,621)	2,476
Net cash provided by operating activities	\$ 447,103	\$ 528,606

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

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

South Arapahoe Sanitation District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for Arapahoe County on July 30, 1957, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in unincorporated Arapahoe County, Colorado, City of Greenwood Village, Colorado, City of Littleton, Colorado, and City of Centennial, Colorado. The District was established to provide and maintain sanitary sewer lines and contracts with the City of Englewood (City) for sewage treatment services.

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

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

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

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

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

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

**Basis of Accounting**

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

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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

**Operating Revenues and Expenses**

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

**Investments**

Investments are carried at fair value.

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

**Cash Equivalents**

For purposes of the Statements of Cash Flows, the District considers all cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

**Capital Assets**

Capital assets, which include land and easements, capacity rights, and sewer system components, are reported by the District. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of 10-40 years.

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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

**Contributed Public Improvements**

Public improvements contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair value when received.

The District receives contributions in aid of construction from various sources. They are recorded as follows:

**Sewer System** - Sewer lines are temporarily accepted by the District for a probationary period of twelve months, during which time the developer remains responsible for maintenance and operation of the lines. Upon completion of the probationary period and the meeting of certain requirements, the lines are permanently accepted by the District. The lines are recorded at the time of probationary acceptance by the District at actual or estimated cost to the developer as capital contributions.

**Tap Fees** - These fees become collectible upon issuance of the tap permit and are classified as capital contributions at the time of collection.

**Inclusion Fees** - The District, upon approval of the Board of Directors, allows lines from outside the District's boundaries to connect to its sewer lines. The users of these lines are billed for the cost of the facilities to be constructed by the District in order to complete the connection.

**NOTE 3 - CASH AND INVESTMENTS**

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

	<u>2016</u>	<u>2015</u>
Cash	<u>\$ 815,203</u>	<u>\$ 809,837</u>
Investments	<u>\$ 3,820,162</u>	<u>\$ 4,410,962</u>

Cash and cash equivalents per the Statement of Cash Flows as of December 31, 2016, and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Deposits with financial institutions	\$ 320,017	\$ 319,225
Certificates of deposit	495,186	490,612
Less: Principal amount of CD's	(495,000)	(490,000)
Investments	3,820,162	4,410,962
Less: Investments with a maturity greater than three months	<u>(2,507,834)</u>	<u>(2,493,393)</u>
	<u>\$ 1,632,531</u>	<u>\$ 2,237,406</u>

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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

**Deposits with Financial Institutions**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

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

At December 31, 2016 and 2015, the District's cash deposits had a bank balance of \$320,017 and \$426,390 and a carrying balance of \$320,017 and \$319,225, respectively.

At December 31, 2016 and 2015, the District's deposits also included certificates of deposit with financial institutions of \$495,186 and \$490,612, respectively, which are insured through the FDIC.

**Investments**

The District has adopted a formal investment policy which follows state statutes regarding investments.

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

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

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

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

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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

- . Certain money market funds
- . Guaranteed investment contracts
- \* Local government investment pools

**Fair Value Measurement and Application**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost. The District's investments in U.S. government and agency securities are measured as Level 1 inputs.

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

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	
		<u>2016</u>	<u>2015</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	\$ 1,312,328	\$ 1,917,569
Farmer Mac	June 2018	204,762	206,070
Federal Farm Credit Bank		-	297,548
Federal Home Loan Bank	August 2018	198,580	197,880
Federal Home Loan Bank Step	December 2021	249,430	472,820
Federal Home Loan Mortgage Corp.	August 2021 - October 2021	985,773	-
Federal National Mortgage Assn.	November 2017 - November 2019	353,695	404,283
Federal National Mortgage Assn. Step		-	249,020
International Bank for Reconstruction and Development	May 2018	48,714	47,647
Resolution Funding Corporation	January 2018 - April 2018	39,432	38,915
Tennessee Valley Authority	April 2018 - October 2018	227,762	228,802
U.S. Treasury Notes	December 2016 - June 2018	150,234	152,564
Zero Coupon Treasuries	November 2017 - February 2018	49,452	197,844
		<u>\$ 3,820,162</u>	<u>\$ 4,410,962</u>

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs. The Trust is an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's.

**U.S. Treasury Securities**

The District has invested in U.S. Treasury Securities, which are debt obligations issued by the U.S. government. These securities are backed by the "full faith and credit" of the United States government and provide a guaranteed return of principal and interest when they are held to maturity. The District's treasury securities consist of Treasury Notes and Zero Coupon Treasuries (Treasury Strips). Treasury Notes have an intermediate maturity ranging from two to ten years, with a fixed rate of interest which is paid semiannually. To facilitate the issuance of zero coupon Treasury bonds, the U.S. Treasury developed the STRIPS (Separate Trading of Registered Interest and Principal of Securities) program, whereby the coupon and principal payments are "stripped" from T-notes and T-bonds and then traded separately as zero coupon bonds. Accreted interest compounds semiannually at a stated fixed rate, and the "zero" grows to its full face value at maturity.

**U.S. Government Agency Securities**

The District has invested in securities of the following U.S. government agencies

**Federal National Mortgage Association (FNMA)** - FNMA is a government-sponsored enterprise (GSE) chartered by Congress with a mission to provide liquidity, stability and affordability to the U.S. housing and mortgage markets. FNMA operates in the U.S. secondary mortgage market by working with mortgage bankers, brokers and other primary mortgage market partners to help ensure they have funds to lend to home buyers at affordable rates. Mortgage investments are funded primarily by issuing debt securities in the domestic and international capital markets. FNMA is currently under conservatorship, under the direction of the Federal Housing Financing Agency. FNMA is rated AAA by Moody's and AA+ by S&P.

**SOUTH ARAPAHOE SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016 and 2015**

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

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

**Federal Farm Credit Banks (FFCB)** - FFCB is a GSE comprised of five regional banks that, in turn, provide loans to eligible borrowers. FFCB is a nationwide network of borrower-owned lending institutions and affiliated service entities that lend to agricultural and rural America. Unlike commercial banks, FFCBs are not legally authorized to take deposits. Instead, funds for loans are obtained through the issuance of Farm Credit Debt Securities on a worldwide basis in the domestic and global capital markets. The proceeds are provided to, or used for, the benefit of domestic agricultural producers and cooperatives through the various FFCB entities. FFCB is rated AAA by Moody's and AA+ by S&P.

**Tennessee Valley Authority (TVA)** – Created by the Tennessee Valley Authority Act of 1933, the TVA is a wholly owned corporation of the U.S. Government. TVA finances the development and utilization of the resources of the Tennessee River Basin. Although it is a federal agency, TVA's securities are obligations of the authority and are not guaranteed by the U.S. government. TVA is rated AAA by Moody's and AA+ by S&P.

**International Bank for Reconstruction and Development (IBRD)** – The IBRD is a supranational agency which began operations in 1945 to help finance reconstruction in European and Asian countries following World War II. Its current mission is to promote the economic development of less developed member countries in order to foster the long-term growth of international trade and improve living standards. The IBRD finances a variety of project types, including industrial development, transportation systems, educational facilities, and power and utility plants. The IBRD is owned by the governments of 187 International Monetary Fund-member countries, including the United States, its largest member. Its projects are financed primarily through the issuance of World Bank bonds. IBRD is rated AAA by Moody's and AAA by S&P.

**Resolution Funding Corporation (REFCORP)** – REFCORP is a government-sponsored enterprise that provides funds to the Resolution Trust Corporation (RTC), which was established to finance the bailout of savings and loan associations in the wake of the savings and loan crisis of the 1980s. It was established by the United States Congress in the summer of 1989. REFCORP will obtain funds to pay interest on its obligations from earnings on certain assets, proceeds from the RTC, payments from FHLBs, and proceeds from the sale of assets. If amounts from these sources are insufficient to cover interest payments, the Treasury will pay any additional amount due from funds permanently appropriated. REFCORP is rated AAA by Moody's and AA+ by S&P.

**Federal Agricultural Mortgage Corporation (Farmer Mac)** – Farmer Mac was created by Congress to establish a secondary market for agricultural mortgage and rural utilities loans to increase the availability of long-term credit at stable interest rates to segments of rural America. It is a stock-holder owned, publicly-traded corporation that conducts these activities through three programs. It is not a direct lender, but works with lenders that work directly with borrowers throughout the United States. Farmer Mac is rated AAA by Moody's and AA+ by S&P.

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

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

**Federal Home Loan Mortgage Corporation (Freddie Mac)** - Freddie Mac is a government-sponsored enterprise (GSE) chartered by Congress to buy residential mortgages and boost the housing market by purchasing mortgages from lenders and packaging them for resale, thereby mitigating risk and allowing lenders to provide mortgages to those who may not otherwise qualify. Freddie Mac also provides assistance for affordable rental housing. Freddie Mac is currently under conservatorship, under the direction of the Federal Housing Finance Agency. Freddie Mac is rated AA+ by S&P.

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance December 31, 2016</u>
Capital assets, not being depreciated				
Land and easements	\$ 64,057	\$ -	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	-	343,026
Total capital assets, not being depreciated	<u>407,083</u>	<u>-</u>	<u>-</u>	<u>407,083</u>
Capital assets, being depreciated				
GIS program	92,022	-	-	92,022
Sewer system	13,554,523	1,111,943	-	14,666,466
Total capital assets, being depreciated	<u>13,646,545</u>	<u>1,111,943</u>	<u>-</u>	<u>14,758,488</u>
Less accumulated depreciation for:				
GIS program	(25,724)	(9,203)	-	(34,927)
Sewer system	(7,605,985)	(277,246)	-	(7,883,231)
Total accumulated depreciation	<u>(7,631,709)</u>	<u>(286,449)</u>	<u>-</u>	<u>(7,918,158)</u>
Total capital assets, net	<u>\$ 6,421,919</u>	<u>\$ 825,494</u>	<u>\$ -</u>	<u>\$ 7,247,413</u>

Depreciation expense for the year ended December 31, 2016, was charged to the following operations:

Sewer \$ 286,449

	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance December 31, 2015</u>
Capital assets, not being depreciated				
Land and easements	\$ 64,057	\$ -	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	-	343,026
Total capital assets, not being depreciated	<u>407,083</u>	<u>-</u>	<u>-</u>	<u>407,083</u>
Capital assets, being depreciated				
GIS program	88,861	3,161	-	92,022
Sewer system	13,486,518	68,005	-	13,554,523
Total capital assets, being depreciated	<u>13,575,379</u>	<u>71,166</u>	<u>-</u>	<u>13,646,545</u>
Less accumulated depreciation for:				
GIS program	(16,682)	(9,042)	-	(25,724)
Sewer system	(7,343,980)	(262,005)	-	(7,605,985)
Total accumulated depreciation	<u>(7,360,662)</u>	<u>(271,047)</u>	<u>-</u>	<u>(7,631,709)</u>
Total capital assets, net	<u>\$ 6,214,717</u>	<u>\$ (199,881)</u>	<u>\$ -</u>	<u>\$ 6,014,836</u>

Depreciation expense for the year ended December 31, 2015, was charged to the following operations:

Sewer \$ 271,047

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 5 - INTERGOVERNMENTAL AGREEMENTS**

**City of Englewood Sewage Treatment**

The District has a service contract with the City of Englewood. Under the terms of the contract, Englewood treats all District sewage, bills District residents for this service and retains all treatment service billing collections.

The District charges for transmission fees which are added to the treatment fees billed by Englewood. Collection of these fees, net of uncollected transmission and treatment fees, are remitted periodically to the District by Englewood.

**Basin Interceptor Agreement**

The District has entered into an intergovernmental agreement (Basin Interceptor Agreement) with the City of Englewood, Southgate Sanitation District and the South Englewood Sanitation District to provide for the orderly and timely enlargement of the Big Dry Creek Interceptor system and to properly allocate the individual entities' capacity rights of the interceptor. Legal title to the interceptor shall be held by the City of Englewood and the Southgate Sanitation District. The District shall have the capacity rights set forth in the agreement in the amount of 13,331 Single Family Equivalents. The Agreement identifies eight projects to enlarge the Big Creek Interceptor.

Englewood bills the residents in each party's service area for the estimated maintenance costs of the interceptor and retains all billing collections in trust. The Basin Interceptor Agreement charges were \$208,289 and \$210,623 in 2016 and 2015, respectively.

In late 2005, Southgate Sanitation District advised the other parties to the Basin Interceptor Agreement that further enlargement of the interceptor is unnecessary based upon Southgate's flow projections and engineering analysis. Southgate will limit repair and refurbishment of the interceptor to improvements and measures needed to maintain existing capacity. The participants will be subject to proportionate billings for major repairs/improvements above the amounts contributed for routine maintenance.

**Southgate Sanitation District**

In conjunction with the Basin Interceptor Agreement, the District has entered into an agreement with the Southgate Sanitation District whereby Southgate assumes the liability for any further capital payments due under the Basin Interceptor Agreement until such time as 1,000 SFE taps have been authorized for service in South Arapahoe. The District estimates that 1,000 SFE taps are more than will be required by the District, and therefore, does not estimate that any payments will be required on the Basin Interceptor Agreement for enlargement of the facilities.

**NOTE 6 - NET POSITION**

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

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 6 - NET POSITION (CONTINUED)**

Net investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, and December 31, 2015, the District had net investment in capital assets calculated as follows:

	<b>2016</b>	<b>2015</b>
Net investment in capital assets:		
Capital assets	\$ 15,165,571	\$ 14,053,628
Less: Depreciation	(7,918,158)	(7,631,709)
Net investment in capital assets	\$ 7,247,413	\$ 6,421,919

**NOTE 7 – COMMITMENTS**

On September 19, 2016, the District entered into a contract with Insituform Technologies, Inc., for cured-in-place lining of approximately 3,775 linear feet of the District's 8" pipeline and associated manhole rehabilitation. The amount of the contract was for \$ 183,444. The amount remaining on the contract as of December 31, 2016, was \$30,727, which was completed in February 2017.

**NOTE 8 – RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

The District pays annual premiums to the Pool for liability, property, public officials' liability, and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015**

**NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS**

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

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes its operations qualify for this exclusion.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue. As an enterprise, the District is exempt from this requirement.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. As an enterprise, the District is exempt from this requirement.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an enterprise will require judicial interpretation.

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

**SUPPLEMENTARY INFORMATION**

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

	<b>Original and Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>			
Service treatment fees	\$ 3,012,000	\$ 2,942,606	\$ (69,394)
District transmission fees	1,325,300	1,293,474	(31,826)
Tap fees	1,500	13,485	11,985
Industrial pretreatment program	16,350	15,750	(600)
Plan review fees	6,000	2,682	(3,318)
Investment income	60,000	26,356	(33,644)
Other income	1,000	37,075	36,075
Total revenues	<u>4,422,150</u>	<u>4,331,428</u>	<u>(90,722)</u>
<b>EXPENDITURES</b>			
Sewage treatment	3,012,000	2,942,606	69,394
Repairs and maintenance	538,600	515,303	23,297
Engineering management	212,650	208,572	4,078
Accounting	48,000	53,033	(5,033)
Audit	3,500	3,500	-
Conferences/seminars	-	765	(765)
Customer communications	3,000	387	2,613
Directors' fees	6,000	4,800	1,200
Dues/licenses	1,500	1,238	262
Insurance and fidelity bonds	5,000	5,351	(351)
Legal fees	42,000	54,093	(12,093)
Locates	15,000	33,304	(18,304)
Miscellaneous	959	841	118
Plan review/construction observation	25,500	25,644	(144)
Utilities	2,000	1,590	410
Capital improvements	1,296,059	1,111,943	184,116
Contingency	13,232	-	13,232
Total expenditures	<u>5,225,000</u>	<u>4,962,970</u>	<u>262,030</u>
<b>EXCESS REVENUES OVER EXPENDITURES</b>	(802,850)	(631,542)	171,308
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>5,069,532</u>	<u>5,129,843</u>	<u>60,311</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 4,266,682</u>	<u>\$ 4,498,301</u>	<u>\$ 231,619</u>

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

	<b>Actual</b>
Funds available are defined as follows:	
Current assets	\$ 5,422,581
Less: Current liabilities	(924,280)
Funds available	\$ 4,498,301
Reconciliation of budgetary basis (actual) to Statements of Revenues, Expenses and Changes in Net Position:	
Revenues (budgetary basis)	\$ 4,331,428
Total revenue per Statements of Revenues, Expenses and Changes in Net Position	4,331,428
Expenditures (budgetary basis)	4,962,970
Depreciation	286,449
Capital outlay	(1,111,943)
Total expenses per Statements of Revenues, Expenses and Changes in Net Position	4,137,476
Change in net position per Statements of Revenues, Expenses and Changes in Net Position	\$ 193,952