

**STRATMOOR HILLS SANITATION
DISTRICT**

FINANCIAL STATEMENTS AND SUPPLEMENTAL
INFORMATION
With Independent Auditors' Report

December 31, 2016 and 2015



RECEIVED

By the Office of the State Auditor at 9:48 am, Jun 22, 2017

**STRATMOOR HILLS SANITATION DISTRICT
TABLE OF CONTENTS
DECEMBER 31, 2016 AND 2015**

	Page
Independent Auditors' Report	
Management Discussion and Analysis	<i>i</i>
Basic Financial Statements:	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Fund Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
Supplemental Information:	
Schedules of Expenses	14
Schedule of Revenues, Expenditures and Change in Fund Net Position Budget and Actual (Non-GAAP Budgetary Basis)	15



INDEPENDENT AUDITORS' REPORT

Board of Directors
Stratmoor Hills Sanitation District

We have audited the accompanying financial statements of Stratmoor Hills Sanitation District, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue, expenses and changes in fund net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stratmoor Hills Sanitation District, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Stratmoor Hills Sanitation District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental 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 audits 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.

Hoelting & Company, Inc.

Colorado Springs, Colorado
June 7, 2017

STRATMOOR HILLS SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2016

As management of Stratmoor Hills Sanitation District (the District) we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$1,521,754 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$1,451,875 (*net position*). Of this amount, \$758,711 represents unrestricted net position, which may be used to meet the District's ongoing obligations.
- The District's total net position increased during the year by \$596,980.
- Capital assets net of depreciation increased by \$445,499 from the prior year.
- Operating revenues increased by \$7,281 from the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenue, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets) and obligations (liabilities) and deferred inflows and outflows. The difference between assets and liabilities and deferred inflows and outflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Net Position - All revenue and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District's rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2016, the District's assets exceeded liabilities and deferred inflows by \$1,451,875 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 843,370	\$ 668,005
Capital assets, net	<u>678,384</u>	<u>232,885</u>
Total assets	<u>1,521,754</u>	<u>900,890</u>
Liabilities:		
Other liabilities	<u>44,358</u>	<u>24,795</u>
Total liabilities	<u>44,358</u>	<u>24,795</u>
Deferred inflows	<u>25,521</u>	<u>21,200</u>
Net position:		
Investment in capital assets	678,384	232,885
Restricted	14,780	14,780
Unrestricted	<u>758,711</u>	<u>607,230</u>
Total net position	<u>\$ 1,451,875</u>	<u>\$ 854,895</u>

Unrestricted net position of the District at the end of the year was \$758,711, an increase of \$151,481 from the prior year.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 935,592	\$ 928,311
Operating expenses	<u>(829,439)</u>	<u>(903,638)</u>
Operating income (loss)	106,153	24,673
Non-operating revenue and expenses, net	<u>24,642</u>	<u>21,498</u>
Income (Loss) before contributions	130,795	46,171
Capital contributions	<u>466,185</u>	<u>44,675</u>
Change in net position	596,980	90,846
Net position, beginning	<u>854,895</u>	<u>764,049</u>
Net position, ending	<u>\$ 1,451,875</u>	<u>\$ 854,895</u>

BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with state law. An analysis of budget results in the following observations:

- Unplanned capital contributions in 2016 were primarily associated with additional sewer mains and manholes obtained from the South Academy Highlands project.
- An increase in sewer service rates and connection (tap) fees was adopted by the Board and went into effect on May 1, 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2016 amounts to \$678,384. This investment in capital assets includes land and easements, sewage plants, buildings and improvements, and equipment.

	<u>2016</u>	<u>2015</u>
Capital assets, not being depreciated	\$ -	\$ -
Capital assets, being depreciated	1,808,080	1,326,160
Less accumulated depreciation	<u>(1,129,696)</u>	<u>(1,093,275)</u>
Total capital assets, net	<u>\$ 678,384</u>	<u>\$ 232,885</u>

Major capital asset acquired during the year included continued upgrading of facilities.

Long-Term Debt

The District has no long-term debt at December 31, 2016.

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – Connection fees were received as anticipated in 2016 with the construction of the Residents at Stratmoor development. Stormwater infiltration into sewer mains was nearly eliminated reducing operating expenses significantly. Several sewer manholes were repaired and over one hundred feet of sewer main was rehabilitated. Overall, there were no major surprises and the Sanitation District continues to provide reliable services.

Economic and Environmental Factors – The District's sewer maintenance and inspection program continues to identify areas in need of repairs and these will be addressed as necessary. Additional Capital funds were budgeted in 2017 to provide for sewer enhancements. Colorado Springs Utilities did not increase the District's sewage treatment rates in 2016 and it is not anticipated that they will go up in 2017 either.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, creditors and other financial users with a general overview of the District's finances. If you have questions about this report or need additional financial information, please contact the District's manager, Kirk Medina, at 719-576-0311 or at 1811 B Street, Colorado Springs, Colorado 80906.

BASIC FINANCIAL STATEMENTS

STRATMOOR HILLS SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

ASSETS	2016	2015
Current assets:		
Cash and cash equivalents	\$ 606,944	\$ 475,642
Cash with County Treasurer	212	188
Accounts receivable - Stratmoor Hills Water District	198,098	145,911
Accounts receivable - other	-	10,070
Property taxes receivable	25,521	21,200
Prepaid expenses	9,595	11,994
Total current assets	840,370	665,005
Noncurrent assets:		
Land easements	3,000	3,000
Capital assets, net of depreciation	678,384	232,885
Total noncurrent assets	681,384	235,885
Total assets	1,521,754	900,890
 LIABILITIES		
Current liabilities:		
Accounts payable	21,262	24,373
Payroll taxes payable	431	422
Unearned revenue	22,665	-
Total current liabilities	44,358	24,795
 DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property tax	25,521	21,200
Total deferred inflow of resources	25,521	21,200
 NET POSITION		
Investment in capital assets	678,384	232,885
Restricted	14,780	14,780
Unrestricted	758,711	607,230
Total net position	\$ 1,451,875	\$ 854,895

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

STRATMOOR HILLS SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUE		
Sanitation assessments	\$ 935,592	\$ 928,311
Total operating revenue	935,592	928,311
OPERATING EXPENSES		
Sanitation operations	625,503	717,499
General administration	165,276	160,026
Depreciation	38,660	26,113
Total operating expenses	829,439	903,638
Operating income (loss)	106,153	24,673
NON-OPERATING REVENUE		
Property tax	21,157	18,906
Specific ownership tax	2,438	2,133
Investment income	1,047	459
Total non-operating revenue	24,642	21,498
Income (loss) before capital contributions	130,795	46,171
Capital contributions - developer conveyance	464,190	-
Capital contributions - tap fees	1,995	44,675
Total capital contributions	466,185	44,675
Change in net position	596,980	90,846
Net position-beginning	854,895	764,049
Net position-ending	\$ 1,451,875	\$ 854,895

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

**STRATMOOR HILLS SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 916,140	\$ 850,042
Cash payments to suppliers for goods and services	<u>(791,482)</u>	<u>(865,157)</u>
Net cash provided (used) by operating activities	<u>124,658</u>	<u>(15,115)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITES		
Cash received from general and specific ownership tax revenues	<u>23,571</u>	<u>21,024</u>
Net cash provided (used) by non-capital financing activities	<u>23,571</u>	<u>21,024</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITES		
Purchase of capital assets	(19,969)	(52,022)
Capital contributions	<u>1,995</u>	<u>44,675</u>
Net cash provided (used) by capital and related financing activities	<u>(17,974)</u>	<u>(7,347)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>1,047</u>	<u>459</u>
Net cash provided (used) by investing activities	<u>1,047</u>	<u>459</u>
Net increase (decrease) in cash and cash equivalents	131,302	(979)
Cash and cash equivalents, beginning of year	<u>475,642</u>	<u>476,621</u>
Cash and cash equivalents, end of the year	<u><u>\$ 606,944</u></u>	<u><u>\$ 475,642</u></u>

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

**STRATMOOR HILLS SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	<u>\$ 106,153</u>	<u>\$ 24,673</u>
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	38,660	26,113
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(42,117)	(78,271)
(Increase) decrease in prepaid expenses	2,399	(11,994)
Increase (decrease) in accounts payable	(3,102)	24,364
Increase (decrease) in unearned revenue	<u>22,665</u>	<u>-</u>
Total Adjustments	<u>18,505</u>	<u>(39,788)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 124,658</u></u>	<u><u>\$ (15,115)</u></u>
Non cash investing, capital and financing activities	None	None

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

NOTES TO FINANCIAL STATEMENTS

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Stratmoor Hills Sanitation District (the District) was organized under the laws of the State of Colorado to operate and maintain a special district for the purpose of collection and treatment of wastewater for the residents of the Stratmoor Hills subdivision located adjacent to the City of Colorado Springs, Colorado.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

The District is a special district governed by an elected five-member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts Receivable-Stratmoor Hills Water District

Accounts Receivable is related to billing and other transactions between the two districts. An allowance for doubtful accounts is not considered necessary as all amounts are expected to be paid.

Capital Assets

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

If proprietary fund assets are constructed, interest is capitalized on the assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Collection mains and other improvements installed upon formation of the District at the expense of developers and subdividers are not recorded in the balance sheet and depreciation thereon has not been charged against revenues as records are not available to establish valuation for such property.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method over the estimated useful lives of the depreciable property. The estimated useful lives are as follows:

Sewage infrastructure:	
Collection and transmission lines	10 to 50 years
Other infrastructure	12 to 50 years
Equipment	5 to 10 years

Deferred outflows/inflows of resources

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

STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION
(CONTINUED)*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. The tax levy is payable in two installments due February 28 and June 15, or in one installment due April 30. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are recognized when levied to the extent they result in current receivables. The tax rates were 0.587 and 0.578 for the years ended December 31, 2016 and 2015, respectively. The District's assessed valuations for 2016 and 2015 were \$36,096,530 and \$32,663,910, respectively.

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are sanitation assessments, late and reconnect charges, and inspection fees. Operating expenses include all expenses incurred to provide water and sanitation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Budgets are adopted on a comprehensive basis of accounting other than generally accepted accounting principles. The primary differences are that bond and note proceeds are treated as a budget source and capital expenditures and bond and note principal payments are treated as a budget use. Depreciation expense is not considered a budget expense. An annual appropriated budget is adopted for the proprietary fund. All annual appropriations lapse at fiscal year end. The budgeted revenues and expenses represent the original budget adopted or as amended by the Board.

Expenditures may not legally exceed budgeted appropriations.

The District follows these procedures in establishing the budgetary data reflected in the Financial Statements.

1. Prior to October 15, administrative personnel submit to the Board of Directors a proposed operating budget for the following fiscal year (calendar) beginning January 1. The operating budget includes proposed expenses and the means for financing them.
2. The proposed budget is advertised as available for inspection and comment by the electorate of the District.
3. Prior to December 15, the Board legally adopts the budget.
4. In December, the Board certifies the mill levy to El Paso County.
5. During the year, formal budgetary integration is employed as a management control device.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. 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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 102% of the uninsured deposits.

As of December 31, 2016 and 2015, the carrying amounts of the District's deposits were \$505,930 and \$375,280, respectively and the bank balances were \$513,256 and \$400,624, respectively. Of the total bank balances, \$250,000 were covered by FDIC insurance for the years ended December 31, 2016 and 2015. The remaining balances of \$135,554 and \$150,624 at December 31, 2016 and 2015, respectively, fall under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools.

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The District is authorized by Colorado State Statutes to invest in the following:

- ◆ Bonds and other interest-bearing obligations of the United States government.
- ◆ Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- ◆ Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- ◆ Notes or bonds issued to the “National Housing Act”.
- ◆ Repurchase agreements.
- ◆ Local government investment pools.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Credit Risk: The State law limits investments as described above. The District does not have an investment policy that would further limit its investment choices. As of December 31, 2016, the District’s investments were rated AAA by Standard & Poor’s.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
COLOTRUST	\$ 101,014	\$ 101,014	\$ -	\$ -	\$ -

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
COLOTRUST	\$ 100,362	\$ 100,362	\$ -	\$ -	\$ -

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

The designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the District does not categorize investments with COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Deposits	\$ 505,930	\$ 375,280
COLOTRUST	<u>101,014</u>	<u>100,362</u>
	<u>\$ 606,944</u>	<u>\$ 475,642</u>

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Collection and transmission lines	\$ 836,819	\$ 464,190	\$ -	\$ 1,301,010
Other infrastructure	364,812	-	(2,239)	362,572
Equipment	<u>124,529</u>	<u>19,969</u>	<u>-</u>	<u>144,498</u>
Total capital assets, being depreciated	1,326,160	484,159	(2,239)	1,808,080
Less accumulated depreciation	<u>(1,093,275)</u>	<u>(38,660)</u>	<u>2,239</u>	<u>(1,129,696)</u>
Total capital assets, net	<u>\$ 232,885</u>	<u>\$ 445,499</u>	<u>\$ -</u>	<u>\$ 678,384</u>

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Collection and transmission lines	\$ 809,409	\$ 27,410	\$ -	\$ 836,819
Other infrastructure	367,012	-	(2,200)	364,812
Equipment	<u>101,779</u>	<u>24,612</u>	<u>(1,862)</u>	<u>124,529</u>
Total capital assets, being depreciated	1,278,200	52,022	(4,062)	1,326,160
Less accumulated depreciation	<u>(1,071,224)</u>	<u>(26,113)</u>	<u>4,062</u>	<u>(1,093,275)</u>
Total capital assets, net	<u>\$ 206,976</u>	<u>\$ 25,909</u>	<u>\$ -</u>	<u>\$ 232,885</u>

	<u>2016</u>	<u>2015</u>
Depreciation expense was charged to functions/programs of as follows:		
Sanitation operations	<u>\$ 38,660</u>	<u>\$ 26,113</u>

**STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – NET POSITION

Net position is reported in three separate categories—net investment in capital assets; net position-restricted; and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, net investment in capital assets was as follows:

	2016	2015
Net investment in Capital Assets:		
Capital assets, net of depreciation	\$ 678,384	\$ 232,885

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). The District has established an Emergency Reserve in the amount of \$14,780 for years ended December 31, 2016 and 2015, as per Article X, Section 20 of the Colorado Constitution. This Emergency Reserve balance represents at least 3% of the governmental fiscal year spending as required.

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

NOTE 6 - TRANSACTIONS WITH RELATED DISTRICTS

Stratmoor Hills Water District provides substantially all maintenance operations for Stratmoor Hills Sanitation District. In exchange for these services, the Sanitation District paid \$240,000 for the years ended December 31, 2016 and 2015.

The District sells its accounts receivable for sewer services to the Stratmoor Hills Water District for billing and collection. The Water District pays the Sanitation District \$.85 for each \$1.00 of billings and is thus compensated \$.15 for each \$1.00 of billings purchased. The total collection fee paid to the Water District was \$140,339 and \$139,235 for the years ended December 31, 2016 and 2015, respectively.

The District’s five-member board is the same as that of the Stratmoor Hills Water District. As a matter of expedience, Stratmoor Hills Sanitation District pays all members of the board for directors’ fees and related payroll taxes for both districts. The Sanitation District then bills Stratmoor Hills Water District for their share of the director’s fees and related payroll taxes.

As of December 31, 2016 and 2015 the District had accounts receivable from Stratmoor Hills Water District of \$198,098 and \$145,911, respectively.

STRATMOOR HILLS SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage during any of the last three fiscal years.

NOTE 8 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

The entity's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts. Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property sales, fund transfers, damage awards and fund reserves.

The Amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

The Amendment requires that Emergency Reserves be established. These reserves must be at least 3 percent of Fiscal Year Spending (excluding bonded debt service). Emergency reserves totaling \$14,780 as of December 31, 2016 and 2015 have been presented as a reservation of fund balance. The entity is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

SUPPLEMENTAL INFORMATION

**STRATMOOR HILLS SANITATION DISTRICT
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Sanitation operations:		
Sewage treatment	\$ 308,525	\$ 379,225
Maintenance contract	240,000	240,000
Plant maintenance	57,073	79,947
Utilities	4,575	13,143
Supplies	8,377	1,184
Equipment & vehicle maintenance	6,953	4,000
	<u> </u>	<u> </u>
Total sanitation operations	<u><u>\$ 625,503</u></u>	<u><u>\$ 717,499</u></u>
General administration:		
Insurance	\$ 9,588	\$ 10,262
Collection fees	140,339	139,235
Meetings	6,152	6,007
Audit	7,350	3,650
Legal	550	(170)
Dues and subscriptions	700	-
Miscellaneous	280	327
Tax collection	317	284
Contract labor	-	431
	<u> </u>	<u> </u>
Total general administration	<u><u>\$ 165,276</u></u>	<u><u>\$ 160,026</u></u>

See the accompanying independent auditors' report.

STRATMOOR HILLS SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Sanitation assessments	\$ 926,000	\$ 935,592	\$ 9,592
Property tax	21,200	21,157	(43)
Specific ownership tax	2,150	2,438	288
Investment income	300	1,047	747
Tap fees	25,000	1,995	(23,005)
Beginning fund balance	627,188	619,010	(8,178)
	<u>1,601,838</u>	<u>1,581,239</u>	<u>(20,599)</u>
EXPENDITURES			
Operating expenditures:			
Sewage treatment	355,000	308,525	46,475
Maintenance contract	240,000	240,000	-
Plant maintenance	116,600	57,073	59,527
Utilities	15,000	4,575	10,425
Supplies	1,000	8,377	(7,377)
Equipment & vehicle maintenance	20,000	6,953	13,047
	<u>747,600</u>	<u>625,503</u>	<u>122,097</u>
General and administrative expenditures:			
Insurance	14,500	9,588	4,912
Collection fees	165,000	140,339	24,661
Meetings	10,900	6,152	4,748
Audit	3,850	7,350	(3,500)
Legal	1,000	550	450
Dues and subscriptions	1,000	700	300
Miscellaneous	-	280	(280)
Tax collection	400	317	83
Election Expense	1,500	-	1,500
	<u>198,150</u>	<u>165,276</u>	<u>32,874</u>
Total general and administrative expenditures	<u>\$ 198,150</u>	<u>\$ 165,276</u>	<u>\$ 32,874</u>

See the accompanying independent auditors' report.

STRATMOOR HILLS SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (continued)			
Capital expenditures	\$ 70,000	\$ 19,969	\$ 50,031
TOTAL EXPENDITURES	\$ 1,015,750	810,748	\$ 205,002
EXCESS OF REVENUES OVER EXPENDITURES		770,491	
Add:			
Capital expenditures		19,969	
Developer conveyance		464,190	
Less:			
Beginning fund balance		(619,010)	
Depreciation		(38,660)	
CHANGE IN NET POSITION		\$ 596,980	
Ending fund balance is calculated as follows:			
Current assets		\$ 840,370	
Current liabilities		(44,358)	
Unavailable property tax revenue		(25,521)	
		\$ 770,491	

See the accompanying independent auditors' report.