



FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

ACADEMY WATER & SANITATION DISTRICT

For the Years Ended December 31, 2016 and 2015



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Board of Directors
Academy Water & Sanitation District
El Paso County, Colorado

Independent Auditor's Report

We have audited the accompanying financial statements of the business type activities of Academy Water & Sanitation District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Academy Water & Sanitation District as of December 31, 2016 and 2015, and the changes in financial position and cash flows 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 on pages 5 through 8 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Academy Water & Sanitation District's basic financial statements. The Schedules of Expenses on page 24 and the Budgetary Comparison Schedules on pages 25 and 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of expenses and budgetary comparisons are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Expenses and the Budgetary Comparison Schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hansm & Co. CPAs

Denver, Colorado

July 14, 2017

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Academy Water & Sanitation District (the District) is engaged in providing water and sanitation services for approximately 300 single-family homes near Monument, Colorado. This document provides a management summary of the financial condition, operations and activities of Academy Water & Sanitation District for the year ending December 31, 2016 with comparative information for two prior years. This document should be read in conjunction with the financial statements following this management discussion and analysis.

Required Financial Statements

The financial statements included in this report are those of a special-purpose government engaged in a business type activity, providing water and sanitation services. The financial statements of the District report information about the District using accounting methods that are similar to those used by private-sector companies. These statements provide both long and short-term information about the District's overall financial status.

The statements of net position present information on all of the District's assets, liabilities, deferred inflows of resources, and net position. These statements provide information about the nature and the amounts of investments in resources (assets), obligations to District creditors (liabilities), and tax revenue that applies to a future period (deferred inflows of resources).

The statements of revenue, expense, and changes in net position reflect the District's current revenue and expense. These statements measure the success of the District's operation annually. The statements of cash flows are the final required financial statements. These statements report cash receipts, cash payments, and changes in cash resulting from operations, investing, and both capital and non-capital financing activities.

Analysis of Overall Financial Position and Operations

Condensed Statements of Net Position

Years Ended December 31,	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 427,450	\$ 459,276	\$ 460,074
Other assets	62,000	62,000	62,000
Capital assets	<u>1,401,095</u>	<u>1,291,953</u>	<u>1,555,622</u>
Total assets	<u>\$ 1,890,545</u>	<u>\$ 1,813,229</u>	<u>\$ 2,077,696</u>
Total liabilities, current	<u>\$ 65,369</u>	<u>\$ 26,566</u>	<u>\$ 18,190</u>
Deferred inflows of resources	<u>\$ 22,812</u>	<u>\$ 22,879</u>	<u>\$ 21,600</u>
Net position			
Invested in capital assets	\$ 1,401,095	\$ 1,291,953	\$ 1,555,622
Restricted for emergencies	12,000	12,000	12,000
Restricted for legal compliance	50,000	50,000	50,000
Unrestricted	<u>339,269</u>	<u>409,831</u>	<u>420,284</u>
Total net position	<u>\$ 1,802,364</u>	<u>\$ 1,763,784</u>	<u>\$ 2,037,906</u>

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Analysis of Overall Financial Position and Operations (continued)

The District restricts \$50,000 for sludge removal to comply with legal requirements of the Colorado Department of Public Health and Environment.

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

Years Ended December 31,	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenue			
Water, wastewater, and other receipts	\$ 413,411	\$ 345,224	\$ 334,721
Water and wastewater expense	(216,417)	(304,324)	(260,759)
General and administrative expense	(86,158)	(93,537)	(87,383)
Depreciation expense	<u>(100,239)</u>	<u>(101,474)</u>	<u>(102,447)</u>
Total operating expense	<u>(402,814)</u>	<u>(499,335)</u>	<u>(450,589)</u>
Operating income (loss)	10,597	(154,111)	(115,868)
Non-operating revenue (expense)			
Tax and other non-operating revenue	28,326	24,508	29,289
Non-operating expense	<u>(343)</u>	<u>(324)</u>	<u>(2,510)</u>
Income (loss) before contributions and special item	38,580	(129,927)	(89,089)
Capital contribution – tap fees	-	18,000	6,000
Special item – impairment of assets	<u>-</u>	<u>(162,195)</u>	<u>-</u>
Change in net position	38,580	(274,122)	(83,089)
Beginning net position	<u>1,763,784</u>	<u>2,037,906</u>	<u>2,120,995</u>
Ending net position	<u>\$1,802,364</u>	<u>\$1,763,784</u>	<u>\$2,037,906</u>

Beginning in 2014, annual taxes are assessed only to cover some costs related to District administration.

Budgetary Highlights

The annual budget for the District is generated for expenses not to exceed estimated revenues plus net position available for expenditure.

Capital Assets and Debt Administration

The General Obligation Refunding Bonds were paid in full as of November of 2014.

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Capital Assets and Debt Administration (continued)

Capital Assets

December 31,	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 21,938	\$ 21,938	\$ 21,938
Construction in progress	209,381	-	-
Plant and equipment	<u>3,658,186</u>	<u>3,658,186</u>	<u>3,658,186</u>
Subtotal	3,889,505	3,680,124	3,680,124
Accumulated depreciation	<u>(2,488,410)</u>	<u>(2,388,171)</u>	<u>(2,124,502)</u>
Net capital assets	<u>\$1,401,095</u>	<u>\$1,291,953</u>	<u>\$1,555,622</u>

Due to regulatory changes and the Intergovernmental Service Agreement discussed in the next section, the District will abandon certain assets at the end of 2018 that are currently used for wastewater treatment. The District recorded an impairment of those assets in 2015 totaling \$162,195 as an increase in accumulated depreciation in order to reflect only the remaining usable capacity of the wastewater treatment system at December 31, 2015. In 2016, the District incurred costs of \$209,381 related to planning and engineering for the wastewater treatment system connection and upgrade, which have been capitalized as construction in progress.

Facts, Decisions, and Conditions Affecting the Future

The District approved an increase of \$1.00 per 1,000 gallons of water usage effective in 2015. This raises the water service rate to \$8.00 per 1,000 gallons for 0 to 12,000 gallons per month. Those using more than 12,000 gallons per month pay \$12.00 per 1,000 gallons on the excess usage. In 2016, the District approved an increase of \$20 to the monthly wastewater service rate, bringing the monthly rate to \$60. Subsequent to year end, another wastewater service rate increase of \$20 has been approved.

Repairs and maintenance are done on an as needed basis. During 2015, 1,000 feet of sewer line was repaired. The deep and shallow wells continue to perform satisfactorily.

An Intergovernmental Service Agreement (IGA) was signed in 2015 between Academy Water & Sanitation District (Academy) and Donala Water and Sanitation District (Donala) for the treatment of wastewater from Academy. Donala has the capacity to treat the effluent from Academy and to meet the wastewater standards imposed by the Environmental Protection Agency and the state of Colorado. Engineering is nearly finished for the project, which is scheduled for completion late in 2018. Rather than issuing general obligation bonds and increasing taxes to cover the project cost, wastewater service fees will pay the monthly connection fees to Donala and service the debt.

The board of directors for Academy approved resolutions establishing a Water Activity Enterprise and a separate Wastewater Activity Enterprise effective in 2016. This allows each enterprise to apply for grant funding or to issue revenue bonds. In addition, an election was held in May 2016, which resulted in two board members reelected for two year terms and two board members reelected for four year terms. A ballot issue was approved by the voters and allows

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Academy to accept, collect, retain, and spend all revenues received from all sources in 2016 and each subsequent year, notwithstanding any limitations or restrictions that would apply under Article X, Section 20 of the Colorado Constitution (TABOR), and Section 29-1-301, Colorado Revised Statutes (5.5% limit), or any other law.

Additional Financial Information

This financial report is intended to provide users with an overview of Academy Water & Sanitation District's financial operations and conditions. For additional information, please contact Academy Water & Sanitation District, care of Hoover & Associates, 4045 South Nonchalant Circle, Colorado Springs, Colorado 80917-2999.

ACADEMY WATER & SANITATION DISTRICT
Statements of Net Position

December 31,	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and investments, unrestricted	\$ 367,004	\$ 387,930
Cash with county treasurer	229	215
Trade accounts receivable	37,405	29,669
Taxes receivable	22,812	22,664
Prepaid insurance	-	18,798
Total current assets	427,450	459,276
OTHER ASSETS		
Cash and investments, restricted	62,000	62,000
PROPERTY, PLANT, AND EQUIPMENT - AT COST		
Land	21,938	21,938
Construction in progress	209,381	-
Plant and equipment	3,658,186	3,658,186
Total property, plant, and equipment	3,889,505	3,680,124
Less accumulated depreciation	(2,488,410)	(2,388,171)
Net property, plant, and equipment	1,401,095	1,291,953
Total assets	\$ 1,890,545	\$ 1,813,229
DEFERRED OUTFLOWS OF RESOURCES		
	\$ -	\$ -

The accompanying notes are an integral part of these statements.

December 31,	2016	2015
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LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

CURRENT LIABILITIES

Accounts payable	\$ 65,060	\$ 25,613
Payroll taxes payable	309	953

Total current liabilities	65,369	26,566
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Total liabilities	\$ 65,369	\$ 26,566
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DEFERRED INFLOWS OF RESOURCES

Deferred property tax revenue	\$ 22,812	\$ 22,879
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NET POSITION

Invested in capital assets	\$ 1,401,095	\$ 1,291,953
Restricted for emergencies	12,000	12,000
Restricted for legal compliance	50,000	50,000
Unrestricted	339,269	409,831

Total net position	\$ 1,802,364	\$ 1,763,784
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ACADEMY WATER & SANITATION DISTRICT
Statements of Revenue, Expense, and Changes in Net Position

Years Ended December 31,	2016	2015
OPERATING REVENUE		
Water and wastewater charges	\$ 409,883	\$ 342,477
Other income	3,528	2,747
Total operating revenue	413,411	345,224
OPERATING EXPENSE		
Water and wastewater operating expense	216,417	304,324
General and administrative expense	86,158	93,537
Depreciation expense	100,239	101,474
Total operating expense	402,814	499,335
OPERATING INCOME (LOSS)	10,597	(154,111)
NON-OPERATING REVENUE (EXPENSE)		
Property taxes	22,879	21,386
Interest income	2,814	681
Specific ownership taxes	2,633	2,441
County treasurer fees	(343)	(324)
Total non-operating revenue	27,983	24,184
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	38,580	(129,927)
Capital contribution - tap fees	-	18,000
Special item - impairment loss of capital assets	-	(162,195)
INCREASE (DECREASE) IN NET POSITION	38,580	(274,122)
NET POSITION, beginning of year	1,763,784	2,037,906
NET POSITION, end of year	\$ 1,802,364	\$ 1,763,784

The accompanying notes are an integral part of these statements.

ACADEMY WATER & SANITATION DISTRICT
Statements of Cash Flows (Page 1 of 2)

Years Ended December 31,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 403,545	\$ 341,922
Reimbursement and grants	2,130	2,747
Cash payments to employees for services	(84,023)	(80,129)
Cash payments to suppliers for goods and services	(220,625)	(328,154)
Net cash provided by (used for) operating activities	101,027	(63,614)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property and ownership taxes	25,283	24,024
County treasurer fees	(343)	(324)
Net cash provided by noncapital financing activities	24,940	23,700
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	-	18,000
Payments on construction in progress	(149,707)	-
Net cash (used for) provided by capital and related financing activities	(149,707)	18,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	2,814	681
Net cash provided by investing activities	2,814	681
NET CHANGE IN CASH	(20,926)	(21,233)
CASH AT BEGINNING OF YEAR	449,930	471,163
CASH AT END OF YEAR	\$ 429,004	\$ 449,930

The accompanying notes are an integral part of these statements

ACADEMY WATER & SANITATION DISTRICT
Statements of Cash Flows (Page 2 of 2)

Years Ended December 31,	2016	2015
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 10,597	\$ (154,111)
Reconciling adjustments		
Depreciation	100,239	101,474
Changes in operating assets and liabilities		
Accounts receivable	(7,736)	(555)
Prepaid insurance	18,798	(18,798)
Accounts payable and other current liabilities	(20,227)	8,336
Accrued liabilities	(644)	40
Total adjustments	90,430	90,497
Net cash provided by (used for) operating activities	\$ 101,027	\$ (63,614)
Non-cash capital and related financing activity:		
Construction in progress included in accounts payable	\$ 59,674	\$ -
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and investments	\$ 367,004	\$ 387,930
Cash and investments, restricted	62,000	62,000
Total cash and cash equivalents	\$ 429,004	\$ 449,930

The accompanying notes are an integral part of these statements.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note A – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Academy Water & Sanitation District (the District) is a quasi-municipal corporation governed pursuant to provisions of the Colorado Special District Act. An elected five-member board of directors governs the District. The District was established to provide water and sanitation services to an area located in El Paso County, Colorado, a few miles north of the City of Colorado Springs, Colorado.

Reporting Entity

Academy Water & Sanitation District is a special purpose governmental entity and reports as a primary government as defined by Statement No. 14 of the Governmental Accounting Standards Board. The District has determined that it is legally separate and fiscally independent of other state and local governments. The District is not financially accountable for any other entities because the board of directors does not appoint or elect members of any other board of directors and no other organizations are fiscally dependent upon the District. The District does not have the power to impose its will on any other entity and has no financial benefit or burden related to any other organization. The accompanying financial statements, therefore, consist only of funds of the District and do not include financial information for any component units.

Basis of Accounting

The District prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The more significant policies used by the District and established in GAAP are discussed below.

Academy Water & Sanitation District organizes its accounts as a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue includes activities that have the characteristics of exchange transactions, ordinarily water and wastewater service fees. Operating expenses relate to the operation, maintenance, and management of the water and wastewater systems. These expenses are intended to be funded by use charges. Non-operating revenue includes earnings on investments and non-exchange transactions such as property taxes and tap fees. Non-operating expenses relate to debt service and tax collection.

Cash Equivalents

The District generally considers deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note A – Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2016 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Property Tax Receivables and Calendar

Revenue from property taxes is recognized in the period the levy is intended to finance, which is the year after the taxes are levied. Taxes are levied and certified to the county in December of the preceding year and attach as an enforceable lien on the property as of January 1 the following year. Taxes are paid in either one installment on April 30th, or two equal installments due February 28th and June 15th. Property taxes are recognized as receivables and deferred inflows of resources when levied in December, and as revenue when due for collection in the following year. The El Paso County treasurer bills and collects the District's property taxes and remits payment during the month following collection. Taxes become delinquent after June 15th and those taxes that are uncollected at December 31st are fully reserved as uncollectible.

Property, Plant, and Equipment

The District capitalizes acquisitions of property, plant, and equipment with an initial individual cost of \$2,000 or more. Contributed assets are recorded at fair market value.

Depreciation is charged as an expense against operations. Depreciation has been provided over the assets' estimated useful lives using the straight-line method. Total depreciation for 2016 and for 2015 is \$100,239 and \$101,474, respectively. The estimated useful lives are:

Water and wastewater systems	30 - 50 years
Equipment	5 - 20 years
Vehicles	7 - 10 years

Defined Contribution Benefit Plan

The District adopted a 5304 Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) Plan for the benefit of eligible employees in 2009. According to the SIMPLE IRA Plan requirements, all employees are immediately eligible to participate in the Plan. For the calendar years 2016 and 2015 the District elected to match each employee's contribution up to a limit of 3% of the employee's compensation for the year. Employer contributions are \$2,253 and \$2,152 for the years ended December 31, 2016 and 2015, respectively.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note A – Nature of Operations and Summary of Significant Accounting Policies (continued)

Net Position

In the statements of net position, equity is classified as net position, which presents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position is displayed in three components: invested in capital assets, restricted, and unrestricted. Net investment in capital assets consist of all capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction and improvement of those assets, when applicable. Restricted net position consists of amounts restricted for legal compliance and for Taxpayer Bill of Rights (TABOR) compliance under Colorado state law. Unrestricted net position consists of amounts not included in either of the other two net position classifications. The District's policy is to utilize restricted resources for qualifying activities, whenever possible.

Budgets and Budgetary Accounting

Colorado state law requires the comparison of actual revenues and expenditures with budgeted amounts. The financial statement presentation for GAAP purposes uses a basis of accounting that is different from the budgetary basis of accounting required by the State of Colorado. The budgetary comparison is included as other supplementary information to the basic financial statements and includes notes to other supplementary information.

Deferred Outflow and Inflow 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 future periods and will not be recognized as outflows of resources (expense) until then. There are no deferred outflows of resources in years ended December 31, 2016 and 2015.

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 future periods and will not be recognized as inflows of resources (revenue) until that time. Property tax revenue to be collected in the following year is reported as deferred inflows of resources.

Estimates

The preparation of the District's financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note B – Deposits and Investments

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

	<u>2016</u>	<u>2015</u>
Statement of net position:		
Cash and investments, unrestricted	\$367,004	\$387,930
Cash and investments, restricted	<u>62,000</u>	<u>62,000</u>
Total cash and investments	<u>\$429,004</u>	<u>\$449,930</u>

Cash and investments as of December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Deposits with financial institutions	\$ 31,898	\$ 18,066
Investments - ColoTrust	<u>397,106</u>	<u>431,864</u>
Total cash and investments	<u>\$429,004</u>	<u>\$449,930</u>

The District’s bylaws authorize deposits in banks or local government investment pools authorized by state statutes. The District follows state statute with respect to its deposits and investments, but has not adopted an investment policy more specific than the statute. The District maintains deposits in a Colorado eligible depository as defined by the Colorado Public Deposit Protection Act and the Savings and Loan Public Deposit Protection Act of Colorado (PDPA). Investments are maintained in a local government investment pool authorized by Colorado law.

The PDPA requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. Amounts on deposit in excess of federal deposit insurance coverage must be collateralized. Eligible collateral is determined by PDPA, which allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured public deposits.

At December 31, 2016 the District’s total cash balance does not exceed available FDIC insurance limits of \$250,000. Any cash balances in excess of FDIC limits would be collateralized in accordance with PDPA. The State of Colorado has determined that there is no custodial credit risk for public deposits collateralized under PDPA.

At December 31, 2016 the District had \$397,106 invested in Colotrult. This local government investment pool is rated AAAM by Standard and Poor and operates similarly to a money market fund with each share equal in value to \$1. The pool invests in specific legal investments that the District is empowered to purchase directly. These include U.S. treasuries, U.S. government agencies, and fully collateralized repurchase agreements contracted with highly rated counterparties.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note B – Deposits and Investments (continued)

The District is required to restrict \$50,000 for future compliance with effluent limits of its wastewater permit with the Colorado Division of Public Health and Environment. The District also restricts \$12,000 for emergency reserves to comply with the Taxpayer Bill of Rights. See Note F. The total amount restricted for these purposes as of December 31, 2016 and 2015 is \$62,000, which is shown as restricted cash and investments.

Note C – Accounts Receivable

Accounts receivable consist of taxes levied in the current year and collectible in the subsequent year and service billings not yet collected. Interest is charged on overdue accounts. An allowance for doubtful accounts is estimated using past history of write-offs on service receivables and management’s judgment of current economic conditions and customer financial condition. An account is written off only when management has determined that it is unlikely to be collected. The District anticipates that its tax and service receivables will be collected within the next year; therefore, no allowance for doubtful accounts has been established.

Note D – Property, Plant, and Equipment

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

	<u>1/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Impair- ments</u>	<u>12/31/2016</u>
Capital assets not being depreciated					
Land	\$ 21,938	\$ -	\$ -	\$ -	\$ 21,938
Construction in progress	<u>-</u>	<u>209,381</u>	<u>-</u>	<u>-</u>	<u>209,381</u>
Total capital assets, not being depreciated	21,938	209,381	-	-	231,319
Capital assets being depreciated					
Plant and equipment	3,658,186	-	-	-	3,658,186
Less accumulated depreciation	<u>(2,388,171)</u>	<u>(100,239)</u>	<u>-</u>	<u>-</u>	<u>(2,488,410)</u>
Total capital assets being depreciated, net	<u>1,270,015</u>	<u>(100,239)</u>	<u>-</u>	<u>-</u>	<u>1,169,776</u>
Total capital assets, net	<u>\$1,291,953</u>	<u>\$ 109,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,401,095</u>

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note D – Property, Plant, and Equipment (continued)

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

	<u>1/1/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Impair- ments</u>	<u>12/31/2015</u>
Capital assets not being depreciated					
Land	\$ 21,938	\$ -	\$ -	\$ -	\$ 21,938
Capital assets being depreciated					
Plant and equipment	3,658,186	-	-	-	3,658,186
Less accumulated depreciation	<u>(2,124,502)</u>	<u>(101,474)</u>	<u>-</u>	<u>(162,195)</u>	<u>(2,388,171)</u>
Total capital assets being depreciated, net	<u>1,533,684</u>	<u>(101,474)</u>	<u>-</u>	<u>(162,195)</u>	<u>1,270,015</u>
Total capital assets, net	<u>\$1,555,622</u>	<u>\$(101,474)</u>	<u>\$ -</u>	<u>\$(162,195)</u>	<u>\$1,291,953</u>

Depreciation expense was charged to functions/programs as follows:

	<u>2016</u>	<u>2015</u>
Business-type activities:		
Water and wastewater funds	<u>\$100,239</u>	<u>\$101,474</u>

In 2015, the District recognized impairment to the wastewater treatment system due to regulatory changes and an Intergovernmental Service Agreement with neighboring Donala Water and Sanitation District. See Note H. Academy will abandon certain assets at the end of 2018 that are currently used for wastewater treatment. The impairment of those assets was recorded as an increase in accumulated depreciation and as a special item on the statement of revenue, expense and changes in net position in order to reflect only the remaining usable capacity of the wastewater treatment system. Impairment totaling \$162,195 was recorded under the guidelines of GASB Statement No. 42, Capital Asset Impairment and Insurance Recoveries.

Note E – Commitments and Contingencies

The District is subject to numerous statutes and regulations of the State of Colorado, its subdivisions, and the federal government. Some of these statutes and regulations pertain to the District's right or duty to appropriate and use water and to treat and discharge water and wastewater. The District's right to appropriate water may be contingent upon a decree of the water court adjudicating the District's right and ranking such rights as to priority relative to rights of other water users. The District's rights may be junior to various other users. If there are owners of senior priorities, they might, under some circumstances, be able to require the District to cease its pumping of water. The District would then be forced to purchase water rights from other sources to allow it to continue pumping from its wells or to purchase the actual water itself from sources other than its own wells for distribution. The District's inability, if any,

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note E – Commitments and Contingencies (continued)

to pump and distribute water on a normal basis, would directly affect its future revenues and expenses, as well as property owners in the District.

The District developed a water augmentation plan for which it obtained approval through the District Court for Water, Division No. 2. The water augmentation plan does not require the District to purchase any other water rights and allows the District to continue pumping in the quantities and at the times consistent with its recent historical usage. Augmentation plans are subject to the continuing jurisdiction of the Court, however, and are subject to modification based upon new data. An Application for Finding of Reasonable Diligence with respect to its conditional water rights was filed by the District in 2013, approved by the Court, and the District is not required to file another such application until 2019. In addition, the District successfully amended the current augmentation plan in 2016 to obtain Court approval for a conditional appropriative right of substitution and exchange of the location where replacement water is delivered under the augmentation plan, as discussed in the following paragraph. Maintenance of this conditional water right requires another filing with the Court in 2022.

The District has a permit with the Colorado Department of Public Health and Environment (CDPHE) to operate its wastewater treatment facility and to discharge its treated wastewater. The permit was most recently renewed in 2013 and is scheduled for renewal again in 2018. The extent to which wastewater and drinking water must be treated changes over time as state and federal statutes and regulations change. The District knows that it will be required to meet additional and more stringent wastewater treatment standards and has determined that the most cost effective way of complying with future standards for treating wastewater for its residents is to contract for wastewater treatment services through Donala Water and Sanitation District for treatment and discharge through the Upper Monument Creek Regional Wastewater Treatment Facility rather than to continue to operate its own wastewater treatment facility. Academy and Donala signed an Intergovernmental Service Agreement (IGA) in 2015 that will accomplish an infrastructure connection between the Districts that allows Academy to deliver its wastewater to Donala for treatment by the end of 2018. Also see Note H.

The District had a requirement under its CDPHE wastewater permit to meet new total residual chlorine standards in 2015. Since the District plans to retire the existing wastewater treatment plant in 2018, it made a modification request to CDPHE for a revision of the due date for the dechlorination compliance schedule to October 2018. The District is submitting quarterly reporting on its progress towards the construction of the infrastructure connections as requested by CDPHE.

The District has discovered that certain of its utility lines or other facilities may not lie within any dedicated or recorded public right of way or easement or within any tract to which it has title or an easement or right of way. The District continues to conduct a thorough survey of its facilities and the public and private records to determine the extent of this matter. The District has received cooperation from various landowners and will continue to obtain necessary easements or grants of title to document its rights as it discovers any lack of recorded easement. The District may use its powers of eminent domain, but that has so far not been necessary.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note F – Tax, Spending, and Debt Limitations

Article X, Section 20 of the Colorado Constitution (the TABOR Amendment) contains tax, spending, revenue and debt limitations which apply to Colorado and all local governments.

Enterprises, defined as government-owned business 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. Management of the District believes a significant portion of its operations qualify for the enterprise exclusions from TABOR.

Spending and revenue limits are determined based on the prior fiscal year spending as adjusted for allowable increases for inflation and local growth. Revenue in excess of the fiscal year spending limit must be refunded unless voters approve retention of such revenue. 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. It also requires the government to establish emergency reserves at 3% of fiscal year spending.

On May 3, 2016, District voters authorized the District, as a voter approved revenue change, to accept, collect, retain and spend all revenues received from all sources in 2016 and each subsequent year, notwithstanding any limitations or restrictions that would apply under Article X, Section 20 of the Colorado Constitution (TABOR), and Section 29-1-301, Colorado Revised Statutes (5.5% limit), or any other law.

The District's general operating mill levy was 2.937 mills for property taxes collected in 2016 and 2015. The general operating mill levy is considered to be subject to TABOR limitations. District's management believes it is in compliance with the provisions of TABOR for 2016 and 2015. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, may require judicial interpretation.

Note G – Risk Management

The District is exposed to risks of loss related to damage to and destruction of assets, errors and omissions, theft, natural disasters, and liabilities of various types. The District carries commercial insurance for these risks of loss. No settlements exceeded insurance coverage for each of the past three years.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note H – Intergovernmental Service Agreement

Academy management determined that the existing wastewater treatment facility is not capable of performing in a manner to conform to future regulatory requirements for discharge and that it is in the best interest of its customers to contract with another wastewater utility for provision of wastewater management services. Neighboring Donala Water and Sanitation District (Donala) has sufficient capacity in its wastewater collection and conveyance system to treat wastewater conveyed from Academy. The two districts signed an intergovernmental service agreement on December 8, 2015 in order to establish terms and conditions for Donala to provide wastewater management services for conveyance and treatment of Academy wastewater.

Academy will construct the connection to Donala's system and be responsible for all costs of implementation of the connection. Planning and engineering design costs of \$209,381 for this project are capitalized as construction in progress in 2016. Academy will pay a plant investment fee of \$889,700 and monthly user fees for its customers. Donala will operate and maintain conveyance facilities in its service areas and maintain adequate capacity for the management and treatment of Academy wastewater. The connection is expected by October 1, 2018.

Academy plans to finance construction costs, plant investment fee, and user fees through a combination of grants, loans, and resident sewer service fees.

Note I – Subsequent Events

As discussed in Notes E and H, the District plans to build a connection to Donalla Water and Sanitation District for the conveyance of its wastewater for treatment and discharge. The District intends to finance the project with a Colorado State Revolving Fund loan. Planning, design and preliminary approval phases for the project are complete as of July 14, 2017 and the loan application has been submitted.

Note J – Comparability of Financial Statements

Certain items from the December 31, 2015 statements of net position and cash flows have been reclassified in order to make them comparable to the current financial statements. There is no effect on changes in net position.

OTHER SUPPLEMENTARY INFORMATION

ACADEMY WATER & SANITATION DISTRICT
Schedules of Expenses
Year Ended December 31, 2016 and 2015

Years Ended December 31,	2016	2015
Water and wastewater operating expense		
Auto mileage	\$ 6,595	\$ 7,709
Engineering	916	53,459
Lab testing	5,078	3,566
Payroll taxes and benefits	15,113	14,702
Repairs and maintenance	53,943	98,163
Salaries	84,023	80,129
Supplies	4,289	8,006
Utilities	46,460	38,590
Total water and wastewater operating expense	\$ 216,417	\$ 304,324
General and administrative expense		
Accounting, audit, and billing	\$ 38,279	\$ 38,095
Director's fees	6,000	6,500
Dues and subscriptions	602	783
Election expense	1,839	-
Insurance	21,887	22,105
Legal	1,733	14,104
Miscellaneous	725	632
Office and postage	5,932	2,920
Permits and fees	2,063	1,800
Seminars and meetings	150	450
Telephone	6,948	6,148
Total general and administrative expense	\$ 86,158	\$ 93,537

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Budgetary Comparison Schedule - Budget to Actual (Budgetary Basis)
Water Enterprise Fund
Year Ended December 31, 2016

	Budget	Actual Amounts (Budgetary Basis)	Budget Positive (Negative)
Budgetary net position, January 1, 2016	\$ 177,933	\$ 235,915	\$ 57,982
REVENUES			
Water charges	233,000	205,625	(27,375)
Property taxes	11,439	11,440	1
Specific ownership tax	8,000	1,317	(6,683)
Interest income	50	1,463	1,413
Miscellaneous income	8,000	3,175	(4,825)
Amounts available for appropriation	438,422	458,935	20,513
EXPENDITURES			
Accounting, audit, and billing	30,325	30,451	(126)
Auto and mileage	7,600	5,276	2,324
Capital projects - general construction	-	-	-
Contingencies	12,000	-	12,000
County treasurer's fees	175	171	4
Director's fees	3,250	3,000	250
Engineering	-	-	-
Insurance	18,400	17,510	890
Lab testing	1,600	651	949
Legal	4,000	1,386	2,614
Miscellaneous	15,630	8,697	6,933
Payroll taxes and benefits	12,800	12,090	710
Repairs and maintenance	97,250	39,032	58,218
Salaries	67,200	67,218	(18)
Supplies	7,000	3,432	3,568
Utilities and telephone	9,900	45,054	(35,154)
Total expenditures	287,130	233,968	53,162
Budgetary net position, December 31, 2016	\$ 151,292	\$ 224,967	\$ 73,675

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Budgetary Comparison Schedule - Budget to Actual (Budgetary Basis)
Wastewater Enterprise Fund
Year Ended December 31, 2016

	Budget	Actual Amounts (Budgetary Basis)	Budget Positive (Negative)
Budgetary net position, January 1, 2016	\$ 177,932	\$ 235,915	\$ 57,983
REVENUES			
Wastewater charges	87,000	204,258	117,258
Property taxes	11,439	11,439	-
Specific ownership tax	1,150	1,316	166
Interest income	50	353	303
Miscellaneous income	240,000	1,351	(238,649)
Amounts available for appropriation	517,571	454,632	(62,939)
EXPENDITURES			
Accounting, audit, and billing	7,925	7,828	97
Auto and mileage	1,900	1,319	581
Capital projects - general construction	297,000	209,381	87,619
Contingencies	3,000	-	3,000
County treasurer's fees	175	171	4
Director's fees	3,250	3,000	250
Engineering	5,000	916	4,084
Insurance	4,600	4,377	223
Lab testing	6,400	4,427	1,973
Legal	16,000	346	15,654
Miscellaneous	10,470	2,615	7,855
Payroll taxes and benefits	3,200	3,023	177
Repairs and maintenance	26,450	14,911	11,539
Salaries	16,800	16,805	(5)
Supplies	-	858	(858)
Utilities and telephone	43,100	8,354	34,746
Total expenditures	445,270	278,331	166,939
Budgetary net position, December 31, 2016	\$ 72,301	\$ 176,301	\$ 104,000

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Notes to Other Supplementary Information

Note A – Summary of Significant Accounting Policies

In accordance with Local Government Budget Law of Colorado, the District’s board of directors holds public hearings in the fall each year to approve the budget, certify a mill levy, and appropriate funds for the ensuing year. The appropriation is for total expenditures and lapses at year-end. Encumbrance accounting is not used.

The annual budget for Academy Water & Sanitation District is prepared on the budgetary basis of accounting required by the State Law which is a basis of accounting other than U. S. generally accepted accounting principles. The board of directors approves budget transfers and amendments.

Note B – Budgetary Differences

The budget of the District is prepared on a basis of accounting other than U. S. generally accepted accounting principles. For 2016, total expenditures on a budgetary basis were \$512,299. Excess resources and revenues over expenditures amount to \$401,268. A reconciliation to the increase in net position as determined using U.S. generally accepted accounting principles follows:

Excess resources and revenue, budgetary basis	\$ 401,268
Deduct: Beginning net position	(471,830)
Depreciation	(100,239)
Add: Capital projects – construction in progress	<u>209,381</u>
Increase in net position, GAAP basis	<u>\$ 38,580</u>