

CASTLEWOOD WATER AND SANITATION DISTRICT
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2016 and 2015



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Independent Auditor's Report

Board of Directors
Castlewood Water and Sanitation District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Castlewood Water and Sanitation District for the year ended December 31, 2016 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 Castlewood Water and Sanitation District as of December 31, 2016 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 VI 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.

L. Paul Goedecke, P.C.
July 29, 2017

**Castlewood Water and Sanitation District
Management's Discussion and Analysis
For the Year Ended December 31, 2016**

The management of Castlewood Water and 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 fiscal year ended December 31, 2016.

Financial Highlights

- Net position increased \$1,095,996 in 2016, or 12.24%, since 2015, primarily due to an increase in nonoperating revenues and capital contributions and a decrease in sewage treatment expense.
- Net operating loss decreased from \$355,768 in the previous year to a net operating loss of \$(204,116) on operating revenue of \$1,717,921 and \$1,669,476, respectively, due primarily to decreased treatment expenses.
- Operating expenses, exclusive of depreciation, decreased \$103,104 from the previous year mainly due to sewer treatment expenses decreasing \$149,599 partially offset by an increase in engineering expense of \$31,216.
- Funds available (current assets less current liabilities exclusive of the current portion of long-term obligations) increased \$574,055 to \$6,631,626 at December 31, 2016.

Overview of the Financial Statements

Management's discussions and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements, presented on pages 1 – 13 are comprised of Financial Statements and Notes to Financial Statements. This report also contains other supplementary 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 water and sewer utility services.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net position 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 revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows reports the District's cash flows from operating, noncapital financing, capital and investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 5 – 13 of this report.

**Castlewood Water and Sanitation District
Management's Discussion and Analysis
For the Year Ended December 31, 2016**

The supplementary information contained in this report on pages 14 – 20 provides a schedule of expenses, budget and actual information, and assessed valuation, mill levy and property tax information, calculation and annual operating data.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's net position was \$10,049,028 and \$8,953,032 at the close of the fiscal years 2016 and 2015, respectively. Approximately 68% and 69% of the District's assets as of December 31, 2016 and 2015 consist of cash and investments and current receivables. The remaining assets represent the current value of capital assets including the sewer system less accumulated depreciation.

Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 7,125,157	\$6,528,219	\$5,720,087
Capital assets	3,417,402	2,895,461	2,919,480
Total assets	<u>10,542,559</u>	<u>9,423,680</u>	<u>8,639,567</u>
Current liabilities	82,133	70,465	58,381
Deferred inflows of resources	411,398	400,183	369,615
Total liabilities and deferred inflows of resources	<u>493,531</u>	<u>470,648</u>	<u>427,996</u>
Net position invested in capital assets	3,417,402	2,895,461	2,919,480
Restricted net position - Emergency reserve	14,000	12,000	13,000
Unrestricted net position	<u>6,617,626</u>	<u>6,045,571</u>	<u>5,279,091</u>
Total net position	<u>\$ 10,049,028</u>	<u>\$8,953,032</u>	<u>\$8,211,571</u>

Business-type activities increased the District's net position by \$1,095,996 and \$741,461 in 2016 and 2015, respectively. Key elements of the change in net position were as follows:

- Nonoperating revenues increased by \$174,387 in 2016 and \$125,380 in 2015 over the prior year. This fluctuation is primarily due to an increase in tap fees.
- Engineering expenses increased \$31,216 in 2016 and \$8,885 in 2015 over the prior year. This fluctuation is primarily due to an increase in maintenance to the lift stations.
- Sewer treatment expense decreased \$149,599 in 2016 and decreased \$189,567 in 2015 over the prior year. This fluctuation is primarily due to the annual sewer treatment expenses.

**Castlewood Water and Sanitation District
Management's Discussion and Analysis
For the Year Ended December 31, 2016**

Statement of Revenue, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues			
Sewer services	\$ 1,717,921	\$ 1,669,476	\$ 1,649,466
Total operating revenues	<u>1,717,921</u>	<u>1,669,476</u>	<u>1,649,466</u>
Nonoperating revenues			
Taxes	424,113	392,751	398,820
Investment income	33,954	9,049	7,697
Developer reimbursement	15,981	50,338	21,253
Capital cost reimbursement	278,186	278,186	338,255
Tap fees	504,500	374,500	313,633
Other income	62,622	40,145	-
Total nonoperating revenues	<u>1,319,356</u>	<u>1,144,969</u>	<u>1,079,658</u>
Total revenues	<u>3,037,277</u>	<u>2,814,445</u>	<u>2,729,124</u>
Operating expenses			
Sewer	1,603,272	1,706,376	1,812,602
General and administrative	135,194	129,215	129,986
Depreciation	183,571	189,653	193,113
Total operating expenses	<u>1,922,037</u>	<u>2,025,244</u>	<u>2,135,701</u>
Nonoperating expense	<u>19,244</u>	<u>47,740</u>	<u>23,393</u>
Total expenses	<u>1,941,281</u>	<u>2,072,984</u>	<u>2,159,094</u>
Change in net position	1,095,996	741,461	570,030
Net position - Beginning	<u>8,953,032</u>	<u>8,211,571</u>	<u>7,641,541</u>
Net position - Ending	<u>\$ 10,049,028</u>	<u>\$ 8,953,032</u>	<u>\$ 8,211,571</u>

The revenue totaled \$3,037,277 and \$2,814,445 in 2016 and 2015, respectively, and was primarily made up of the sewer service revenue, property and specific ownership taxes, tap fees, and investment income and fees.

The sewer operating expenses are primarily made up of the fees that are paid to Metro Wastewater Reclamation District for sewage treatment services. These fees totaled \$1,135,102 and \$1,284,701 in 2016 and 2015, respectively. The nonoperating expenses in 2016 were primarily made up of reimbursable expenses.

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

**Castlewood Water and Sanitation District
Management's Discussion and Analysis
For the Year Ended December 31, 2016**

facilities and depreciation are not reflected on the budget since they do not affect "funds available." This budgetary accounting is required by State statutes. Additionally, the budget includes the separation of the enterprise, general government and debt service functions within the District.

The District's total expenditures for 2016 exceeded the original budgeted appropriation thus causing the District to amend its 2016 budget. Actual revenue of \$3,613,830 was \$46,914 over amended budgeted revenue of \$3,566,916.

The difference between the amended budgeted expenditures of \$3,104,500 and the actual expenditures of \$3,039,775 was \$64,725. The most notable variances under budget were: capital outlay expenditures of \$31,332 and general and administrative expenditures of \$23,303.

Capital Assets Activity

The activity related to capital assets during 2016 is as follows:

	<u>December 31, 2014</u>	<u>Net Changes</u>	<u>December 31, 2015</u>	<u>Net Changes</u>	<u>December 31, 2016</u>
Sewer system	\$ 8,937,374	\$ -	\$ 8,937,374	\$ 13,871	\$ 8,951,245
Land and easements	10,370	-	10,370	-	10,370
Construction in progress	116,050	165,634	281,684	691,641	973,325
Total capital assets	<u>9,063,794</u>	<u>165,634</u>	<u>9,229,428</u>	<u>705,512</u>	<u>9,934,940</u>
Accumulated depreciation	<u>(6,144,314)</u>	<u>(189,653)</u>	<u>(6,333,967)</u>	<u>(183,571)</u>	<u>(6,517,538)</u>
Net capital assets	<u>\$ 2,919,480</u>	<u>\$ (24,019)</u>	<u>\$ 2,895,461</u>	<u>\$ 521,941</u>	<u>\$ 3,417,402</u>

Net capital assets increased \$705,512 in 2016 due to capital improvements to the lift stations. Additional information on the District's capital assets can be found in Note 4 of this report.

Economic Factors and Next Year's Budget and Rates

The District expects to maintain a customer base of approximately 2,600. The District expects service treatment fees will continue to increase in the coming years. The District will continue to monitor rates on an annual basis to ensure proper fees are charged for this service. The District has appropriated \$2,466,670 for spending in the 2017 fiscal year budget. It is anticipated that service fee and property tax revenue along with other revenue and accumulated fund balances from previous years will be sufficient to cover these expenditures.

Request for Information

This report is designed to provide a general overview of the Castlewood Water and Sanitation District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Office of the Castlewood Water and Sanitation District, 8390 E. Crescent Parkway, Suite 500, Greenwood Village, CO 80111.

BASIC FINANCIAL STATEMENTS

CASTLEWOOD WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,641,890	\$ 6,048,539
Cash and cash equivalents - Restricted	14,000	12,000
Accounts receivable	42,721	54,468
Receivable - County Treasurer	2,219	1,534
Property taxes receivable	411,398	400,183
Prepaid expenses	12,929	11,495
Total current assets	7,125,157	6,528,219
CAPITAL ASSETS, NET	3,417,402	2,895,461
TOTAL ASSETS	\$ 10,542,559	\$ 9,423,680
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 57,077	\$ 64,465
Retainage payable	16,056	-
Deposits - Imprest account	9,000	6,000
Total current liabilities	82,133	70,465
DEFERRED INFLOWS OF RESOURCES		
Property taxes revenue	411,398	400,183
Total deferred inflows of resources	411,398	400,183
NET POSITION		
Net investment in capital assets	3,417,402	2,895,461
Restricted - Emergency reserve	14,000	12,000
Unrestricted	6,617,626	6,045,571
Total net position	10,049,028	8,953,032
TOTAL LIABILITIES AND NET POSITION	\$ 10,542,559	\$ 9,423,680

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

CASTLEWOOD WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2016 and 2015

	2016	2015
SEWER OPERATIONS		
Sewer income	\$ 1,637,033	\$ 1,588,288
Lift station fees	72,988	72,988
Plan review and connection fees	7,900	8,200
Direct sewer expenses	(1,603,272)	(1,706,376)
Depreciation	(183,571)	(189,653)
(Loss) from sewer operations	(68,922)	(226,553)
GENERAL AND ADMINISTRATIVE EXPENSES		
	135,194	129,215
OPERATING (LOSS)		
	(204,116)	(355,768)
NONOPERATING REVENUES		
Property taxes	393,435	364,864
Specific ownership taxes	30,678	27,887
Developer reimbursement	15,981	50,338
Republic Park - repair reimbursement	186,231	186,231
Havana - capital costs	91,955	91,955
Net investment income	33,954	9,049
Miscellaneous	62,622	40,145
Total nonoperating revenues	814,856	770,469
NONOPERATING EXPENSES		
County Treasurer's fees	5,926	5,492
Reimbursable expenses	13,318	42,248
Total nonoperating expenses	19,244	47,740
INCOME (LOSS) BEFORE CONTRIBUTIONS		
	591,496	366,961
CAPITAL CONTRIBUTIONS		
Sewer tap fees	259,500	149,500
Water tap fees	245,000	225,000
Total capital contributions	504,500	374,500
CHANGE IN NET POSITION		
	1,095,996	741,461
TOTAL NET POSITION - BEGINNING OF YEAR	8,953,032	8,211,571
TOTAL NET POSITION - END OF YEAR	\$ 10,049,028	\$ 8,953,032

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

CASTLEWOOD WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,729,668	\$ 1,637,760
Payments to suppliers	<u>(1,728,232)</u>	<u>(1,824,065)</u>
Net cash (required) by operating activities	<u>1,436</u>	<u>(186,305)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property and specific ownership taxes received	417,502	388,080
Miscellaneous income	62,623	40,145
Developer reimbursement	15,981	50,338
Reimbursable expenses	<u>(13,318)</u>	<u>(42,248)</u>
Net cash provided by noncapital financing activities	<u>482,788</u>	<u>436,315</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
CIP	(705,512)	(165,634)
Capital cost reimbursement	278,186	278,186
Tap fees	<u>504,500</u>	<u>374,500</u>
Net cash (required) by capital and related financing activities	<u>77,174</u>	<u>487,052</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>33,953</u>	<u>9,049</u>
Net cash provided (required) by investing activities	<u>33,953</u>	<u>9,049</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	595,351	746,111
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>6,060,539</u>	<u>5,314,428</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 6,655,890</u></u>	<u><u>\$ 6,060,539</u></u>

(Continued)

CASTLEWOOD WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015
(Continued)

	2016	2015
Reconciliation of operating (loss) to net cash provided by operating activities		
Operating (loss)	\$ (204,116)	\$ (355,768)
Adjustments to reconcile operating (loss) to net cash provided (required) by operating activities		
Depreciation and amortization	183,571	189,653
(Increase) decrease in		
Accounts receivable	11,747	(31,716)
Prepaid expenses	(1,434)	(558)
Increase (decrease) in		
Accounts payable, accrued expenses and deposits	11,668	12,084
Net cash (required) by operating activities	\$ 1,436	\$ (186,305)

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

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 - DEFINITION OF REPORTING ENTITY

Castlewood Water and Sanitation District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to provisions of the Colorado Special District Act. As a result of a District election November 5, 2002, and effective with the District Court Order dated January 29, 2003, and posting with the County Clerk and Recorder on January 30, 2003, the District was established through a consolidation agreement with the Castlewood Sanitation District, a partially overlapping sanitation district, and the Castlewood Water District, a partially overlapping water district, as a new entity incorporated as Castlewood Water and Sanitation District. The District's service area is located entirely in Arapahoe County, Colorado and partially in the cities of Greenwood Village and Centennial as well as unincorporated Arapahoe County. The District was established to provide sewage transmission and treatment services, as well as water services to its service areas. It contracts with Metro Wastewater Reclamation District (Metro) for sewage treatment services and with the City and County of Denver through its Board of Water Commissioners (Board or DWD) to provide water to the District's customers (see Note 7).

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

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

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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide 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.

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Inclusion fees, tap fees and contributed assets from developers are recorded as capital contributions when received.

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 water and sanitation services 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.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and other financing uses 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. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District has amended its annual budget for the year ended December 31, 2016.

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash and investments.

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits, certificates of deposit and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include land and easements and sewer system, are reported by the District. Capital assets are defined by the District as assets within an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. 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 following estimated economic useful lives:

Sewer system	40 years
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Contributed Capital

Inclusion Fees - Inclusion fees are recorded as capital contributions in the period the property is included into the District.

Contributed Lines - Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair market value when received.

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

Reclassifications

For comparability, certain 2015 amounts have been reclassified where appropriate to conform with the 2016 financial statement presentation.

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

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>
Statement of net position:		
Cash and cash equivalents	\$ 6,641,890	\$ 6,048,539
Restricted cash and cash equivalents	14,000	12,000
Total cash and investments	<u>\$ 6,655,890</u>	<u>\$ 6,060,539</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	\$ 289,433	\$ 741,900
Investments	6,366,457	5,318,639
Total cash and investments	<u>\$ 6,655,890</u>	<u>\$ 6,060,539</u>

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 and carrying balance of \$289,433 and \$741,900, respectively.

Investments

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

The District generally limits its concentration of investments to those 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.

**CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . 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.

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

Investment	Maturity	<u>2016</u>	<u>2015</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 6,366,457	\$ 5,318,639
		<u>\$ 6,366,457</u>	<u>\$ 5,318,639</u>

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing CSAFE. CSAFE is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 is as follows:

	2016			Balance at December 31, 2016
	Balance at December 31, 2015	Increases	Decreases	
Capital assets, not being depreciated:				
Land and easements	\$ 10,370	\$ -	\$ -	\$ 10,370
Construction in progress	281,684	691,641	-	973,325
Total capital assets, not being depreciated	<u>292,054</u>	<u>691,641</u>	<u>-</u>	<u>983,695</u>
Capital assets, being depreciated:				
Sewer system	8,937,374	13,871	-	8,951,245
Total capital assets, being depreciated	<u>8,937,374</u>	<u>13,871</u>	<u>-</u>	<u>8,951,245</u>
Less accumulated depreciation for:				
Sewer system	6,333,967	183,571	-	6,517,538
Total accumulated depreciation	<u>6,333,967</u>	<u>183,571</u>	<u>-</u>	<u>6,517,538</u>
Total capital assets, being depreciated, net	<u>2,603,407</u>	<u>(169,700)</u>	<u>-</u>	<u>2,433,707</u>
Capital assets, net	<u>\$ 2,895,461</u>	<u>\$ 521,941</u>	<u>\$ -</u>	<u>\$ 3,417,402</u>

**CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	2015			Balance at December 31, 2015
	Balance at December 31, 2014	Increases	Decreases	
Capital assets, not being depreciated:				
Land and easements	\$ 10,370	\$ -	\$ -	\$ 10,370
Construction in progress	116,050	165,634	-	281,684
Total capital assets, not being depreciated	<u>126,420</u>	<u>165,634</u>	<u>-</u>	<u>292,054</u>
Capital assets, being depreciated:				
Sewer system	8,937,374	-	-	8,937,374
Total capital assets, being depreciated	<u>8,937,374</u>	<u>-</u>	<u>-</u>	<u>8,937,374</u>
Less accumulated depreciation for:				
Sewer system	6,144,314	189,653	-	6,333,967
Total accumulated depreciation	<u>6,144,314</u>	<u>189,653</u>	<u>-</u>	<u>6,333,967</u>
Total capital assets, being depreciated, net	<u>2,793,060</u>	<u>(189,653)</u>	<u>-</u>	<u>2,603,407</u>
Capital assets, net	<u>\$ 2,919,480</u>	<u>\$ (24,019)</u>	<u>\$ -</u>	<u>\$ 2,895,461</u>

Depreciation expense of \$183,571 and \$189,653 was charged to sewer operations for the years ended December 31, 2016 and 2015, respectively.

NOTE 5 - LONG-TERM OBLIGATIONS

Authorized Debt

This District is a merged entity and any debt authorization would have been approved under either Castlewood Water or Castlewood Sanitation. As a result, the District considers any debt authorization stale.

NOTE 6 - NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation. As of December 31, 2016 and 2015 the District had net investment in capital assets of \$3,417,402 and \$2,895,461, respectively.

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 6 - NET POSITION (CONTINUED)

Restricted assets include net position that are 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. The District had restricted net position of \$14,000 and \$12,000 as of December 31, 2016 and 2015, respectively, for emergencies (see Note 10).

NOTE 7 - OPERATIONS

The District provides water to its users under a Total Service Contract with the City and County of Denver through its Board of Water Commissioners (Board or DWD). The Board sets the rates billed.

The District provides sanitation services to its users through a contract with Metro Wastewater Reclamation District (Metro) for sewage treatment services. The contract requires that the District bill users for treatment fees and tap fees and pay the charges as billed quarterly by Metro.

NOTE 8 - INTERFUND AND OPERATING TRANSFERS

The District transferred \$190,000 and \$190,000 during 2016 and 2015, respectively, from the Governmental Fund to the Enterprise Fund for the funding of operations.

NOTE 9 - RISK MANAGEMENT

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

The District 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, 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.

The District continues to carry commercial insurance coverage for other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

CASTLEWOOD WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 10 - 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 a significant portion of its operations qualifies for this exclusion. Therefore, the District adopted a resolution pursuant to CRS 37-45.1-101 et seq. to establish a water activity enterprise.

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.

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.

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

CASTLEWOOD WATER AND SANITATION DISTRICT
SCHEDULES OF EXPENSES
Years Ended December 31, 2016 and 2015

	2016	2015
DIRECT SEWER EXPENSES		
Customer billing	\$ 36,548	\$ 35,773
Facilities location	12,465	11,913
Repairs and maintenance	173,741	176,851
Sewage treatment	1,135,102	1,284,701
Engineering	166,561	135,345
Lift station expenses	78,855	61,793
Total direct sewer expenses	\$ 1,603,272	\$ 1,706,376
 GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting	\$ 38,409	\$ 45,643
Audit	3,800	3,800
Directors' fees	5,200	5,600
Insurance	11,495	10,937
Legal	72,713	58,798
Miscellaneous	3,577	4,437
Total general and administrative expenses	\$ 135,194	\$ 129,215

CASTLEWOOD WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
ALL FUNDS COMBINED
Year Ended December 31, 2016

	Budget Amounts		Actual	Variance- Positive (Negative)
	Original	Final		
REVENUES				
Sewer service fees	\$ 1,583,650	\$ 1,598,248	\$ 1,601,818	\$ 3,570
Sewer service late fees	5,000	24,000	35,215	11,215
Metro sewage tap fees	168,800	386,552	386,552	-
Connection and inspection charges	1,000	6,800	7,000	200
Lift station fees	72,988	72,988	72,988	-
Miscellaneous income	100	44,547	62,623	18,076
Property taxes	400,183	400,183	393,435	(6,748)
Specific ownership taxes	26,012	26,012	30,678	4,666
Net investment income	9,150	19,000	33,954	14,954
Plan review fees	10,000	900	900	-
Tap inclusion fees	1,000	-	-	-
Republic Park - repair reimbursement	186,231	186,231	186,231	-
Havana - capital costs	91,955	91,955	91,955	-
Developer reimbursement	40,000	20,000	15,981	(4,019)
Tap fees				
Sewer	174,600	259,500	259,500	-
Water	185,000	240,000	245,000	5,000
Transfer from other funds	190,000	190,000	190,000	-
Total revenues and transfers	<u>3,145,669</u>	<u>3,566,916</u>	<u>3,613,830</u>	<u>46,914</u>
EXPENDITURES				
Direct enterprise expenditures	1,785,900	1,611,603	1,603,272	8,331
General and administrative expenditures	158,497	158,497	135,194	23,303
Nonoperating expenditures	39,003	21,003	19,244	1,759
Capital outlay	778,800	1,123,397	1,092,065	31,332
Transfers to Enterprise	190,000	190,000	190,000	-
Total expenditures and transfers	<u>2,952,200</u>	<u>3,104,500</u>	<u>3,039,775</u>	<u>64,725</u>
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	193,469	462,416	574,055	111,639
FUNDS AVAILABLE - BEGINNING OF YEAR				
	5,364,361	6,046,450	6,057,571	11,121
FUNDS AVAILABLE - END OF YEAR				
	<u>\$ 5,557,830</u>	<u>\$ 6,508,866</u>	<u>\$ 6,631,626</u>	<u>\$ 122,760</u>

Funds available are defined as follows:

Current assets	\$ 7,125,157
Less current liabilities and deferred inflows of resources	(493,531)
	<u>\$ 6,631,626</u>

CASTLEWOOD WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
GOVERNMENTAL FUND
Year Ended December 31, 2016

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
DISTRICT REVENUES			
Property taxes	\$ 400,183	\$ 393,435	\$ (6,748)
Specific ownership taxes	26,012	30,678	4,666
Net investment income	1,000	11,360	10,360
Miscellaneous income	100	18,176	18,076
Total district revenues	<u>427,295</u>	<u>453,649</u>	<u>26,354</u>
DISTRICT EXPENDITURES			
General and administrative expenditures	158,497	135,194	23,303
Nonoperating expenditures	6,003	5,926	77
Transfers to Enterprise	190,000	190,000	-
Total district expenditures	<u>354,500</u>	<u>331,120</u>	<u>23,380</u>
EXCESS DISTRICT REVENUES OVER DISTRICT EXPENDITURES	72,795	122,529	49,734
DISTRICT FUNDS AVAILABLE - BEGINNING OF YEAR	<u>1,976,760</u>	<u>1,987,881</u>	<u>11,121</u>
DISTRICT FUNDS AVAILABLE - END OF YEAR	<u>\$ 2,049,555</u>	<u>\$ 2,110,410</u>	<u>\$ 60,855</u>

CASTLEWOOD WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
ENTERPRISE FUND
Year Ended December 31, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
ENTERPRISE REVENUES				
Sewer service fees	\$ 1,583,650	\$ 1,598,248	\$ 1,601,818	\$ 3,570
Sewer service late fees	5,000	24,000	35,215	11,215
Metro sewage tap fees	168,800	386,552	386,552	-
Connection and inspection charges	1,000	6,800	7,000	200
Lift station fees	72,988	72,988	72,988	-
Net investment income	8,150	18,000	22,594	4,594
Plan review fees	10,000	900	900	-
Tap inclusion fees	1,000	-	-	-
Republic Park - repair reimbursement	186,231	186,231	186,231	-
Havana - capital costs	91,955	91,955	91,955	-
Sewer tap fees	174,600	259,500	259,500	-
Water tap fees	185,000	240,000	245,000	5,000
Developer reimbursement	40,000	20,000	15,981	(4,019)
Miscellaneous income	-	44,447	44,447	-
Transfer from other funds	190,000	190,000	190,000	-
Total sewer enterprise revenues	<u>2,718,374</u>	<u>3,139,621</u>	<u>3,160,181</u>	<u>20,560</u>
ENTERPRISE EXPENDITURES				
Direct enterprise expenditures	1,785,900	1,611,603	1,603,272	8,331
Nonoperating expenditures	33,000	15,000	13,318	1,682
Capital outlay	778,800	1,123,397	1,092,065	31,332
Total enterprise expenditures	<u>2,597,700</u>	<u>2,750,000</u>	<u>2,708,655</u>	<u>41,345</u>
EXCESS SEWER ENTERPRISE REVENUES (UNDER) ENTERPRISE EXPENDITURES				
	120,674	389,621	451,526	61,905
ENTERPRISE FUNDS AVAILABLE - BEGINNING OF YEAR				
	<u>3,387,601</u>	<u>4,069,690</u>	<u>4,069,690</u>	<u>-</u>
ENTERPRISE FUNDS AVAILABLE - END OF YEAR				
	<u><u>\$ 3,508,275</u></u>	<u><u>\$ 4,459,311</u></u>	<u><u>\$ 4,521,216</u></u>	<u><u>\$ 61,905</u></u>

**CASTLEWOOD WATER AND SANITATION DISTRICT
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
TAXING AREAS 4115 - 4118**

December 31, 2016

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied Operations</u>	<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2012	\$ 421,526,190	.704	(1) \$ 263,662	\$ 261,321	99.11%
2013	\$ 412,871,830	.641	(2) \$ 256,537	\$ 264,157	102.97%
2014	\$ 447,295,930	.724	(3) \$ 266,725	\$ 273,243	102.44%
2015	\$ 440,977,064	.599	(4) \$ 262,380	\$ 259,007	98.71%
2016	\$ 497,692,329	.613	(5) \$ 292,260	\$ 287,331	98.31%

Estimated for
the year ending
December 31,

2017	\$ 487,614,771	.591	(6) \$ 288,245
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NOTE:

- 1) This includes a levy of .047 and .064 for collection of refunds and abatements in areas #4115 and #4116, respectively.
- 2) This includes a levy of .047 for collection of refunds and abatements in area #4115.
- 3) This includes a temporary mill levy reduction of .025, .008, and .011 for the areas in the District identified as #4115, #4116, and #4118, respectively, and a levy of .026, .014, and .091 for collection of refunds and abatements in area #4115, #4116 and #4118, respectively.
- 4) This includes a levy of .003 and .003 for collection of refunds and abatements in area #4115 and #4116, respectively.
- 5) This includes a temporary mill levy reduction of .024, .018 and .107 for the area in the District identified as #4116, #4117 and #4118, respectively.
- 6) This includes a temporary mill levy reduction of .056 for the area in the District identified as #4118.

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy if delinquent taxes are collected.

**CASTLEWOOD WATER AND SANITATION DISTRICT
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
TAXING AREAS 4115 AND 4119**

December 31, 2016

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied Operations</u>	<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2012	\$ 371,097,810	.275	\$ 107,578	\$ 94,072	87.45%
2013	\$ 363,006,550	.275	\$ 105,363	\$ 96,332	91.43%
2014	\$ 394,718,950	.301	(1) \$ 108,672	\$ 98,552	90.69%
2015	\$ 388,604,007	.278	(2) \$ 107,235	\$ 105,857	98.71%
2016	\$ 439,215,500	.246	(3) \$ 107,924	\$ 106,104	98.31%
Estimated for the year ending December 31, 2017	\$ 430,236,073	.286	(4) \$ 123,153		

NOTES:

- 1) This includes a temporary mill levy reduction of .025 for the area in the District identified as #4115 and a levy of .026 for the collection refund and abatements in area #4115.
- 2) This includes a levy of .003 for collection of refunds and abatements in the area #4115.
- 3) This includes a temporary mill levy reduction of .051 and .049 for the area in the District identified as #4115 and #4119 respectively and a levy of .022 for the collections of refunds and abatements in area #4115.
- 4) This includes a temporary mill levy reduction of .037 for the area in the District identified as #4119 and a levy of .012 for collection of refunds and abatements in area 4115.

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy if delinquent taxes are collected.