

**SOUTHWEST SUBURBAN DENVER
WATER AND SANITATION DISTRICT
Jefferson County, Colorado**

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



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By Justin L. Smith at 12:17 pm, Apr 27, 2017

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Independent Auditor's Report

Board of Directors
Southwest Suburban Denver
Water and Sanitation District
Jefferson County, Colorado

We have audited the accompanying financial statements of Southwest Suburban Denver Water and 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 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 that 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 financial position of Southwest Suburban Denver Water and Sanitation District, as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages III through VIII 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 an opinion on the financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and legal compliance and is not a required part of the financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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.

SCHILLING & COMPANY, INC.

Highlands Ranch, CO
April 20, 2017

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

Our discussion and analysis of Southwest Suburban Denver Water and Sanitation District's (District) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2016 and 2015. Please read it in conjunction with the District's basic financial statements which begin on page 1.

FINANCIAL HIGHLIGHTS

- In 2016 the District completed two sewer main capital projects. The Brandt Place project replaced 325 lineal feet (lf) of sewer main, the costs for which totaled \$137,310. \$3,761 of the total costs were expended in 2015. The District also lined approximately 3,100 lf of sewer main, costing \$104,854. The District's engineer and manager began developing a 25 year capital improvements and financial plan for the District in 2015 which was further refined in 2016. Approximately \$13,188 was incurred for developing a draft plan in 2015 and an additional \$19,549 was expended in 2016. The District's new Geographical Information System was also developed further in 2015 and 2016 with respective costs each year of \$5,958 and \$4,113.
- The District's sewage treatment charges from Metro Wastewater Reclamation District (Metro) were \$466,628 in 2015, but decreased by almost 68% to \$278,501 for 2016. The 2016 charges were lower due to adjustments of \$155,237 for prior year estimated treatment charges that exceeded the District's actual sewage treatment costs.
- The District's sewer fees were relatively stable for 2014 and 2015, totaling \$781,437 and \$784,538, respectively. In 2016, the sewer fees were increased to \$820,615, of which \$350,000 was earmarked to fund the District's capital projects planned for the year.
- The District's operating and administrative costs over the last several years have fluctuated significantly, totaling \$809,638 for 2013, \$563,138 for 2014, \$793,135 for 2015 and \$593,862 for 2016. The key differential has been the sewage treatment costs charged by Metro Wastewater Reclamation District. In 2015, the District's operating costs also increased by \$54,924 for the implementation of its sump pump inspection program which continued in 2016, costing \$42,187. The purpose of the program is to identify sources of water infiltrating the District's sewer system from customers' foundation drains. Infiltration from foundation sump pumps increases the District's sewer flows and can cause sewer backups, both of which can increase the District's operating costs. By the end of 2016 the sump pump inspection program was 96% complete.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

The *Statement of Net Position* presents information on all of the District's assets and deferred outflows of resources less liabilities and deferred inflows of resources which equals net position. This statement provides useful information regarding the financial position of the District. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall financial position of the District.

The *Statement of Revenues, Expenses and Changes in Net Position* reports the changes that have occurred during the year to the District's net position. All changes in 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. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

The *Statement of Cash Flows*, as its name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from capital financing activities, 3) cash flows from noncapital financing activities, and 4) cash flows from investing activities.

FINANCIAL SUMMARY AND ANALYSIS

NET POSITION

	December 31,		
	2016	2015	2014
ASSETS			
Current assets	\$2,819,105	\$2,729,884	\$2,676,034
Capital assets	1,650,601	1,500,252	1,541,096
Total assets	4,469,706	4,230,136	4,217,130
 LIABILITIES			
Current liabilities	16,374	24,175	11,549
Total liabilities	16,374	24,175	11,549
 NET POSITION			
Net investment in capital assets	1,650,601	1,500,252	1,541,096
Unrestricted	2,802,731	2,705,709	2,664,485
Total net position	\$4,453,332	\$4,205,961	\$4,205,581

As noted earlier, net position may serve as a useful indicator of the District's financial position. In the District's case, its net position increased approximately 6% from 2014 to 2016. The District's Board has focused its efforts on balancing its operating budget and building its reserves to fund future capital projects identified in the District's 25 year capital improvements plan, of which \$238,403 of sewer projects were funded in 2016.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

CHANGES IN NET POSITION

	Years Ended December 31,		
	2016	2015	2014
REVENUES			
OPERATING REVENUE			
Service fees	\$ 820,615	\$ 784,538	\$ 781,437
Delinquent fees	17,105	13,585	14,586
Other	17,986	16,791	9,532
Total operating revenue	<u>855,706</u>	<u>814,914</u>	<u>805,555</u>
NONOPERATING REVENUE (EXPENSE)			
Net investment income			
Interest	29,090	27,291	23,010
Net increase (decrease) in fair value of investments	(25,841)	1,097	7,135
Loss on disposition of assets	(17,722)	(49,787)	-
Total nonoperating revenue (expense)	<u>(14,473)</u>	<u>(21,399)</u>	<u>30,145</u>
Total revenues	<u>841,233</u>	<u>793,515</u>	<u>835,700</u>
EXPENSES			
OPERATING AND GENERAL AND ADMINISTRATIVE			
Operating	486,281	686,002	456,501
General and administrative expenses	107,581	107,133	106,637
Total operating and general and administrative expenses	<u>593,862</u>	<u>793,135</u>	<u>563,138</u>
CHANGE IN NET POSITION	247,371	380	272,562
NET POSITION - BEGINNING OF YEAR	<u>4,205,961</u>	<u>4,205,581</u>	<u>3,933,019</u>
NET POSITION - END OF YEAR	<u>\$4,453,332</u>	<u>\$4,205,961</u>	<u>\$4,205,581</u>

The District has increased its service fees as necessary to provide adequate reserves to fund unexpected sewage treatment costs or capital projects. The District's sewage treatment charges in 2014 decreased by \$244,243 from the 2013 charges. This allowed the District to hold its 2014 service fees relatively flat while increasing its capital reserves. In 2015, the sewage treatment costs increased 55%. The District was able to cover the increased sewage treatment costs and its sump pump inspection program while holding the services fees level. However, the capital projects planned were greatly reduced to avoid using the District's reserves. In 2016, the District's sewage treatment charges decreased again, this time by 68%. With more than \$350,000 of capital improvements planned, the District still needed to increase the sewer service fees by 4.6%. Fortunately, the District's investment earnings have continued to improve as its net position has grown and interest rates have continued to rise gradually. The District's interest earnings have increased 26% from 2014 to 2016, which has helped offset fee increases somewhat.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

The District's general and administrative expenses remained relatively flat from 2014 to 2016 with an overall increase of less than 1% for the last three years

CAPITAL ASSETS

The District's had capital assets at December 31, 2016 of \$1,650,601 (net of accumulated depreciation/amortization). The District's investment in capital assets includes easements, sewer mains and equipment. The analysis of changes in capital assets is as follows:

	Balance at December 31, 2015	Changes	Balance at December 31, 2016
Projects in progress	\$ 33,263	\$ 19,801	\$ 53,064
Easements	3,273	-	3,273
Sewer mains and equipment	3,710,066	191,988	3,902,054
Total assets	3,746,602	211,789	3,958,391
Accumulated depreciation	(2,246,350)	(61,440)	(2,307,790)
Total capital assets, net	<u>\$ 1,500,252</u>	<u>\$ 150,349</u>	<u>\$ 1,650,601</u>

	Balance at December 31, 2014	Changes	Balance at December 31, 2015
Projects in progress	\$ 15,809	\$ 17,454	\$ 33,263
Easements	3,273	-	3,273
Sewer mains and equipment	3,746,835	(36,769)	3,710,066
Total assets	3,765,917	(19,315)	3,746,602
Accumulated depreciation	(2,224,821)	(21,529)	(2,246,350)
Total capital assets, net	<u>\$ 1,541,096</u>	<u>\$ (40,844)</u>	<u>\$ 1,500,252</u>

In 2016, two sewer main capital projects were completed, the cost for which totaled \$242,163. These costs were offset by writing off the value of the original sewer mains valued at \$50,175. This resulted in a net increase in the District's assets by \$191,988. Additional consulting costs of \$19,801 were incurred in 2016 for additional work on the District's Geographic Information System and 25 Year Capital Improvements and Financial Plan.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

FUTURE ECONOMIC FACTORS AND RATES

- Metro Wastewater's sewage treatment costs continue to fluctuate drastically, increasing by almost 220% from \$278,501 for 2016 to \$612,508 for 2017. This large increase has forced the District to limit its capital projects for 2017 to only a small percentage of the improvements needed in order to avoid significantly increasing the District's sewer rates.
- The District's 2017 sewer rates for its single family customers will increase by 2.8% to \$296. The portion of the rate that will be needed to cover Metro Wastewater's sewage treatment pass-thru fees will increase from \$97 charged in 2016 to \$208 for 2017. Of the remaining \$88 charged to the District's single family customers, only \$9 will be allocated to the District's capital reserves and the remaining \$79 will be used to cover the District's operating costs.
- The multi-family sewer rate for 2017 is decreasing slightly from \$218 to \$213, of which \$150 will cover Metro's pass-thru sewage treatment fee. The remaining \$63 charged to the District's multi-family customers includes only \$7 for capital reserves and \$56 to cover operating costs. The multi-family rate is decreasing slightly because the multifamily sewer flows accounted for a smaller percentage of the District's overall flows.
- For commercial customers, their 2017 fee will, again, consist of four components. The fee component charged to cover the District's operating costs will be increasing from \$1.43 to \$1.83 per 1,000 gallons of average annual water usage (AAWU). The fee component charged to cover Metro's pass-thru sewage treatment flow fees will be increasing from \$1.01 to \$1.10 per 1,000 gallons AAWU. The fee charged to cover Metro's pass-thru loading fees will continue to vary based on a customer's business type but overall, the 2017 commercial loading fees will increase significantly by 305% from the loading fees charged in 2016. The District's commercial customers saw a 50% decrease in their loading fees last year which unfortunately will not offset the large increase for 2017. However, the District's commercial capital reserve fee component for 2017 is decreasing by almost 93% from \$3.01 to only \$.22 per 1,000 gallons of AAWU. Overall, the District's 2017 commercial fees will increase by almost 33% from the total commercial fees charged in 2016. This is mainly due to the large increase in Metro Wastewater's sewage treatment costs related to commercial sewer loadings.
- The District's capital projects planned for 2017 include minor updates to complete the District's 25 year Capital Improvements and Financial Plan and completion of the final phase of the District's Geographical Information System. The District will also undertake a very small cured in place pipe lining project for approximately 1,000 lineal feet of sewer mains.
- The District also plans to focus on contacting the District's few remaining customers in 2017 that have not had sump pump inspections or who have sump pumps that are incorrectly discharging into the District's sanitary sewer system. The District's annual sump pump surcharge fee will be increasing to \$200 in 2017. The District may also implement fines to those customers with sump pumps discharging to the District's system or may implement monthly surcharges to customers who are not in compliance.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Southwest Suburban Denver Water and Sanitation District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Manager, Judy Simonson of Simonson & Associates, Inc., 2922 Evergreen Parkway, Suite 320, Evergreen, CO 80439.

BASIC FINANCIAL STATEMENTS

SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,436,058	\$ 419,243
Investments	1,374,389	2,297,056
Accounts receivable	3,561	2,719
Accrued interest receivable	4,859	1,984
Prepaid expenses	238	8,882
Total current assets	2,819,105	2,729,884
CAPITAL ASSETS		
Projects in progress	53,064	33,263
Easements	3,273	3,273
Sewer mains and equipment	3,902,054	3,710,066
	3,958,391	3,746,602
Less accumulated depreciation	(2,307,790)	(2,246,350)
Total capital assets, net	1,650,601	1,500,252
TOTAL ASSETS	\$ 4,469,706	\$ 4,230,136
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 13,384	\$ 20,904
Prepaid customer accounts	2,990	3,271
Total current liabilities	16,374	24,175
NET POSITION		
Net investment in capital assets	1,650,601	1,500,252
Unrestricted	2,802,731	2,705,709
Total net position	4,453,332	4,205,961
TOTAL LIABILITIES AND NET POSITION	\$ 4,469,706	\$ 4,230,136

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

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

	2016	2015
OPERATING REVENUE		
Service fees	\$ 820,615	\$ 784,538
Delinquent fees	17,105	13,585
Grease trap inspection fees	6,344	2,650
Other income	11,642	14,141
Total operating revenue	855,706	814,914
OPERATING EXPENSES		
Depreciation	93,893	92,363
Sewer treatment charges	278,501	466,628
Engineering	13,973	14,916
Repairs and maintenance	46,656	46,267
Other	53,258	65,828
Total operating expenses	486,281	686,002
Gain from operations	369,425	128,912
GENERAL AND ADMINISTRATIVE EXPENSES		
Audit	5,100	5,100
Insurance	6,722	5,207
Election	837	30
Legal	2,022	658
Management fees	68,253	66,807
Directors' fees	3,552	3,445
Office and administration	21,095	25,886
Total general and administrative expenses	107,581	107,133
Net gain	261,844	21,779
NONOPERATING REVENUE (EXPENSES)		
Net investment income:		
Interest	29,090	27,291
Net increase (decrease) in fair value of investments	(25,841)	1,097
Loss on disposition of assets	(17,722)	(49,787)
Total nonoperating revenue (expenses)	(14,473)	(21,399)
CHANGE IN NET POSITION	247,371	380
NET POSITION - BEGINNING OF YEAR	4,205,961	4,205,581
NET POSITION - END OF YEAR	\$ 4,453,332	\$ 4,205,961

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

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 854,583	\$ 816,278
Cash paid to vendors	(498,847)	(692,876)
Net cash provided by operating activities	355,736	123,402
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets	(261,964)	(101,306)
Net cash required by capital financing activities	(261,964)	(101,306)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,280,000)	(1,485,000)
Maturity of investments	3,182,691	1,495,000
Interest received	20,352	22,975
Net cash provided by investing activities	923,043	32,975
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,016,815	55,071
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	419,243	364,172
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,436,058	\$ 419,243
RECONCILIATION OF OPERATING GAIN TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net gain	\$ 261,844	\$ 21,779
Adjustments to reconcile gain to net cash provided by operating activities:		
Depreciation and amortization	93,893	92,363
Effects of changes in operating assets and liabilities:		
Account receivable	(842)	309
Prepaid expenses	8,644	(3,675)
Payables and prepaid customer accounts	(7,801)	12,626
Net cash provided by operating activities	\$ 355,738	\$ 123,402

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

NOTE 1 – DEFINITION OF REPORTING ENTITY

Southwest Suburban Denver Water and Sanitation District (District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado. The District was established to provide water and sewer service to property within its service area primarily through intergovernmental agreements.

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

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

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

The District has no authorized but unissued debt at December 31, 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

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 redemptions of bonds and loans are recorded as reductions in liabilities. System development fees and contributed assets from developers are recorded as capital contributions when received.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Restricted resources

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

Budgets

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

Cash Equivalents

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

Capital Assets

Capital assets are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. 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.

System Development Fees and Contributed Lines

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

Reclassifications

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

NOTE 3 - CASH AND INVESTMENTS

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state 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 equal to 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, the District's cash deposits had a bank balance of \$613,690 and a carrying balance of \$604,084. At December 31, 2015, the District's cash deposits had a bank balance of \$591,932 and a carrying balance of \$575,104, of which \$386,826 was invested in certificates of deposit.

<u>Investment Type</u>	<u>2016 Carrying Value</u>	<u>2015 Carrying Value</u>
Deposits with financial institutions	\$ 604,084	\$ 188,278
Certificates of deposit	-	386,826
Total cash deposits	<u>\$ 604,084</u>	<u>\$ 575,104</u>

Investments

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

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

- . Obligations of the United States and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

The District held the following investments as of December 31, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Colorado Statewide Investment Program	\$ 231,928	Weighted avg. less than 18 days
COLOTRUST	600,046	Weighted avg. less than 60 days
U.S. Agency Obligations	1,374,389	1 - 5 years
Total investments	<u>\$ 2,206,363</u>	

The District held the following investments as of December 31, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Colorado Statewide Investment Program	\$ 230,965	Weighted avg. less than 18 days
U.S. Agency Obligations	1,910,230	1 - 5 years
Total investments	<u>\$ 2,141,195</u>	

Valuation

The District has certain investments which are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The fair value measurements of the District's investments are as follows at December 31, 2016:

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<u>Investments</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Colorado Statewide Investment Program	\$ 231,928	\$ -	\$ 231,928	\$ -
COLOTRUST	600,046	-	600,046	-
U.S. Agency Obligations	1,374,389	1,374,389	-	-
	<u>\$ 2,206,363</u>	<u>\$ 1,374,389</u>	<u>\$ 831,974</u>	<u>\$ -</u>

The fair value measurements of the District's investments are as follows at December 31, 2015:

<u>Investments</u>	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Colorado Statewide Investment Program	\$ 230,965	\$ -	\$ 230,965	\$ -
U.S. Agency Obligations	1,910,230	1,910,230	-	-
	<u>\$ 2,141,195</u>	<u>\$ 1,910,230</u>	<u>\$ 230,965</u>	<u>\$ -</u>

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At December 31, 2015, the District's negotiable certificates of deposit are insured by FDIC. At December 31, 2016 and 2015 the District's holdings of U.S. Government agency securities were rated AA+ by Standard and Poor's and AAA by Moody's.

As of December 31, 2016 and 2015, the District had invested \$231,928 and \$230,965, respectively, through the Colorado Statewide Investment Program (CSIP). CSIP invests in the Colorado Investors Class of the PFM Funds Government Select Series (the Fund), a money market mutual fund. The Fund invests in obligations of the United States government and its agencies, high quality fixed income securities of U.S. companies and obligations of financial institutions. The Fund is managed to maintain a dollar-weighted average portfolio of 18 days or less and to maintain a constant net asset value per share of \$1.00. The Fund is rated AAAM by Standard and Poor's.

The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST

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PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreement collateralized by certain obligations of the U.S. government agencies. COLOTRUST is rated AAAM by Standard and Poor's.

Concentration of Credit Risk

The District does not have a policy that addresses limitations on the amount that can be invested in any one issuer. Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosures* require the District to disclose investments in single issuers that exceed five percent (5%) of the District's entire investment portfolio.

At December 31, 2016, the District had the following investments that are required to be disclosed:

<u>Investment Type</u>	<u>2016 Fair Value</u>	<u>Percent of Total Portfolio</u>
Colorado Statewide Investment Program	\$ 231,928	Not subject to disclosure
COLOTRUST	600,046	Not subject to disclosure
Fannie Mae Notes	294,509	13.35%
Freddie Mac Note	290,027	13.15%
Federal Farm Credit Bank	263,224	11.93%
Federal National Mortgage Association	227,354	10.30%
Federal Home Loan Bank	299,275	13.56%
	<u>\$ 2,206,363</u>	

At December 31, 2015, the District had the following investments that are required to be disclosed:

<u>Investment Type</u>	<u>2015 Fair Value</u>	<u>Percent of Total Portfolio</u>
Colorado Statewide Investment Program	\$ 230,965	Not subject to disclosure
Fannie Mae Notes	825,664	38.56%
Freddie Mac Note	576,233	26.91%
Federal Farm Credit Bank	298,515	13.94%
Federal Home Loan Bank	209,818	9.80%
	<u>\$ 2,141,195</u>	

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

	<u>2016</u>	<u>2015</u>
Deposits with financial institutions	\$ 604,084	\$ 575,104
Investments	<u>2,206,363</u>	<u>2,141,195</u>
Total cash deposits and investments	<u><u>\$ 2,810,447</u></u>	<u><u>\$ 2,716,299</u></u>

Cash Equivalents and Investments

Cash equivalents and investments are reflected for the December 31, 2016 and 2015 statements of net position and statements of cash flows as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Deposits with financial institutions	\$ 604,084	\$ 188,278
Colorado Statewide Investment Program	231,928	230,965
COLOTRUST	<u>600,046</u>	<u>-</u>
Total cash and cash equivalents	<u><u>1,436,058</u></u>	<u><u>419,243</u></u>
Investments:		
Certificates of deposit	-	386,826
U.S. Agency Obligations	<u>1,374,389</u>	<u>1,910,230</u>
Total investments	<u><u>1,374,389</u></u>	<u><u>2,297,056</u></u>
Total cash equivalents and investments	<u><u>\$ 2,810,447</u></u>	<u><u>\$ 2,716,299</u></u>

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at January 1, 2016</u>	<u>Increases/ Reclasses</u>	<u>Decreases/ Reclasses</u>	<u>Balance at December 31, 2016</u>
Capital assets not being depreciated:				
Projects in progress	\$ 33,263	\$ 23,561	\$ 3,760	\$ 53,064
Easements	3,273	-	-	3,273
Capital assets, being depreciated:				
Sewer mains and equipment	<u>3,710,066</u>	<u>242,163</u>	<u>50,175</u>	<u>3,902,054</u>
Total capital assets being depreciated	<u>3,746,602</u>	<u>265,724</u>	<u>53,935</u>	<u>3,958,391</u>
Less accumulated depreciation:				
Equipment	5,955	-	-	5,955
Sewer mains	<u>2,240,395</u>	<u>93,893</u>	<u>32,453</u>	<u>2,301,835</u>
Total accumulated depreciation	<u>2,246,350</u>	<u>93,893</u>	<u>32,453</u>	<u>2,307,790</u>
Total capital assets, net	<u><u>\$ 1,500,252</u></u>	<u><u>\$ 171,831</u></u>	<u><u>\$ 21,482</u></u>	<u><u>\$ 1,650,601</u></u>

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

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

	<u>Balance at January 1, 2015</u>	<u>Increases/ Reclasses</u>	<u>Decreases/ Reclasses</u>	<u>Balance at December 31, 2015</u>
Capital assets not being depreciated:				
Projects in progress	\$ 15,809	\$ 22,907	\$ 5,453	\$ 33,263
Easements	3,273	-	-	3,273
Capital assets, being depreciated:				
Sewer mains and equipment	<u>3,746,835</u>	<u>79,576</u>	<u>116,345</u>	<u>3,710,066</u>
Total capital assets being depreciated	<u>3,765,917</u>	<u>102,483</u>	<u>121,798</u>	<u>3,746,602</u>
Less accumulated depreciation:				
Equipment	5,951	4	-	5,955
Sewer mains	<u>2,218,870</u>	<u>92,359</u>	<u>70,834</u>	<u>2,240,395</u>
Total accumulated depreciation	<u>2,224,821</u>	<u>92,363</u>	<u>70,834</u>	<u>2,246,350</u>
Total capital assets, net	<u>\$ 1,541,096</u>	<u>\$ 10,120</u>	<u>\$ 50,964</u>	<u>\$ 1,500,252</u>

NOTE 5 - NET POSITION

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

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, the District had invested in capital assets of \$1,650,601 and \$1,500,252, respectively equal to its net capital assets as the District has no outstanding debt.

NOTE 6 – INTERGOVERNMENTAL AGREEMENTS

WATER SERVICE AGREEMENT

Denver Water Board

The District has a total service contract with the Board of Water Commissioners of the City and County of Denver (Denver Water Board) whereby the Denver Water Department provides water in the District's service area and charges the users directly. The Denver Water Board has provided for service to future users within the District. All water lines in the District have been conveyed to the Denver Water Board which is responsible for maintenance and repair of those lines.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

SEWER SERVICE AGREEMENT

Metropolitan Wastewater Reclamation District

The District has an agreement with Metropolitan Wastewater Reclamation District (Metro) for sewage treatment and disposal. The District pays Metro for sewage treatment fees and the District bills the users for sewer service. The District is responsible for the maintenance and future construction costs of all sewer lines and retains title to all sewer lines within the District. The standard service agreement with Metro provides for annual charges to be assessed by formula against the District on an estimated basis. Adjustments to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years. Metro assesses tap fees against the District for connections to the system.

The composition of the charges for 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Estimate for current year	\$ 433,738	\$ 452,795
Adjustment of second preceding year estimate to actual	(62,355)	13,476
Preliminary adjustment of preceding year estimate	<u>(92,882)</u>	<u>357</u>
Total annual charges	<u>\$ 278,501</u>	<u>\$ 466,628</u>

The 2017 sewer treatment estimate is \$612,508. The total annual charge is \$481,675 which includes an unfavorable 2015 final adjustment of \$92,245 and an unfavorable 2016 preliminary adjustment of \$38,588.

NOTE 7 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, (as amended from time to time), 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) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

NOTE 8 - 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 that apply to the State of Colorado and all local governments.

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

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. Some of the provisions of TABOR, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise may require judicial interpretation.

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

SUPPLEMENTAL INFORMATION

SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2016

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUE			
Service fees	\$ 850,300	\$ 820,615	\$ (29,685)
Delinquent fees	10,000	17,105	7,105
Grease trap inspections	8,400	6,344	(2,056)
Interest income	28,500	29,090	590
Increase in fair value of investments	-	(25,841)	(25,841)
Miscellaneous	10,800	11,642	842
Total revenues	<u>908,000</u>	<u>858,955</u>	<u>(49,045)</u>
EXPENDITURES			
Sewer treatment and operations:			
Sewer treatment charges	279,000	278,501	499
Engineering maintenance	8,100	7,251	849
Repairs and maintenance	32,500	46,656	(14,156)
Utility locates and tap inspections	7,600	6,446	1,154
Grease trap inspection expense	1,800	4,479	(2,679)
Sump pump inspections	27,000	42,187	(15,187)
General operations:			
Audit	5,100	5,100	-
General engineering	17,800	6,721	11,079
Insurance	6,000	6,722	(722)
Election costs	2,000	837	1,163
Legal	1,000	2,022	(1,022)
Management and accounting fees	87,000	68,253	18,747
Directors' fees	4,000	3,552	448
Office and administrative	26,100	21,242	4,858
Capital outlay and reserve	353,000	261,964	91,036
Contingency	100,000	-	100,000
Total expenditures	<u>958,000</u>	<u>761,933</u>	<u>196,067</u>
REVENUES OVER (UNDER) EXPENDITURES	(50,000)	97,022	147,022
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>2,696,950</u>	<u>2,705,709</u>	<u>8,759</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 2,646,950</u>	<u>\$ 2,802,731</u>	<u>\$ 155,781</u>

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

Current assets	\$ 2,819,105
Current liabilities	(16,374)
	<u>\$ 2,802,731</u>

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2016**

Revenue (budgetary basis)	<u>\$</u>	<u>858,955</u>
Revenues per Statements of Revenues, Expenses and Changes in Net Position		<u>858,955</u>
Expenditures (budgetary basis)		761,933
Depreciation		93,893
Capital outlay		(261,964)
Loss on disposition of assets		<u>17,722</u>
Expenses per Statements of Revenues, Expenses and Changes in Net Position		<u>611,584</u>
Change in net position per Statements of Revenues, Expenses and Changes in Net Position	<u>\$</u>	<u><u>247,371</u></u>