

**CITY OF CHERRY HILLS VILLAGE  
SANITATION DISTRICT  
Arapahoe County, Colorado**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**E**

**RECEIVED**

Office of the State Auditor

May 17, 2018

## Table of Contents

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	I
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	III
<b>BASIC FINANCIAL STATEMENTS</b>	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Fund Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	4
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Revenues, Expenditures and Changes in Funds Available – Budget and Actual (Budgetary Basis)	15
Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes in Fund Net Position	16



## SCHILLING & COMPANY, INC.

*Certified Public Accountants*

P.O. Box 631579  
HIGHLANDS RANCH, CO 80163

PHONE: 720.348.1086  
FAX: 720.348.2920

### **Independent Auditor's Report**

Board of Directors  
City of Cherry Hills Village  
Sanitation District  
Arapahoe County, Colorado

We have audited the accompanying financial statements of the City of Cherry Hills Village Sanitation District (District) as of and for the years ended December 31, 2017 and 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 audit. We conducted our audit 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 the City of Cherry Hills Village Sanitation District (District), as of December 31, 2017 and 2016, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other-Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III through VI 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 that collectively comprise the District's financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental information is the responsibility of management and was derived from and relate 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, Colorado  
April 26, 2018

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2017 and 2016**

Our discussion and analysis of the City of Cherry Hills Village Sanitation District's financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2017 and 2016. Please read it in conjunction with the District's financial statements, which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- Transmission Fees collected in 2017 were \$473,876. Sewer Treatment Fees collected in 2017 were \$346,777.
- During 2017, fifteen additional taps were sold resulting in \$196,956 in tap fees.
- Income earned on investments was \$51,352 which was an average rate of 1.56%.
- Excluding sewer treatment fees to Englewood and depreciation expense, the District ended 2017 with operating expenses of \$361,844.

**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 Fund Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

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. 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. Non-financial factors should also be considered to assess the overall position of the District.

The Statement of Revenues, Expenses and Changes in Fund 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 of the change occurs, regardless of the timing of 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 potential 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.

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2017 and 2016**

**FINANCIAL SUMMARY AND ANALYSIS**

As noted earlier, net position may serve as a useful indicator of the District's financial position. In the District's case, net position as of December 31, 2017 and 2016 was \$9,610,983 and \$9,289,399, respectively. The District's current assets increased from 2016 to 2017 by \$351,002 due to the District's revenue and capital contributions being in excess of expenditures, when excluding depreciation which is a non-cash item. The change in capital assets is due depreciation of \$88,333 taken in 2017 and additions of \$101,831. There were no significant changes in the District's assets from 2015 to 2016 with the exception of depreciation of capital assets and capital asset additions.

The increase in currently liabilities is a result of the timing of payments to vendors. The District had three outstanding vendor invoices as of December 31, 2017 for a total of \$55,713. The District had one outstanding vendor invoice as of December 31, 2016 for a total of \$12,797. Approximately 73% and 72%, respectively of the District's assets as of December 31, 2017 and 2016 consist of cash and investments and current receivables. The remaining assets represent the historical cost of the sewer system net of accumulated depreciation.

**NET POSITION**

	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>			
Current assets	\$7,016,218	\$6,665,216	\$6,804,551
Capital assets	2,650,478	2,636,980	2,465,445
Total assets	<u>9,666,696</u>	<u>9,302,196</u>	<u>9,269,996</u>
<b>LIABILITIES</b>			
Current liabilities	55,713	12,797	25,452
Total liabilities	<u>55,713</u>	<u>12,797</u>	<u>25,452</u>
<b>NET POSITION</b>			
Net invested in capital assets	2,650,478	2,636,980	2,465,445
Unrestricted	6,960,505	6,652,419	6,779,099
Total net position	<u>\$9,610,983</u>	<u>\$9,289,399</u>	<u>\$9,244,544</u>

Sewer service fees have fluctuated over the past three years due to changes in rates and changes in usage.

Fluctuations in net investment income are primarily due to market fluctuations affecting interest rates and fair values of investments.

From 2016 to 2017, District operating expenses, excluding wastewater treatment expenses retained by the City of Englewood and depreciation expense, decreased by \$53,917 as a result of an overall decrease in repair and maintenance and engineering and surveying – easements

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2017 and 2016**

and extensions expenses. There was an increase of \$5,095 in the District's depreciation expense from 2016 to 2017.

From 2015 to 2016, District operating expenses, excluding wastewater treatment expenses retained by the City of Englewood and depreciation expense, increased by \$50,219 as a result of an overall increase in repair and maintenance and engineering and surveying – easements and extensions expenses. There was no change in the District's depreciation expense from 2015 to 2016.

**CHANGES IN NET POSITION**

	<u>Years Ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>			
<b>OPERATING REVENUE</b>			
Sewer service fees	\$ 823,668	\$ 756,086	\$ 641,501
<b>NONOPERATING REVENUE</b>			
Net investment income	51,352	31,994	42,191
Sewer line extension reimbursements	43,581	-	-
Miscellaneous	-	875	2,556
Total nonoperating revenue	<u>94,933</u>	<u>32,869</u>	<u>44,747</u>
<b>CAPITAL CONTRIBUTIONS</b>	<u>217,404</u>	<u>73,580</u>	<u>172,080</u>
Total revenues	<u>1,136,005</u>	<u>862,535</u>	<u>858,328</u>
<b>EXPENSES</b>			
Operating expenses	770,783	817,680	788,582
Nonoperating expenses	43,638	-	1,662
Total expenses	<u>814,421</u>	<u>817,680</u>	<u>790,244</u>
<b>CHANGE IN NET POSITION</b>	321,584	44,855	68,084
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>9,289,399</u>	<u>9,244,544</u>	<u>9,176,460</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$9,610,983</u>	<u>\$9,289,399</u>	<u>\$9,244,544</u>

**CAPITAL ASSETS**

The District's investment in capital assets at December 31, 2017 amounts to \$2,650,478 (net of accumulated depreciation). The District's capital assets at December 31, 2016 were \$2,636,980 (net of accumulated depreciation). This investment in capital assets includes the value of the existing sewer system.

In 2017, there was a \$101,831 increase in the District's capital assets. The District replaced certain manhole chimneys at a cost of \$81,383. In addition, the District received contributed capital assets of \$20,448. In 2016, there was a \$254,773 in the District's capital assets

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended December 31, 2017 and 2016**

resulting from rehabilitating a section of the District's sewer system with cured in place pipe. Additional information on the District's capital assets can be found in the notes to financial statements.

**ECONOMIC FACTORS AND RATES**

The District acknowledges the risks to its operations occasioned by reducing revenues and increasing operating costs and that, if appropriate action is not taken and economic conditions continue, the District's reserves for capital will likely be insufficient to defray long term capital, operation and maintenance requirements.

**REQUESTS FOR INFORMATION**

The financial report is designed to provide a general overview of the City of Cherry Hills Village 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 Administrator at 3333 S. Bannock Street, Suite 250, Englewood, Colorado 80110.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT**  
**STATEMENTS OF NET POSITION**  
December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 469,930	\$ 3,650,718
Investments	6,533,612	3,003,626
Accounts receivable	10,000	5,105
Accrued interest receivable	2,676	5,767
Total current assets	7,016,218	6,665,216
<b>CAPITAL ASSETS</b>		
Easements	253,121	253,121
Sewer system	7,069,799	6,967,968
Geographic information system	94,303	94,303
Connecting sewer systems	140,347	140,347
	7,557,570	7,455,739
Less accumulated depreciation	(4,907,092)	(4,818,759)
Total capital assets, net	2,650,478	2,636,980
<b>TOTAL ASSETS</b>	<b>\$ 9,666,696</b>	<b>\$ 9,302,196</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 55,713	\$ 12,797
Total current liabilities	55,713	12,797
<b>NET POSITION</b>		
Net investment in capital assets	2,650,478	2,636,980
Unrestricted	6,960,505	6,652,419
Total net position	9,610,983	9,289,399
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 9,666,696</b>	<b>\$ 9,302,196</b>

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

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>OPERATING REVENUE</b>		
Wastewater transmission fees	\$ 434,549	\$ 378,084
Wastewater treatment fees - Englewood	320,606	318,681
Hillcrest treatment and transmission	65,498	42,583
Miscellaneous revenue	3,015	16,738
Total operating revenue	823,668	756,086
<b>OPERATING EXPENSES</b>		
Accounting and audit	5,970	6,250
Administrative fees	132,440	138,240
Vehicle allowance	4,800	4,800
Directors' fees	4,500	10,466
Certified operator	2,400	1,800
Insurance	4,141	3,644
Legal	35,923	21,121
Election	-	107
Consultant	3,250	2,000
Training	1,005	1,865
Miscellaneous	4,040	5,597
Office	17,353	15,245
Service agreement fees	28,061	9,700
Engineering and inspection	932	1,922
GIS system maintenance	6,705	2,565
Engineering and surveying - easements and extensions	37,599	101,675
Maintenance and repairs	72,725	88,764
Sewer treatment fees - Englewood	320,606	318,681
Depreciation	88,333	83,238
Total operating expenses	770,783	817,680
Gain/(Loss) from operations	52,885	(61,594)
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Net investment income	51,352	31,994
Sewer line projects reimbursement - Harrison Oaks/Kent-Denver	43,581	875
Sewer line projects expense - Harrison Oaks/Kent-Denver	(43,638)	-
Total nonoperating revenue (expenses)	51,295	32,869
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	104,180	(28,725)
<b>CAPITAL CONTRIBUTIONS</b>		
Tap fees	196,956	73,580
Capital assets contributed	20,448	-
Total capital contributions	217,404	73,580
<b>CHANGE IN NET POSITION</b>	321,584	44,855
<b>NET POSITION - BEGINNING OF YEAR</b>	9,289,399	9,244,544
<b>NET POSITION - END OF YEAR</b>	<b>\$ 9,610,983</b>	<b>\$ 9,289,399</b>

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

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 498,167	\$ 435,462
Cash paid to vendors	(318,928)	(428,416)
Net cash provided by operating activities	179,239	7,046
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital contributions - tap fees received	196,956	73,580
Capital asset additions	(81,383)	(254,773)
Net cash provided (required) by capital financing activities	115,573	(181,193)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Sewer line projects reimbursement - Harrison Oaks/Kent-Denver	43,581	875
Sewer line projects expense - Harrison Oaks/Kent-Denver	(43,638)	-
Net cash provided (required) by noncapital financing activities	(57)	875
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturity of investments	4,600,000	980,000
Purchases of investments	(8,124,214)	(979,947)
Interest received	48,671	43,049
Net cash provided (required) by investing activities	(3,475,543)	43,102
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(3,180,788)	(130,170)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	3,650,718	3,780,888
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 469,930	\$ 3,650,718
<b>RECONCILIATION OF OPERATING LOSS TO CASH FLOWS REQUIRED BY OPERATING ACTIVITIES</b>		
Net operating loss	\$ 52,885	\$ (61,594)
Adjustments to reconcile loss from operations to net cash required by operating activities:		
Depreciation	88,333	83,238
Effects of changes in operating assets and liabilities:		
Accounts receivable	(4,895)	(1,943)
Accounts payable	42,916	(12,655)
Net cash required by operating activities	\$ 179,239	\$ 7,046

Cash flows from operating activities do not include \$320,606 for 2017 and \$318,681 for 2016 in service fee revenue and sewage treatment expense which are collected and retained by the City of Englewood.

Cash flows from capital financing activities do not include \$20,448 of sewer lines contributed in 2017.

Cash flows from investing activities do not include \$12,090 for 2017 and \$14,813 for 2016 of fair value adjustments to investments.

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

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 1 – DEFINITION OF REPORTING ENTITY**

City of Cherry Hills Village 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 Arapahoe County, Colorado. The District was established to provide sanitation services to property within its service area, which is primarily within the City of Cherry Hills Village (City). The City has no oversight responsibilities over the District (see Note 6).

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.

**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. Expenses for capital improvements are shown as increases in assets. Tap fees are recorded as capital contributions when received.

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

**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 include the cost of 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 resolution 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 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.

Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of the assets:

Sewer system (see Note 4)	50 years
Geographic Information system	7 years
Connecting sewer systems (see Note 6)	20 years

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

**Capital Contributions**

Tap fees, net of the fees payable to connector districts (Note 6), are recorded as capital contributions when received.

Grants or contracts received from other governments for capital outlay are recognized as capital contributions as the expenditures are incurred.

**Reclassifications**

For comparability, certain 2016 amounts have been reclassified where appropriate to conform with the 2017 financial statement presentation.

**Designated Net Position**

In furtherance of the purposes of depreciation and reserves for replacement to pay for the deterioration of facilities over time, the District has set aside some of its net position to ensure that adequate funds are available to replace existing facilities as they fail. Based upon an analysis of the District's replacement needs for the system completed by the District's engineer in 2014, the District's entire unrestricted net position balance of \$6,960,505 as of December 31, 2017 and \$6,652,419 as of December 31, 2016 has been designated to be used for such future facility replacement.

**NOTE 3 – CASH AND INVESTMENTS**

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, 2017, the District's cash deposits had a bank balance of \$374,508 and carrying balance of \$333,307. At December 31, 2016, the District's cash deposits had a bank balance of \$118,371 and carrying balance of \$115,269. Details of the District's carrying balance of cash deposits are as follows:

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

	<u>2017</u>	<u>2016</u>
Demand accounts	\$ 333,307	\$ 115,269
Total cash deposits	<u>\$ 333,307</u>	<u>\$ 115,269</u>

**Investments**

On January 9, 2012, the District adopted a formal investment policy, specifying the principal investment objectives of the District and standards of prudence to be used for managing the District's assets. The policy stipulates that all investments shall conform to State law.

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
- . 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

Investments as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Money Market Mutual Fund	\$ 136,623	\$ 1,541,769
Treasury bills	5,844,884	1,993,680
Negotiable certificates of deposit	688,728	3,003,626
Total investments	<u>\$ 6,670,235</u>	<u>\$ 6,539,075</u>

As of December 31, 2017 and 2016, the District was invested in the Schwab Government Money Fund which is a money market mutual fund that invests primarily in U.S. government Securities and other obligations issued by the U.S government, its agencies or instrumentalities.

Cash and cash equivalents are reflected for the December 31, 2017 and 2016 are classified in the accompanying financial statements as follows:

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 469,930	\$ 3,650,718
Investments	6,533,612	3,003,626
Total cash and cash equivalents and investments	\$ 7,003,542	\$ 6,654,344

**Investment Valuation**

The District has certain investments which are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is 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 valuation of the District's investments are as follows at December 31, 2017:

	<b>Carrying Amount</b>	<b>Fair Value Level</b>		
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
<b>Investments measured at fair value</b>				
Money Market Mutual Fund	\$ 136,623	\$ 136,623	\$ -	\$ -
Treasury bills	5,844,884	5,844,884	-	-
Negotiable certificates of deposit	688,728	688,728	-	-
Total investments	\$ 6,670,235	\$ 6,670,235	\$ -	\$ -

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

	<b>Carrying Amount</b>	<b>Fair Value Level</b>		
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
<b>Investments measured at fair value</b>				
Money Market Mutual Fund	\$ 1,541,769	\$ 1,541,769	\$ -	\$ -
Treasury bills	1,993,680	1,993,680	-	-
Negotiable certificates of deposit	3,003,626	3,003,626	-	-
Total investments	\$ 6,539,075	\$ 6,539,075	\$ -	\$ -

**Interest Rate Risk**

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Revenue bonds of U.S. local governments, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

Interest rate risk is the risk that market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the District's investments by maturity.

The District held the following investments as of December 31, 2017:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>12 to 24 Months</u>	<u>25 to 60 Months</u>
Money Market Mutual Fund	\$ 136,623	\$ 136,623	\$ -	\$ -
Treasury bills	5,844,884	5,344,776	500,108	-
Negotiable certificates of deposit	688,728	-	-	688,728
Total investments	<u>\$ 6,670,235</u>	<u>\$ 5,481,399</u>	<u>\$ 500,108</u>	<u>\$ 688,728</u>

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

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months or Less</u>	<u>12 to 24 Months</u>	<u>25 to 60 Months</u>
Money Market Mutual Fund	\$ 1,541,769	\$ 1,541,769	\$ -	\$ -
Treasury bills	1,993,680	1,993,680	-	-
Negotiable certificates of deposit	3,003,626	3,003,626	-	-
Total investments	<u>\$ 6,539,075</u>	<u>\$ 6,539,075</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2017 and 2016, the District's negotiable certificates of deposit are insured by FDIC. As of December 31, 2017 and 2016, the Schwab Government Money Fund was not rated.

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

**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 (other than U.S. Government securities) that exceed five percent (5%) of the District's entire investment portfolio. At December 31, 2017 and 2016, the District had no investments exceeding the 5% limit.

**NOTE 4 - CAPITAL ASSETS**

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

	<b>Balance at January 1, 2017</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at December 31, 2017</b>
Capital assets not being depreciated				
Easements	\$ 253,121	\$ -	\$ -	\$ 253,121
Total capital assets, not being depreciated	<u>253,121</u>	<u>-</u>	<u>-</u>	<u>253,121</u>
Capital assets, being depreciated:				
Sewer system	6,967,968	101,831	-	7,069,799
Geographic information system	94,303	-	-	94,303
Connecting sewer systems	140,347	-	-	140,347
Total capital assets being depreciated	<u>7,202,618</u>	<u>101,831</u>	<u>-</u>	<u>7,304,449</u>
Less accumulated depreciation for:				
Sewer system	4,673,597	85,742	-	4,759,339
Geographic information system	94,303	-	-	94,303
Connecting sewer systems	50,859	2,591	-	53,450
Total accumulated depreciation	<u>4,818,759</u>	<u>88,333</u>	<u>-</u>	<u>4,907,092</u>
Net capital assets being depreciated	<u>2,383,859</u>	<u>13,498</u>	<u>-</u>	<u>2,397,357</u>
Total capital assets, net	<u><u>\$ 2,636,980</u></u>	<u><u>\$ 13,498</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,650,478</u></u>

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 4 - CAPITAL ASSETS (continued)**

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

	<b>Balance at January 1, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at December 31, 2016</b>
Capital assets not being depreciated				
Easements	\$ 253,121	\$ -	\$ -	\$ 253,121
Total capital assets, not being depreciated	<u>253,121</u>	<u>-</u>	<u>-</u>	<u>253,121</u>
Capital assets, being depreciated:				
Sewer system	6,713,195	254,773	-	6,967,968
Geographic information system	94,303	-	-	94,303
Connecting sewer systems	140,347	-	-	140,347
Total capital assets being depreciated	<u>6,947,845</u>	<u>254,773</u>	<u>-</u>	<u>7,202,618</u>
Less accumulated depreciation for:				
Sewer system	4,592,951	80,646	-	4,673,597
Geographic information system	94,303	-	-	94,303
Connecting sewer systems	48,267	2,592	-	50,859
Total accumulated depreciation	<u>4,735,521</u>	<u>83,238</u>	<u>-</u>	<u>4,818,759</u>
Net capital assets being depreciated	<u>2,212,324</u>	<u>171,535</u>	<u>-</u>	<u>2,383,859</u>
Total capital assets, net	<u><u>\$ 2,465,445</u></u>	<u><u>\$ 171,535</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,636,980</u></u>

**NOTE 5 - NET POSITION**

The District's net position consists of two components – net investment in capital assets and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation. As of December 31, 2017 and 2016, the District had investments in capital assets of \$2,650,478 and \$2,636,980, respectively.

Unrestricted net position consists of amounts that do not meet the definition of invested in capital assets or restricted. As of December 31, 2017 and 2016, the District had an unrestricted net position of \$6,960,505 and \$6,652,419, respectively.

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 6 – INTERGOVERNMENTAL SERVICE AGREEMENTS**

**Treatment and Transmission of Wastewater**

*City of Englewood*

The original service contract with the City of Englewood (Englewood) was dated June 2, 1975. A new contract was entered into on May 12, 1997. Under the terms of the contracts, Englewood treats all District wastewater (except that which is treated under the agreement with Hillcrest Water and Sanitation District), bills District residents for this service and retains all billing collections. This contract extends for a period of three years with six automatic three-year renewals, unless either party gives six months' notice. Total service fees billed were \$320,606 and \$318,681 for the years ended December 31, 2017 and 2016, respectively.

**Transmission of Wastewater – Connector Agreements**

*City of Cherry Hills Village*

An agreement dated April 15, 1977 originally with Cherryridge Water and Sanitation District (Cherryridge), provides for the connection and transmission of wastewater for approximately 140 taps through the lines of Cherryridge. Cherryridge was dissolved in 1995 with all rights and obligations under this contract being assigned to the City of Cherry Hills Village. This agreement extends for a period of twenty years, with five automatic ten-year renewal periods, unless notice of intent not to renew is given at least ninety days prior to the renewal period. No notice of intent has been received by the District.

*City of Cherry Hills Village*

An agreement dated October 10, 1977, originally with Cherrymoor South Water and Sanitation District (Cherrymoor), provides for the connection and transmission of wastewater for five single family taps through Cherrymoor's lines. Through October 9, 1997, Cherrymoor billed the District's customers directly for a maintenance and service charge. Effective February 1, 1998, the District is obligated to pay the greater of \$5.50 per month per tap or 150% of the current charge made to Cherrymoor users. In addition, the District is obligated to pay its prorated share of any major repair to or replacement of the connecting line. In 2001, Cherrymoor was dissolved with all rights and obligations under this contract being assigned to the City of Cherry Hills Village. The agreement expired on June 30, 2000 but has continued informally since that time.

*Country Homes Metropolitan District (Country Homes)*

The first agreement dated March 12, 1981 provides for the connection and transmission of wastewater for one District tap at Lot 4, Block B, Cherry Hills Park, through Country Homes' lines. The agreement provides for annual charges based upon the property tax levy of County Homes and the assessed valuation of the properties within the District. The agreement has no termination date but continues informally.

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 6 – INTERGOVERNMENTAL AGREEMENTS (continued)**

The second agreement dated December 26, 1989 (as amended June 18, 1991) provides for the connection and transmission of wastewater for one District tap at Lot 8, Block B, Cherry Hills Park, through Country Homes' lines. The agreement provides for annual charges based upon the property tax levy of County Homes and the assessed valuation of the properties within the District. The agreement extends for a period of twenty years from the date stated above, with five automatic ten-year renewal periods unless notice of intent not to renew is given at least ninety days prior to the expiration of the renewal period.

*South Englewood Sanitation District No. 1 (South Englewood)*

An agreement dated September 9, 1995 and amended September 9, 2000, September 9, 2005, and September 9, 2010, provides for the extension of the connection and transmission agreement of wastewater through the South Englewood lines. The District is required to pay to South Englewood an annual service charge each year for the maximum of 27 allowable taps to be connected to the line. The amount of the service charge is reviewed every five years for reasonableness. From January 1, 2010 through September 8, 2010, the annual fee was \$1,530. After that the fee increased to \$1,708. The agreement extends for a period of twenty years from the date stated above.

*Hillcrest Water and Sanitation District (Hillcrest)*

An agreement dated August 1, 1997 provides for the connection and transmission of sewage for 111 taps through the Hillcrest lines. The District paid Hillcrest \$111,000 in 1998 for the capacity of the 111 residential equivalent taps. Wastewater is transmitted through the Hillcrest lines to lines owned by Metropolitan Wastewater Reclamation District (Metro). The District pays Hillcrest for its equivalent share of treatment costs billed to Hillcrest by Metro. The District also pays for its equivalent share of repair and maintenance costs to the connecting lines of Hillcrest. The agreement continues for a period of thirty years, with five automatic ten-year renewal periods unless Hillcrest gives notice of intent not to renew at least ninety days prior to the expiration of any such period. During 1998, the District entered into a similar agreement with Hillcrest for up to nine additional residential equivalent taps. Payment of \$4,000 for such capacity was paid in 1999.

**NOTE 7 - 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 during the past three 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

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 7 - RISK MANAGEMENT (continued)**

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.

**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.

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

**SUPPLEMENTAL INFORMATION**

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
ENTERPRISE FUND  
Year Ended December 31, 2017**

	<b>Original and Final Budgeted Amounts</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>OPERATIONS</b>			
<b>REVENUES</b>			
Wastewater transmission fees - Englewood	\$ 434,000	\$ 434,549	\$ 549
Wastewater transmission fees - Hillcrest	39,222	39,327	105
Wastewater treatment fees - Englewood	350,000	320,606	(29,394)
Wastewater treatment fees - Hillcrest	26,171	26,171	-
Other	-	3,015	3,015
Total Operating Revenues	<u>849,393</u>	<u>823,668</u>	<u>(25,725)</u>
<b>EXPENDITURES</b>			
Accounting and audit	8,000	5,970	2,030
Administrative fees	150,744	132,440	18,304
Vehicle allowance	4,800	4,800	-
Directors' fees	11,200	4,500	6,700
Certified operator	2,400	2,400	-
Insurance	5,000	4,141	859
Legal	50,000	35,923	14,077
Election	-	-	-
Consultant	2,500	3,250	(750)
Training	15,000	1,005	13,995
Miscellaneous	6,000	4,040	1,960
Office rent	11,000	10,247	753
Office supplies	4,500	4,709	(209)
Telephone	2,000	1,747	253
Office equipment & software	4,000	650	3,350
Service agreement fees:			
Englewood transmission	1,890	1,890	-
Hillcrest wastewater treatment	26,171	26,171	-
Engineering and inspection	10,000	932	9,068
GIS system maintenance	8,000	6,705	1,295
Maintenance and repairs	150,000	72,725	77,275
Sewer treatment fees - Englewood	350,000	320,606	29,394
Contingency	25,000	-	25,000
Total Operating Expenditures	<u>848,205</u>	<u>644,851</u>	<u>203,354</u>
Gain from operations	<u>\$ 1,188</u>	<u>\$ 178,817</u>	<u>\$ 177,629</u>
<b>CAPITAL</b>			
<b>REVENUES</b>			
Tap fees	\$ 50,000	\$ 196,956	\$ 146,956
Capital assets	-	20,448	20,448
Interest	30,000	51,352	21,352
Sewer line projects reimbursement - Harrison			
Oaks/Kent-Denver	-	43,581	43,581
Total Capital Revenues	<u>80,000</u>	<u>312,337</u>	<u>232,337</u>
<b>EXPENDITURES</b>			
Capital outlay - capitalizable and non-capitalizable	330,000	139,430	190,570
Sewer line projects expense - Harrison Oaks/ Kent-Denver	-	43,638	(43,638)
Total Capital Expenditures	<u>330,000</u>	<u>183,068</u>	<u>146,932</u>
Gain (loss) from capital	<u>\$ (250,000)</u>	<u>\$ 129,269</u>	<u>\$ 379,269</u>
<b>TOTAL REVENUES</b>	<u>\$ 929,393</u>	<u>\$ 1,136,005</u>	<u>\$ 206,612</u>
<b>TOTAL EXPENDITURES</b>	<u>1,178,205</u>	<u>827,919</u>	<u>350,286</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(248,812)</u>	<u>308,086</u>	<u>556,898</u>
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	<u>6,517,278</u>	<u>6,652,419</u>	<u>135,141</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u>\$ 6,268,466</u>	<u>\$ 6,960,505</u>	<u>\$ 692,039</u>

Funds available at December 31, 2017 is computed as follows:

Current assets	\$ 7,016,218
Current liabilities	(55,713)
	<u>\$ 6,960,505</u>

**CITY OF CHERRY HILLS VILLAGE SANITATION DISTRICT  
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF  
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
Year Ended December 31, 2017**

Revenue (budgetary basis)	\$ 1,136,005
Revenues per Statements of Revenues, Expenses and Changes in Fund Net Position	1,136,005
Expenditures (budgetary basis)	827,919
Depreciation	88,333
Capital outlay	(101,831)
Expenses per Statements of Revenues, Expenses and Changes in Fund Net Position	814,421
Change in net position per Statements of Revenues, Expenses and Changes in Fund Net Position	\$ 321,584