

SOUTH ARAPAHOE SANITATION DISTRICT
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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April 10, 2018

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	I
MANAGEMENT'S DISCUSSION AND ANALYSIS	III
BASIC FINANCIAL STATEMENTS	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
SUPPLEMENTARY INFORMATION	16
Schedule of Revenues, Expenditures and Funds Available Budget and Actual (Budgetary Basis)	17
Reconciliation of Budgetary Basis (Actual) to Statement of Revenues, Expenses and Changes in Net Position	18

Independent Auditor's Report

Board of Directors
South Arapahoe Sanitation District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Arapahoe Sanitation District 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Arapahoe Sanitation District as of December 31, 2017 and 2016, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The management's discussion and analysis information on pages III through VIII is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



L. Paul Goedecke, P.C.
March 29, 2018

SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

The management of South Arapahoe Sanitation District (the District) offers the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2017.

Financial Highlights

- Net position increased \$341,244 during 2017.
- The District had \$4,240,892 of operating revenue for sewer services as compared to revenue of \$4,251,830 in 2016, and \$3,634,381 of operating expenses for sewer as compared to expenses of \$3,725,796 in 2016.
- Operating revenues, exclusive of service treatment fees, and operating expenses, exclusive of depreciation and sewage treatment expense (which is offset dollar for dollar by service treatment fees), decreased 0.27% and decreased 10.26% over 2016 revenues and expenses, respectively.
- No net sewer taps were issued in 2017, keeping the total number of Single Family Equivalents (SFE) in the District to 11,114.
- Funds available (current assets less current liabilities and deferred inflows of resources) increased \$296,191 from \$4,498,301 in 2016 to \$4,794,492 in 2017.
- The District constructed \$256,180 of capital improvements and accepted \$94,099 of capital contributions during 2017.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements are comprised of Financial Statements and Notes to Financial Statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The financial statements of the District are presented as a special purpose government engaged only in business type activities - providing sewer utility services.

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

The *statement of revenues, expenses and changes in net position* presents information that reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenue and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

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

The *notes to financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

The *supplemental information* contained in this report provides a schedule of budget and actual information and a reconciliation of budgetary basis to the statement of revenues, expenses and changes in net assets.

The statement of net position and reviews of revenue and expenses are condensed with comments and presented as follows:

Statement of Net Position

	December 31,		
	2017	2016	2015
Current assets	\$ 5,696,363	\$ 5,422,581	\$ 6,049,482
Capital assets	7,292,466	7,247,413	6,421,919
Total assets	12,988,829	12,669,994	12,471,401
Current liabilities	901,871	924,280	919,639
Total liabilities	901,871	924,280	919,639
Net assets invested in capital assets	7,292,466	7,247,413	6,421,919
Unrestricted net position	4,794,492	4,498,301	5,129,843
Total net position	\$ 12,086,958	\$ 11,745,714	\$ 11,551,762

The District increased its net position by \$341,244 during 2017 and \$193,952 during 2016. Current assets increased \$273,782 from 2016 primarily due to the increase in cash due to revenues exceeding expenses. The District's deferred transmission fee revenue was 44% of Englewood's service treatment fees. The "Funds Available" (current assets less current liabilities and deferred inflows of resources) calculates to \$4,794,492 for 2017 and \$4,498,301 for 2016, which is available primarily for future operations and capital projects.

SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

Review of Change in Net Position

	December 31,		
	2017	2016	2015
Operating revenue			
Sewer services	\$ 4,240,892	\$ 4,251,830	\$ 4,258,996
Total operating revenue	<u>4,240,892</u>	<u>4,251,830</u>	<u>4,258,996</u>
Nonoperating revenue (expenses)			
Investment income	42,800	26,356	34,948
Other income	17,119	39,757	8,851
Total nonoperating revenue	<u>59,919</u>	<u>66,113</u>	<u>43,799</u>
Capital contributions			
Tap fees	1,995	13,485	3,000
Capital contributions from third parties	94,099	-	-
Total nonoperating revenue	<u>96,094</u>	<u>13,485</u>	<u>3,000</u>
Total revenue	<u>4,396,905</u>	<u>4,331,428</u>	<u>4,305,795</u>
Operating expenses			
Sewer	3,634,381	3,725,796	3,660,908
Total operating expenses	<u>3,634,381</u>	<u>3,725,796</u>	<u>3,660,908</u>
General and administrative	116,054	125,231	111,709
Depreciation	305,226	286,449	271,047
Total expenses	<u>4,055,661</u>	<u>4,137,476</u>	<u>4,043,664</u>
Change in net position	341,244	193,952	262,131
Net position - Beginning	<u>11,745,714</u>	<u>11,551,762</u>	<u>11,289,631</u>
Net position - Ending	<u>\$ 12,086,958</u>	<u>\$ 11,745,714</u>	<u>\$ 11,551,762</u>

Total revenue increased \$65,477 in 2017. Sewer services decreased \$10,938 and non-operating revenue decreased \$6,194. In 2017, tap fees decreased by \$11,490. The increase in net investment income was due mostly to an increase in the market value and interest earnings on the District's governmental securities. The City bills annually in advance in June, September, and December. The 2017 billings were billed at the same rate as 2016. District transmission fees are a percentage of the City's service treatment fees, which were 44% in 2017, 2016, and 2015. Operating and general and administrative expenses decreased \$100,592 over 2016 expenses.

SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of debt issuance, sale of assets, and debt repayments, as well as capital outlay, in addition to operations and nonoperating revenue and contributions. Depreciation is not reflected on the budget since it does not affect "funds available." This budgetary accounting is required by State statutes.

Total revenue of the District was less than the budgeted revenue by \$17,245 due mainly to negative variances for service treatment fees, district transmission fees, and investment income, which were offset by Southgate J-Line reimbursement and Arapahoe County agreement fees.

Actual expenditures of the District were less than the budgeted appropriation by \$329,286, which included positive variances for repairs and maintenance, engineering management, and capital improvements. The positive variances were offset by negative variances for insurance and locates.

SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

Capital Assets Activity

The activity related to capital assets during 2017, 2016, and 2015 is as follows:

	<u>December 31, 2016</u>	<u>Net Changes</u>	<u>December 31, 2017</u>
Land and easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	343,026
Sewer system	<u>14,758,488</u>	<u>350,279</u>	<u>15,108,767</u>
Total capital assets	15,165,571	350,279	15,515,850
Accumulated depreciation	<u>(7,918,158)</u>	<u>(305,226)</u>	<u>(8,223,384)</u>
Net capital assets	<u>\$ 7,247,413</u>	<u>\$ 45,053</u>	<u>\$ 7,292,466</u>
	<u>December 31, 2015</u>	<u>Net Changes</u>	<u>December 31, 2016</u>
Land and easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	343,026
Sewer system	<u>13,646,545</u>	<u>1,111,943</u>	<u>14,758,488</u>
Total capital assets	14,053,628	1,111,943	15,165,571
Accumulated depreciation	<u>(7,631,709)</u>	<u>(286,449)</u>	<u>(7,918,158)</u>
Net capital assets	<u>\$ 6,421,919</u>	<u>\$ 825,494</u>	<u>\$ 7,247,413</u>
	<u>December 31, 2014</u>	<u>Net Changes</u>	<u>December 31, 2015</u>
Land and easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	343,026
Sewer system	<u>13,575,379</u>	<u>71,166</u>	<u>13,646,545</u>
Total capital assets	13,982,462	71,166	14,053,628
Accumulated depreciation	<u>(7,360,662)</u>	<u>(271,047)</u>	<u>(7,631,709)</u>
Net capital assets	<u>\$ 6,621,800</u>	<u>\$ (199,881)</u>	<u>\$ 6,421,919</u>

The 2017 capital asset activity of \$350,279 and the 2016 capital asset activity of \$1,111,943 were spent for engineering, design and construction of sewer pipe by cured-in-place rehabilitation, manhole rehabilitation, updated SCADA controls for the new lift station pumps, and acceptance of sewer lines from a homeowner.

Additional information on the District's capital assets can be found in Note 4 of this report.

SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2017

Economic and Other Factors

The District expects to maintain a customer base of approximately 11,000 Single Family Equivalents (SFE). The planned continuing maintenance schedule of the District will videotape all clay lines over a two-year period, all PVC lines over a four-year period, and all outfall lines over a four-year period. All line types will be jet cleaned at least every four years. The District is also developing a Geographic Information System (GIS) that will provide detailed information on the District's sewer assets.

The District intends to maintain its percentage for transmission fees at a rate that will generate revenues to produce a funds available balance that will be sufficient to provide a capital reserve for future replacement of the District's sewer system assets, as well as unforeseen contingencies. The District's targeted reserves for capital replacement at December 31, 2017, was \$3,012,472.

Request for Information

This report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Arapahoe Sanitation District
8390 E. Crescent Parkway, Suite 500
Greenwood Village, CO 80111

BASIC FINANCIAL STATEMENTS

SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 734,190	\$ 815,203
Investments	4,265,230	3,820,162
Accounts receivable	680,623	778,131
Accounts receivable - other	2,972	-
Interest receivable	7,229	8,842
Prepaid expenses	6,119	243
Total current assets	5,696,363	5,422,581
CAPITAL ASSETS, NET		
Capital assets not being depreciated	407,083	407,083
Capital assets, net of accumulated depreciation	6,885,383	6,840,330
Total capital assets, net	7,292,466	7,247,413
TOTAL ASSETS	\$ 12,988,829	\$ 12,669,994
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 100,387	\$ 132,227
Unearned revenue	801,484	792,053
Total current liabilities	901,871	924,280
NET POSITION		
Net investment in capital assets	7,292,466	7,247,413
Unrestricted	4,794,492	4,498,301
Total net position	12,086,958	11,745,714
TOTAL LIABILITIES AND NET POSITION	\$ 12,988,829	\$ 12,669,994

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

SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Service treatment fees	\$ 2,935,262	\$ 2,942,606
District transmission fees	1,289,505	1,293,474
Industrial pretreatment program	16,125	15,750
Total operating revenues	4,240,892	4,251,830
OPERATING EXPENSES		
Sewage treatment	2,935,262	2,942,606
Repairs and maintenance	469,878	515,303
Depreciation	305,226	286,449
Engineering management	194,497	208,572
Accounting	52,121	53,033
Audit	3,850	3,500
Conferences/seminars	669	765
Customer communications	4,299	387
Directors' fees	6,000	4,800
Dues/licenses	1,238	1,238
Insurance and fidelity bonds	8,645	5,351
Legal fees	37,153	54,093
Locates	18,960	33,304
Miscellaneous	518	474
Payroll taxes	459	367
Plan review/construction observation	15,784	25,644
Utilities	1,102	1,590
Total operating expenses	4,055,661	4,137,476
OPERATING INCOME	185,231	114,354
NONOPERATING REVENUES (EXPENSES)		
Investment income	42,800	26,356
Plan review/construction observation fees	2,000	2,682
Other income	15,119	37,075
Total nonoperating revenues	59,919	66,113
CAPITAL CONTRIBUTIONS		
Tap fees	1,995	13,485
Capital contributions from third parties	94,099	-
Total capital contributions	96,094	13,485
CHANGE IN NET POSITION	341,244	193,952
TOTAL NET POSITION - BEGINNING OF YEAR	11,745,714	11,551,762
TOTAL NET POSITION - END OF YEAR	\$ 12,086,958	\$ 11,745,714

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

SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,412,569	\$ 1,345,505
Payment for operating expenses	(852,889)	(898,402)
Net cash provided by operating activities	559,680	447,103
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tap fees	1,995	13,485
Other nonoperating revenue	14,147	43,576
Net cash provided by noncapital financing activities	16,142	57,061
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(256,180)	(1,111,943)
Net cash (required) by capital and related financing activities	(256,180)	(1,111,943)
CASH FLOWS FROM INVESTING ACTIVITIES		
Certificate of deposit maturity	495,000	490,000
Purchase of certificate of deposit	(495,000)	(495,000)
Increase in U.S Government investments	(112,993)	(14,441)
Interest received	44,413	22,345
Net cash provided (required) by investing activities	(68,580)	2,904
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	251,062	(604,875)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,632,531	2,237,406
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,883,593	\$ 1,632,531

(Continued)

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

SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016
(Continued)

	2017	2016
Reconciliation of operating income (loss) to net cash provided (required) by operating activities		
Income from operations	\$ 185,231	\$ 114,354
Adjustments to reconcile income (loss) from operations to net cash flows provided by operating activities		
Depreciation/amortization	305,226	286,449
Net (increase) decrease in accounts receivable	97,508	41,902
Net (increase) decrease in prepaid expenses	(5,876)	(243)
Net increase (decrease) in accounts payable	(31,840)	10,262
Net increase (decrease) in unearned revenue	9,431	(5,621)
Net cash provided by operating activities	\$ 559,680	\$ 447,103

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 1 - DEFINITION OF REPORTING ENTITY

South Arapahoe Sanitation District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for Arapahoe County on July 30, 1957, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in unincorporated Arapahoe County, Colorado, City of Greenwood Village, Colorado, City of Littleton, Colorado, and City of Centennial, Colorado. The District was established to provide and maintain sanitary sewer lines and contracts with the City of Englewood (City) for sewage treatment services.

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 employees and all operations and administrative functions are contracted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and loans is recorded as a reduction in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received.

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing sanitation service to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall 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 Statements of Cash Flows, the District considers all cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets, which include land and easements, capacity rights, and sewer system components, are reported by the District. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

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 10-40 years.

Contributed Public Improvements

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

The District receives contributions in aid of construction from various sources. They are recorded as follows:

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Sewer System - Sewer lines are temporarily accepted by the District for a probationary period of twelve months, during which time the developer remains responsible for maintenance and operation of the lines. Upon completion of the probationary period and the meeting of certain requirements, the lines are permanently accepted by the District. The lines are recorded at the time of probationary acceptance by the District at actual or estimated cost to the developer as capital contributions.

Tap Fees - These fees become collectible upon issuance of the tap permit and are classified as capital contributions at the time of collection.

Inclusion Fees - The District, upon approval of the Board of Directors, allows lines from outside the District's boundaries to connect to its sewer lines. The users of these lines are billed for the cost of the facilities to be constructed by the District in order to complete the connection.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2017 and 2016 are classified in the accompanying financial statements as follows:

	<u>2017</u>	<u>2016</u>
Cash	\$ 734,190	\$ 815,203
Investments	\$ 4,265,230	\$ 3,820,162

Cash and cash equivalents per the Statement of Cash Flows as of December 31, 2017, and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Deposits with financial institutions	\$ 235,286	\$ 320,017
Certificates of deposit	498,904	495,186
Less: Principal amount of CD's	(495,000)	(495,000)
Investments	4,265,230	3,820,162
Less: Investments with a maturity greater than three months	(2,620,827)	(2,507,834)
	<u>\$ 1,883,593</u>	<u>\$ 1,632,531</u>

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017 and 2016, the District's cash deposits had a bank balance of \$235,286 and \$320,017 and a carrying balance of \$235,286 and \$320,017, respectively.

At December 31, 2017 and 2016, the District's deposits also included certificates of deposit with financial institutions of \$498,904 and \$495,186, respectively; \$493,917 and \$495,186, respectively, is insured through the FDIC, with the remaining balance collateralized through single institution pools.

Investments

The District has adopted a formal investment policy which follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- * Obligations of the United States, certain U.S. government agency securities, and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase and certain reverse repurchase agreements collateralized by certain authorized securities

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series), money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee), CSAFE which are recorded at amortized cost, and COLOTRUST which are recorded at net asset value.

As of December 31, 2017 and 2016, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>	
		<u>2017</u>	<u>2016</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	\$ 1,644,403	\$ 1,312,328
Farmer Mac	June 2018	201,392	204,762
Federal Home Loan Bank	August 2018	199,108	198,580
Federal Home Loan Bank Step	October 2021 - December 2021	543,091	249,430
Federal Home Loan Mortgage Corp.	August 2021 - October 2021	987,651	985,773
Federal National Mortgage Assn.	September 2018 - November 2019	299,836	353,695
International Bank for Reconstruction and Development	May 2018	49,702	48,714
Resolution Funding Corporation	January 2018 - April 2018	39,904	39,432
Tennessee Valley Authority	April 2018 - October 2018	225,212	227,762
U.S. Treasury Notes	June 2018	49,969	150,234
Zero Coupon Treasuries	June 2018	24,962	49,452
		<u>\$ 4,265,230</u>	<u>\$ 3,820,162</u>

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. 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 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 any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

U.S. Treasury Securities

The District has invested in U.S. Treasury Securities, which are debt obligations issued by the U.S. government. These securities are backed by the "full faith and credit" of the United States government and provide a guaranteed return of principal and interest when they are held to maturity. The District's treasury securities consist of Treasury Notes and Zero Coupon Treasuries (Treasury Strips). Treasury Notes have an intermediate maturity ranging from two to ten years, with a fixed rate of interest which is paid semiannually. To facilitate the issuance of zero coupon Treasury bonds, the U.S. Treasury developed the STRIPS (Separate Trading of Registered Interest and Principal of Securities) program, whereby the coupon and principal payments are "stripped" from T-notes and T-bonds and then traded separately as zero coupon bonds. Accreted interest compounds semiannually at a stated fixed rate, and the "zero" grows to its full face value at maturity.

U.S. Government Agency Securities

The District has invested in securities of the following U.S. government agencies

Federal National Mortgage Association (FNMA) - FNMA is a government-sponsored enterprise (GSE) chartered by Congress with a mission to provide liquidity, stability and affordability to the U.S. housing and mortgage markets. FNMA operates in the U.S. secondary mortgage market by working with mortgage bankers, brokers and other primary mortgage market partners to help ensure they have funds to lend to home buyers at affordable rates. Mortgage investments are funded primarily by issuing debt securities in the domestic and international capital markets. FNMA is currently under conservatorship, under the direction of the Federal Housing Financing Agency. FNMA is rated AAA by Moody's and AA+ by S&P.

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Federal Home Loan Banks (FHLB) - FHLB is a GSE that provides stable, low-cost funding to U.S. financial institutions for home mortgage, small business, rural, and economic development lending. FHLB is the largest collective source of home mortgage and community credit in the U.S. There are twelve banks in the FHLB system, and the FHLB provide loans only to other banks. FHLB is rated AAA by Moody's and AA+ by S&P.

Tennessee Valley Authority (TVA) – Created by the Tennessee Valley Authority Act of 1933, the TVA is a wholly owned corporation of the U.S. Government. TVA finances the development and utilization of the resources of the Tennessee River Basin. Although it is a federal agency, TVA's securities are obligations of the authority and are not guaranteed by the U.S. government. TVA is rated AAA by Moody's and AA+ by S&P.

International Bank for Reconstruction and Development (IBRD) – The IBRD is a supranational agency which began operations in 1945 to help finance reconstruction in European and Asian countries following World War II. Its current mission is to promote the economic development of less developed member countries in order to foster the long-term growth of international trade and improve living standards. The IBRD finances a variety of project types, including industrial development, transportation systems, educational facilities, and power and utility plants. The IBRD is owned by the governments of 187 International Monetary Fund-member countries, including the United States, its largest member. Its projects are financed primarily through the issuance of World Bank bonds. IBRD is rated AAA by Moody's and AAA by S&P.

Resolution Funding Corporation (REFCORP) – REFCORP is a government-sponsored enterprise that provides funds to the Resolution Trust Corporation (RTC), which was established to finance the bailout of savings and loan associations in the wake of the savings and loan crisis of the 1980s. It was established by the United States Congress in the summer of 1989. REFCORP will obtain funds to pay interest on its obligations from earnings on certain assets, proceeds from the RTC, payments from FHLBs, and proceeds from the sale of assets. If amounts from these sources are insufficient to cover interest payments, the Treasury will pay any additional amount due from funds permanently appropriated. REFCORP is rated AAA by Moody's and AA+ by S&P.

Federal Agricultural Mortgage Corporation (Farmer Mac) – Farmer Mac was created by Congress to establish a secondary market for agricultural mortgage and rural utilities loans to increase the availability of long-term credit at stable interest rates to segments of rural America. It is a stock-holder owned, publicly-traded corporation that conducts these activities through three programs. It is not a direct lender, but works with lenders that work directly with borrowers throughout the United States. Farmer Mac is rated AAA by Moody's and AA+ by S&P.

Federal Home Loan Mortgage Corporation (Freddie Mac) - Freddie Mac is a government-sponsored enterprise (GSE) chartered by Congress to buy residential mortgages and boost the housing market by purchasing mortgages from lenders and packaging them for resale, thereby mitigating risk and allowing lenders to provide mortgages to those who may not otherwise qualify. Freddie Mac also provides assistance for affordable rental housing. Freddie Mac is currently under conservatorship, under the direction of the Federal Housing Finance Agency. Freddie Mac is rated AA+ by S&P.

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the years ended December 31, 2017 and 2016 follows:

	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance December 31, 2017</u>
Capital assets, not being depreciated				
Land and easements	\$ 64,057	\$ -	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	-	343,026
Total capital assets, not being depreciated	<u>407,083</u>	<u>-</u>	<u>-</u>	<u>407,083</u>
Capital assets, being depreciated				
GIS program	92,022	-	-	92,022
Sewer system	14,666,466	350,279	-	15,016,745
Total capital assets, being depreciated	<u>14,758,488</u>	<u>350,279</u>	<u>-</u>	<u>15,108,767</u>
Less accumulated depreciation for:				
GIS program	(34,927)	(9,203)	-	(44,130)
Sewer system	(7,883,231)	(296,023)	-	(8,179,254)
Total accumulated depreciation	<u>(7,918,158)</u>	<u>(305,226)</u>	<u>-</u>	<u>(8,223,384)</u>
Total capital assets, net	<u>\$ 7,247,413</u>	<u>\$ 45,053</u>	<u>\$ -</u>	<u>\$ 7,292,466</u>

Depreciation expense for the year ended December 31, 2017, was charged to the following operations:

Sewer \$ 305,226

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance December 31, 2016</u>
Capital assets, not being depreciated				
Land and easements	\$ 64,057	\$ -	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor	343,026	-	-	343,026
Total capital assets, not being depreciated	<u>407,083</u>	<u>-</u>	<u>-</u>	<u>407,083</u>
Capital assets, being depreciated				
GIS program	92,022	-	-	92,022
Sewer system	13,554,523	1,111,943	-	14,666,466
Total capital assets, being depreciated	<u>13,575,379</u>	<u>1,111,943</u>	<u>-</u>	<u>14,758,488</u>
Less accumulated depreciation for:				
GIS program	(25,724)	(9,203)	-	(34,927)
Sewer system	(7,605,985)	(277,246)	-	(7,883,231)
Total accumulated depreciation	<u>(7,360,662)</u>	<u>(286,449)</u>	<u>-</u>	<u>(7,918,158)</u>
Total capital assets, net	<u>\$ 6,621,800</u>	<u>\$ 825,494</u>	<u>\$ -</u>	<u>\$ 7,247,413</u>

Depreciation expense for the year ended December 31, 2016, was charged to the following operations:

Sewer \$ 286,449

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 5 - INTERGOVERNMENTAL AGREEMENTS

City of Englewood Sewage Treatment

The District has a service contract with the City of Englewood. Under the terms of the contract, Englewood treats all District sewage, bills District residents for this service and retains all treatment service billing collections.

The District charges for transmission fees which are added to the treatment fees billed by Englewood. Collection of these fees, net of uncollected transmission and treatment fees, are remitted periodically to the District by Englewood.

Basin Interceptor Agreement

The District has entered into an intergovernmental agreement (Basin Interceptor Agreement) with the City of Englewood, Southgate Sanitation District and the South Englewood Sanitation District to provide for the orderly and timely enlargement of the Big Dry Creek Interceptor system and to properly allocate the individual entities' capacity rights of the interceptor. Legal title to the interceptor shall be held by the City of Englewood and the Southgate Sanitation District. The District shall have the capacity rights set forth in the agreement in the amount of 13,331 Single Family Equivalents. The Agreement identifies eight projects to enlarge the Big Creek Interceptor.

Englewood bills the residents in each party's service area for the estimated maintenance costs of the interceptor and retains all billing collections in trust. The Basin Interceptor Agreement charges were \$209,201 and \$208,289 in 2017 and 2016, respectively.

In late 2005, Southgate Sanitation District advised the other parties to the Basin Interceptor Agreement that further enlargement of the interceptor is unnecessary based upon Southgate's flow projections and engineering analysis. Southgate will limit repair and refurbishment of the interceptor to improvements and measures needed to maintain existing capacity. The participants will be subject to proportionate billings for major repairs/improvements above the amounts contributed for routine maintenance.

Southgate Sanitation District

In conjunction with the Basin Interceptor Agreement, the District has entered into an agreement with the Southgate Sanitation District whereby Southgate assumes the liability for any further capital payments due under the Basin Interceptor Agreement until such time as 1,000 SFE taps have been authorized for service in South Arapahoe. The District estimates that 1,000 SFE taps are more than will be required by the District, and therefore, does not estimate that any payments will be required on the Basin Interceptor Agreement for enlargement of the facilities.

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 5 - INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Wastewater Connector and Transmission Agreement

On April 24, 2017, the District entered into an agreement with Arapahoe County, the City of Englewood, and Waste Management of Colorado, Inc. The agreement permits Arapahoe County and Waste Management of Colorado, Inc. to connect a line to the District's sewer system to transmit effluent for the continued dewatering of a land fill site. The City of Englewood is a party to the agreement because it provides the wastewater treatment. The District charges an annual base service charge for the landfill tap in the amount of \$1,000, due in advance. The agreement is in effect through December 31, 2032.

NOTE 6 - NET POSITION

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

Net investment in 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, 2017, and December 31, 2016, the District had net investment in capital assets calculated as follows:

	2017	2016
Net investment in capital assets:		
Capital assets	\$15,515,850	\$15,165,571
Less: Depreciation	(8,223,384)	(7,918,158)
Net investment in capital assets	<u>\$ 7,292,466</u>	<u>\$ 7,247,413</u>

NOTE 7 – COMMITMENTS

On July 17, 2017, the District entered into a contract with Insituform Technologies, Inc., for cured-in-place lining of the District's 8" pipeline and associated manhole rehabilitation. The amount of the contract was for \$114,401. On August 21, 2017, the District approved a change order in the amount of \$69,768 bringing the contract total to \$184,169. The amount remaining on the contract as of December 31, 2017, was retainage in the amount of \$9,214, which was paid in February 2018.

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2017**

NOTE 8 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, 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.

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue. As an enterprise, the District is exempt from this requirement.

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. As an enterprise, the District is exempt from this requirement.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an enterprise will require judicial interpretation.

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

SUPPLEMENTARY INFORMATION

**SOUTH ARAPAHOE SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2017**

	Original and Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Service treatment fees	\$ 2,943,000	\$ 2,935,262	\$ (7,738)
District transmission fees	1,294,900	1,289,505	(5,395)
Tap fees	1,500	1,995	495
Industrial pretreatment program	15,750	16,125	375
Plan review fees	4,000	2,000	(2,000)
Investment income	54,000	42,800	(11,200)
Other income	1,000	15,119	14,119
Contributed capital	100,000	94,099	(5,901)
Total revenues	<u>4,414,150</u>	<u>4,396,905</u>	<u>(17,245)</u>
EXPENDITURES			
Sewage treatment	2,943,000	2,935,262	7,738
Repairs and maintenance	597,200	469,878	127,322
Engineering management	218,000	194,497	23,503
Accounting	50,000	52,121	(2,121)
Audit	3,750	3,850	(100)
Conferences/seminars	750	669	81
Customer communications	3,000	4,299	(1,299)
Directors' fees	6,000	6,000	-
Dues/licenses	1,500	1,238	262
Insurance and fidelity bonds	5,000	8,645	(3,645)
Legal fees	45,000	37,153	7,847
Locates	15,000	18,960	(3,960)
Miscellaneous	500	518	(18)
Payroll taxes	459	459	-
Plan review/construction observation	25,500	15,784	9,716
Utilities	2,000	1,102	898
Capital improvements	500,000	350,279	149,721
Contingency	13,341	-	13,341
Total expenditures	<u>4,430,000</u>	<u>4,100,714</u>	<u>329,286</u>
EXCESS REVENUES OVER EXPENDITURES	(15,850)	296,191	312,041
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>4,308,883</u>	<u>4,498,301</u>	<u>189,418</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 4,293,033</u>	<u>\$ 4,794,492</u>	<u>\$ 501,459</u>

**SOUTH ARAPAHOE SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS (ACTUAL)
TO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended December 31, 2017**

	Actual
Funds available are defined as follows:	
Current assets	\$ 5,696,363
Less: Current liabilities	(901,871)
Funds available	\$ 4,794,492
Reconciliation of budgetary basis (actual) to Statements of Revenues, Expenses and Changes in Net Position:	
Revenues (budgetary basis)	\$ 4,396,905
Total revenue per Statements of Revenues, Expenses and Changes in Net Position	4,396,905
Expenditures (budgetary basis)	4,100,714
Depreciation	305,226
Capital outlay	(350,279)
Total expenses per Statements of Revenues, Expenses and Changes in Net Position	4,055,661
Change in net position per Statements of Revenues, Expenses and Changes in Net Position	\$ 341,244