



FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

ACADEMY WATER & SANITATION DISTRICT

For the Years Ended December 31, 2017 and 2016

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Office of the State Auditor

July 31, 2018

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

Independent Auditor's Report

We have audited the accompanying financial statements of the business type activities of Academy Water & Sanitation District as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Academy Water & Sanitation District as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Hansm & Co. CPAs

Denver, Colorado

July 18, 2018

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Academy Water & Sanitation District (the District) is engaged in providing water and sanitation services for approximately 300 single-family homes near Monument, Colorado. This document provides a management summary of the financial condition, operations and activities of Academy Water & Sanitation District for the year ending December 31, 2017 with comparative information for two prior years. This document should be read in conjunction with the financial statements following this management discussion and analysis.

Required Financial Statements

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

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

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

Analysis of Overall Financial Position and Operations

Condensed Statements of Net Position

Years Ended December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 496,667	\$ 427,450	\$ 459,276
Other assets	62,000	62,000	62,000
Capital assets	<u>1,384,159</u>	<u>1,401,095</u>	<u>1,291,953</u>
Total assets	<u>\$ 1,942,826</u>	<u>\$ 1,890,545</u>	<u>\$1,813,229</u>
Total liabilities, current	<u>\$ 11,786</u>	<u>\$ 65,369</u>	<u>\$ 26,566</u>
Deferred inflows of resources	<u>\$ 23,177</u>	<u>\$ 22,812</u>	<u>\$ 22,879</u>
Net position			
Invested in capital assets	\$ 1,384,159	\$ 1,401,095	\$1,291,953
Restricted for emergencies	12,000	12,000	12,000
Restricted for legal compliance	50,000	50,000	50,000
Unrestricted	<u>461,704</u>	<u>339,269</u>	<u>409,831</u>
Total net position	<u>\$ 1,907,863</u>	<u>\$ 1,802,364</u>	<u>\$1,763,784</u>

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Analysis of Overall Financial Position and Operations (continued)

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

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

Years Ended December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenue			
Water, wastewater, and other receipts	\$ 480,183	\$ 413,411	\$ 345,224
Water and wastewater expense	(233,670)	(216,417)	(304,324)
General and administrative expense	(85,504)	(86,158)	(93,537)
Depreciation expense	<u>(91,622)</u>	<u>(100,239)</u>	<u>(101,474)</u>
Total operating expense	<u>(410,796)</u>	<u>(402,814)</u>	<u>(499,335)</u>
Operating income (loss)	69,387	10,597	(154,111)
Non-operating revenue (expense)			
Tax and other non-operating revenue	30,454	28,326	24,508
Non-operating expense	<u>(342)</u>	<u>(343)</u>	<u>(324)</u>
Income (loss) before contributions and special item	99,499	38,580	(129,927)
Capital contribution – tap fees	6,000	-	18,000
Special item – impairment of assets	<u>-</u>	<u>-</u>	<u>(162,195)</u>
Change in net position	105,499	38,580	(274,122)
Beginning net position	<u>1,802,364</u>	<u>1,763,784</u>	<u>2,037,906</u>
Ending net position	<u>\$ 1,907,863</u>	<u>\$ 1,802,364</u>	<u>\$ 1,763,784</u>

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

Budgetary Highlights

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

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

December 31,	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 21,938	\$ 21,938	\$ 21,938
Construction in progress	284,067	209,381	-
Plant and equipment	<u>3,658,186</u>	<u>3,658,186</u>	<u>3,658,186</u>
Subtotal	3,964,191	3,889,505	3,680,124
Accumulated depreciation	<u>(2,580,032)</u>	<u>(2,488,410)</u>	<u>(2,388,171)</u>
Net capital assets	<u>\$ 1,384,159</u>	<u>\$1,401,095</u>	<u>\$1,291,953</u>

Due to regulatory changes and the Intergovernmental Service Agreement discussed in the next section, the District will abandon certain assets at the end of 2018 that are currently used for wastewater treatment. The District recorded an impairment of those assets in 2015 totaling \$162,195 as an increase in accumulated depreciation in order to reflect only the remaining usable capacity of the wastewater treatment system at December 31, 2015. As of December 31, 2017 and 2016 the District incurred costs of \$74,686 and \$209,381, related to planning and engineering for the wastewater treatment system connection and upgrade, which have been capitalized as construction in progress.

Facts, Decisions, and Conditions Affecting the Future

The District approved an increase of \$1.00 per 1,000 gallons of water usage effective in 2015. This raises the water usage rate to \$8.00 per 1,000 gallons for 0 to 12,000 gallons per month. Those using more than 12,000 gallons per month pay \$12.00 per 1,000 gallons on the excess usage. The monthly water service fee remains at \$20. The District approved monthly wastewater service fee increases for 2016, 2017, and 2018. The monthly wastewater service fee is \$80 at the end of 2017.

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

An Intergovernmental Service Agreement has been signed between Academy Water and Sanitation District and Donala Water and Sanitation District for the treatment of wastewater from Academy. Donala has the capacity to treat the effluent from Academy and meet the wastewater standards imposed by the Environmental Protection Agency. Engineering is complete for the project which is scheduled for completion late 2018. Rather than issuing bonds and increasing taxes to cover the project cost, wastewater service fees will pay the monthly connection charges and loan payments. The District approved two increases to wastewater service fees bringing the service fee to \$80 per month for each customer using the sewer system. An additional increase is expected during 2018 and should be the final increase. Applications were submitted for a low interest loan as well as a grant to be applied to the project. The District had no debt in 2017 but will incur debt in 2018 to accomplish the wastewater project. The loan and grant approvals are expected to be completed in the first quarter of 2018.

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

The board of directors for Academy approved resolutions establishing a Water Activity Enterprise and a separate Wastewater Activity Enterprise effective in 2016. This allows each enterprise to apply for grant funding or to issue revenue bonds. In addition, an election was held in May 2016, which resulted in two board members reelected for two-year terms and two board members reelected for four-year terms. A ballot issue was approved by the voters and allows Academy to accept, collect, retain, and spend all revenues received from all sources in 2016 and each subsequent year, notwithstanding any limitations or restrictions that would apply under Article X, Section 20 of the Colorado Constitution (TABOR), and Section 29-1-301, Colorado Revised Statutes (5.5% limit), or any other law.

Additional Financial Information

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

ACADEMY WATER & SANITATION DISTRICT
Statements of Net Position

December 31,	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and investments, unrestricted	\$ 432,573	\$ 367,004
Cash with county treasurer	239	229
Trade accounts receivable	40,678	37,405
Taxes receivable	23,177	22,812
Total current assets	496,667	427,450
OTHER ASSETS		
Cash and investments, restricted	62,000	62,000
PROPERTY, PLANT, AND EQUIPMENT - AT COST		
Land	21,938	21,938
Construction in progress	284,067	209,381
Plant and equipment	3,658,186	3,658,186
Total property, plant, and equipment	3,964,191	3,889,505
Less accumulated depreciation	(2,580,032)	(2,488,410)
Net property, plant, and equipment	1,384,159	1,401,095
Total assets	\$ 1,942,826	\$ 1,890,545
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -

The accompanying notes are an integral part of these statements.

December 31,	2017	2016
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LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

CURRENT LIABILITIES

Accounts payable	\$ 11,718	\$ 65,060
Payroll taxes payable	68	309

Total current liabilities	11,786	65,369
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Total liabilities	\$ 11,786	\$ 65,369
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DEFERRED INFLOWS OF RESOURCES

Deferred property tax revenue	\$ 23,177	\$ 22,812
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NET POSITION

Invested in capital assets	\$ 1,384,159	\$ 1,401,095
Restricted for emergencies	12,000	12,000
Restricted for legal compliance	50,000	50,000
Unrestricted	461,704	339,269

Total net position	\$ 1,907,863	\$ 1,802,364
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ACADEMY WATER & SANITATION DISTRICT
Statements of Revenue, Expense, and Changes in Net Position

Years Ended December 31,	2017	2016
OPERATING REVENUE		
Water and wastewater charges	\$ 478,715	\$ 409,883
Other income	1,468	3,528
Total operating revenue	480,183	413,411
OPERATING EXPENSE		
Water and wastewater operating expense	233,670	216,417
General and administrative expense	85,504	86,158
Depreciation expense	91,622	100,239
Total operating expense	410,796	402,814
OPERATING INCOME	69,387	10,597
NON-OPERATING REVENUE (EXPENSE)		
Property taxes	22,812	22,879
Interest income	4,551	2,814
Specific ownership taxes	3,091	2,633
County treasurer fees	(342)	(343)
Total non-operating revenue	30,112	27,983
INCOME BEFORE CAPITAL CONTRIBUTIONS	99,499	38,580
Capital contribution - tap fees	6,000	-
INCREASE IN NET POSITION	105,499	38,580
NET POSITION, beginning of year	1,802,364	1,763,784
NET POSITION, end of year	\$ 1,907,863	\$ 1,802,364

The accompanying notes are an integral part of these statements.

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

Years Ended December 31,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 475,442	\$ 403,545
Reimbursement and grants	1,468	2,130
Cash payments to employees for services	(84,703)	(84,023)
Cash payments to suppliers for goods and services	(294,867)	(220,625)
Net cash provided by operating activities	97,340	101,027
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property and ownership taxes	25,893	25,283
County treasurer fees	(342)	(343)
Net cash provided by noncapital financing activities	25,551	24,940
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	6,000	-
Payments on construction in progress	(67,873)	(149,707)
Net cash used for capital and related financing activities	(61,873)	(149,707)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	4,551	2,814
Net cash provided by investing activities	4,551	2,814
NET CHANGE IN CASH	65,569	(20,926)
CASH AT BEGINNING OF YEAR	429,004	449,930
CASH AT END OF YEAR	\$ 494,573	\$ 429,004

The accompanying notes are an integral part of these statements

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

Years Ended December 31,	2017	2016
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 69,387	\$ 10,597
Reconciling adjustments		
Depreciation	91,622	100,239
Changes in operating assets and liabilities		
Accounts receivable	(3,273)	(7,736)
Prepaid insurance	-	18,798
Accounts payable and other current liabilities	(60,155)	(20,227)
Accrued liabilities	(241)	(644)
Total adjustments	27,953	90,430
Net cash provided by operating activities	\$ 97,340	\$ 101,027
Non-cash capital and related financing activity:		
Construction in progress included in accounts payable	\$ 6,813	\$ 59,674
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and investments	\$ 432,573	\$ 367,004
Cash and investments, restricted	62,000	62,000
Total cash and cash equivalents	\$ 494,573	\$ 429,004

The accompanying notes are an integral part of these statements.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

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

Nature of Operations

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

Reporting Entity

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

Basis of Accounting

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

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

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

Cash Equivalents

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

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

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

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Property Tax Receivables and Calendar

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

Property, Plant, and Equipment

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

Depreciation is charged as an expense against operations. Depreciation has been provided over the assets' estimated useful lives using the straight-line method. Total depreciation for 2017 and for 2016 is \$91,622 and \$100,239, respectively. The estimated useful lives are:

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

Defined Contribution Benefit Plan

The District adopted a 5304 Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) Plan for the benefit of eligible employees in 2009. According to the SIMPLE IRA Plan requirements, all employees are immediately eligible to participate in the Plan. For the calendar years 2017 and 2016 the District elected to match each employee's contribution up to a limit of 3% of the employee's compensation for the year. Employer contributions are \$2,286 and \$2,253 for the years ended December 31, 2017 and 2016, respectively.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

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

Net Position

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

Budgets and Budgetary Accounting

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

Deferred Outflow and Inflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as outflows of resources (expense) until then. There are no deferred outflows of resources in years ended December 31, 2017 and 2016.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as inflows of resources (revenue) until that time. Property tax revenue to be collected in the following year is reported as deferred inflows of resources.

Estimates

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

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note B – Deposits and Investments

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

	2017	2016
Statement of net position:		
Cash and investments, unrestricted	\$ 432,573	\$ 367,004
Cash and investments, restricted	62,000	62,000
Total cash and investments	\$ 494,573	\$ 429,004

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

	2017	2016
Deposits with financial institutions	\$ 14,673	\$ 31,898
Investments - ColoTrust	479,900	397,106
Total cash and investments	\$ 494,573	\$ 429,004

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

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

At December 31, 2017 the District’s total cash balance does not exceed available FDIC insurance limits of \$250,000. Any cash balances in excess of FDIC limits would be collateralized in accordance with PDPA. The State of Colorado has determined that there is no custodial credit risk for public deposits collateralized under PDPA.

At December 31, 2017 the District had \$479,900 invested in Colotrust. This local government investment pool is rated AAA by Standard and Poor and operates similarly to a money market fund with each share equal in value to \$1. The pool invests in specific legal investments that the District is empowered to purchase directly. These include U.S. treasuries, U.S. government agencies, and fully collateralized repurchase agreements contracted with highly rated counterparties.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note B – Deposits and Investments (continued)

The District is required to restrict \$50,000 for future compliance with effluent limits of its wastewater permit with the Colorado Division of Public Health and Environment. The District also restricts \$12,000 for emergency reserves to comply with the Taxpayer Bill of Rights. See Note F. The total amount restricted for these purposes as of December 31, 2017 and 2016 is \$62,000, which is shown as restricted cash and investments.

Note C – Accounts Receivable

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

Note D – Property, Plant, and Equipment

Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Impair- ments</u>	<u>12/31/2017</u>
Capital assets not being depreciated					
Land	\$ 21,938	\$ -	\$ -	\$ -	\$ 21,938
Construction in progress	<u>209,381</u>	<u>74,686</u>	<u>-</u>	<u>-</u>	<u>284,067</u>
Total capital assets, not being depreciated	231,319	74,686	-	-	306,005
Capital assets being depreciated					
Plant and equipment	3,658,186	-	-	-	3,658,186
Less accumulated depreciation	<u>(2,488,410)</u>	<u>(91,622)</u>	<u>-</u>	<u>-</u>	<u>(2,580,032)</u>
Total capital assets being depreciated, net	<u>1,169,776</u>	<u>(91,622)</u>	<u>-</u>	<u>-</u>	<u>1,078,154</u>
Total capital assets, net	<u>\$1,401,095</u>	<u>\$ (16,936)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,384,159</u>

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

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

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

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

Depreciation expense was charged to functions/programs as follows:

	<u>2017</u>	<u>2016</u>
Business-type activities:		
Water and wastewater funds	<u>\$ 91,622</u>	<u>\$ 100,239</u>

Note E – Commitments and Contingencies

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

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note E – Commitments and Contingencies (continued)

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

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

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

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

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note F – Tax, Spending, and Debt Limitations

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

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. Management of the District believes a significant portion of its operations qualify for the enterprise exclusions from TABOR.

Spending and revenue limits are determined based on the prior fiscal year spending as adjusted for allowable increases for inflation and local growth. Revenue in excess of the fiscal year spending limit must be refunded unless voters approve retention of such revenue. The amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government. It also requires the government to establish emergency reserves at 3% of fiscal year spending.

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

The District's general operating mill levy was 2.937 mills for property taxes collected in 2017 and 2016. The general operating mill levy is considered to be subject to TABOR limitations. District's management believes it is in compliance with the provisions of TABOR for 2017 and 2016. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, may require judicial interpretation.

Note G – Risk Management

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

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note H – Intergovernmental Service Agreement

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

Academy will construct the connection to Donala's system and be responsible for all costs of implementation of the connection. Planning and engineering design costs of \$74,686 and \$209,381 for this project are capitalized as construction in progress in the years ending December 31, 2017 and 2016. Academy will pay a plant investment fee of \$889,700 and monthly user fees for its customers. Donala will operate and maintain conveyance facilities in its service areas and maintain adequate capacity for the management and treatment of Academy wastewater. The connection is expected to be completed by October 1, 2018.

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

Note I – Subsequent Events

As discussed in Notes E and H, the District is building a connection to Donala Water and Sanitation District for the conveyance of its wastewater for treatment and discharge. The District was approved to finance the project with a Water Pollution Control Revolving Fund loan. The loan was executed on March 12, 2018 with an initial loan term of 20 years and at two percent interest and for a maximum amount of \$3,000,000. Colorado statutory changes, effective August 9, 2018, allow the District to renegotiate the loan term to 30 years. Construction on the wastewater connection began in late March 2018.

On March 27, 2018, the District contracted with the Colorado Department of Public Health and Environment as subrecipient of a Water Quality Improvement Fund Grant which will reimburse construction costs totaling \$101,825.

OTHER SUPPLEMENTARY INFORMATION

ACADEMY WATER & SANITATION DISTRICT
Schedules of Expenses
Year Ended December 31, 2017 and 2016

Years Ended December 31,	2017	2016
Water and wastewater operating expense		
Auto mileage	\$ 8,544	\$ 6,595
Engineering	26,893	916
Lab testing	4,258	5,078
Payroll taxes and benefits	15,200	15,113
Repairs and maintenance	43,012	53,943
Salaries	84,703	84,023
Supplies	4,909	4,289
Utilities	46,151	46,460
Total water and wastewater operating expense	\$ 233,670	\$ 216,417
General and administrative expense		
Accounting, audit, and billing	\$ 38,900	\$ 38,279
Director's fees	5,800	6,000
Dues and subscriptions	834	602
Election expense	-	1,839
Insurance	23,129	21,887
Legal	-	1,733
Miscellaneous	781	725
Office and postage	3,082	5,932
Permits and fees	5,577	2,063
Seminars and meetings	1,040	150
Telephone	6,361	6,948
Total general and administrative expense	\$ 85,504	\$ 86,158

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Budgetary Comparison Schedule - Budget to Actual (Budgetary Basis)
Water Enterprise Fund
Year Ended December 31, 2017

	Budget	Actual Amounts (Budgetary Basis)	Budget Positive (Negative)
Budgetary net position, January 1, 2017	\$ 225,411	\$ 224,967	\$ (444)
REVENUES			
Water charges	200,000	204,673	4,673
Property taxes	11,400	11,406	6
Tap fees	-	6,000	6,000
Specific ownership tax	1,000	1,545	545
Interest income	1,800	2,275	475
Miscellaneous income	-	1,321	1,321
Amounts available for appropriation	439,611	452,187	12,576
EXPENDITURES			
Accounting, audit, and billing	30,450	33,847	(3,397)
Auto and mileage	7,200	6,835	365
Capital projects - general construction	-	-	-
Contingencies	12,000	-	12,000
County treasurer's fees	175	171	4
Director's fees	3,250	2,900	350
Engineering	-	26,893	(26,893)
Insurance	20,000	18,503	1,497
Lab testing	1,600	213	1,387
Legal	4,000	-	4,000
Miscellaneous	11,930	9,086	2,844
Payroll taxes and benefits	12,800	12,162	638
Repairs and maintenance	79,450	29,361	50,089
Salaries	68,800	67,762	1,038
Supplies	7,000	3,927	3,073
Utilities and telephone	45,150	44,460	690
Total expenditures	303,805	256,120	47,685
Budgetary net position, December 31, 2017	\$ 135,806	\$ 196,067	\$ 60,261

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Budgetary Comparison Schedule - Budget to Actual (Budgetary Basis)
Wastewater Enterprise Fund
Year Ended December 31, 2017

	Budget	Actual Amounts (Budgetary Basis)	Budget Positive (Negative)
Budgetary net position, January 1, 2017	\$ 131,312	\$ 176,301	\$ 44,989
REVENUES			
Wastewater charges	175,000	274,043	99,043
Property taxes	11,400	11,406	6
Specific ownership tax	1,000	1,545	545
Interest income	1,800	2,275	475
Miscellaneous income	1,305,750	147	(1,305,603)
Amounts available for appropriation	1,626,262	465,717	(1,160,545)
EXPENDITURES			
Accounting, audit, and billing	8,050	5,053	2,997
Auto and mileage	1,800	1,709	91
Capital projects - general construction	1,305,750	74,686	1,231,064
Contingencies	3,000	-	3,000
County treasurer's fees	175	171	4
Director's fees	3,250	2,900	350
Engineering	5,000	-	5,000
Insurance	5,000	4,626	374
Lab testing	5,000	4,045	955
Legal	16,000	-	16,000
Miscellaneous	6,920	2,227	4,693
Payroll taxes and benefits	3,200	3,038	162
Repairs and maintenance	26,250	13,651	12,599
Salaries	17,200	16,941	259
Supplies	500	982	(482)
Utilities and telephone	7,950	8,052	(102)
Total expenditures	1,415,045	138,081	1,276,964
Budgetary net position, December 31, 2017	\$ 211,217	\$ 327,636	\$ 116,419

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Notes to Other Supplementary Information

Note A – Summary of Significant Accounting Policies

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

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

Note B – Budgetary Differences

The budget of the District is prepared on a basis of accounting other than U. S. generally accepted accounting principles. For 2017, total expenditures on a budgetary basis were \$394,201. Excess resources and revenues over expenditures amount to \$523,703. A reconciliation to the increase in net position as determined using U.S. generally accepted accounting principles follows:

Excess resources and revenue, budgetary basis	\$ 523,703
Deduct: Beginning net position	(401,268)
Depreciation	(91,622)
Add: Capital projects – construction in progress	<u>74,686</u>
Increase in net position, GAAP basis	<u>\$ 105,499</u>