

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

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

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Office of the State Auditor

July 30, 2018

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# SCHILLING & COMPANY, INC.

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## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of Southwest Suburban Denver Water and Sanitation District as of and for the years ended December 31, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinion**

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

## **Other Matters**

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

## *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and legal compliance and is not a required part of the financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*SCHILLING & COMPANY, INC.*

Highlands Ranch, CO  
May 21, 2018

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2017 and 2016**

Our discussion and analysis of Southwest Suburban Denver Water and Sanitation District's (District) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2017 and 2016. Please read it in conjunction with the District's basic financial statements which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- In 2016 and 2017, the District completed cured in place pipe lining projects costing \$104,854 and \$41,353, respectively. The District's 25 year capital improvements and financial plan that was started in 2015 was completed in 2017, the total cost for which was \$36,255. The District's new Geographical Information System is still under development with costs incurred in 2016 and 2017 totaling \$4,013 and \$1,053, respectively.
- The District's sewage treatment charges assessed by Metro Wastewater Reclamation District (Metro) were \$278,501 in 2016 but increased by almost 220% to \$612,508 for 2017. The 2017 charges were higher due to adjustments of \$130,833 for prior year estimated treatment charges that were less than the District's actual sewage treatment costs. Because the treatment charges assessed by Metro are estimates which seem to have large fluctuations, the District decided to delay the completion of its annual audit each year starting with 2017 until the final treatment charges are released by Metro. For 2017, the final treatment costs totaled \$345,178, a large variance from the \$612,508 the District paid Metro for treatment charges in 2017. The actual treatment costs for 2016 were \$387,524 as compared to the \$278,501 charged. A separate one-time expense adjustment of \$46,031 has been added to the 2017 treatments expenses to true up prior year charges. Going forward all prior period adjustments to the District's treatment charges will be shown as a prepaid expense or a liability on the District's balance sheet.
- The District's sewer fees increased approximately 4.6% from 2015 to 2016, and approximately 6.8% from 2016 to 2017. The sewer fee increases were necessary to fund increased sewage treatment charges and the District's capital projects identified in its 25 year capital improvements plan.
- In 2015, the District implemented its sump pump inspection program which continued in 2016, costing \$42,187. The purpose of the program is to identify sources of water infiltrating the District's sewer system from customers' foundation drains. Infiltration from foundation sump pumps increases the District's sewer flows and can cause sewer backups, both of which can increase the District's operating costs. By the end of 2017, the sump pump inspection program was 98.5% complete and only \$16,009 was expended for inspections in 2017.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2017 and 2016**

Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

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

The *Statement of Revenues, Expenses and Changes in Net Position* reports the changes that have occurred during the year to the District's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

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

**FINANCIAL SUMMARY AND ANALYSIS**

**NET POSITION**

	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>			
Current assets	\$3,087,161	\$2,819,105	\$2,729,884
Capital assets	1,596,109	1,650,601	1,500,252
Total assets	<u>4,683,270</u>	<u>4,469,706</u>	<u>4,230,136</u>
<b>LIABILITIES</b>			
Current liabilities	11,391	16,374	24,175
Total liabilities	<u>11,391</u>	<u>16,374</u>	<u>24,175</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,596,109	1,650,601	1,500,252
Unrestricted	3,075,770	2,802,731	2,705,709
Total net position	<u>\$4,671,879</u>	<u>\$4,453,332</u>	<u>\$4,205,961</u>

As noted earlier, net position may serve as a useful indicator of the District's financial position. In the District's case, its net position increased approximately 11% from 2015 to 2017. The District's

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2017 and 2016**

Board has focused its efforts on balancing its operating budget and building its reserves to fund future capital projects identified in the District's 25 year capital improvements plan, of which \$238,403 of sewer projects were funded in 2016 and \$41,353 were funded in 2017.

**CHANGES IN NET POSITION**

	<b>Years Ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>			
<b>OPERATING REVENUE</b>			
Service fees	\$ 876,310	\$ 820,615	\$ 784,538
Delinquent fees	15,800	17,105	13,585
Other	13,737	17,986	16,791
Total operating revenue	<u>905,847</u>	<u>855,706</u>	<u>814,914</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>			
Net investment income			
Interest	31,516	29,090	27,291
Net increase (decrease) in fair value of investments	2,213	(25,841)	1,097
Loss on disposition of assets	(2,122)	(17,722)	(49,787)
Total nonoperating revenue (expense)	<u>31,607</u>	<u>(14,473)</u>	<u>(21,399)</u>
Total revenues	<u>937,454</u>	<u>841,233</u>	<u>793,515</u>
<b>EXPENSES</b>			
<b>OPERATING AND GENERAL AND ADMINISTRATIVE</b>			
Operating	606,508	486,281	686,002
General and administrative expenses	112,399	107,581	107,133
Total operating and general and administrative expenses	<u>718,907</u>	<u>593,862</u>	<u>793,135</u>
<b>CHANGE IN NET POSITION</b>	218,547	247,371	380
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>4,453,332</u>	<u>4,205,961</u>	<u>4,205,581</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$4,671,879</u>	<u>\$4,453,332</u>	<u>\$4,205,961</u>

The District increases its service fees as necessary to provide adequate reserves to fund unexpected sewage treatment costs or capital projects. In 2016, the District's sewage treatment charges decreased by almost 68% from 2015, but with more than \$350,000 of capital improvements planned, the District still needed to increase the sewer service fees by 4.6%. The District's sewage treatment charges in 2017 increased by \$334,007 from the 2016 charges. This required the District to greatly reduce the capital projects planned for 2017 while also increasing its service fees to avoid using the District's reserves. The District's general and administrative expenses increased slightly from 2015 to 2017 with an overall increase of 4.9%.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2017 and 2016**

**CAPITAL ASSETS**

The District's had capital assets at December 31, 2017 of \$1,596,109 (net of accumulated depreciation/amortization). The District's investment in capital assets includes easements, sewer mains and equipment. The analysis of changes in capital assets is as follows:

	<b>Balance at December 31, 2016</b>	<b>Changes</b>	<b>Balance at December 31, 2017</b>
Projects in progress	\$ 53,064	\$ (29,524)	\$ 23,540
Easements	3,273	-	3,273
Capital improvements study	-		36,255
Sewer mains and equipment	3,902,054	26,053	3,928,107
Total assets	3,958,391	(3,471)	3,991,175
Accumulated depreciation	(2,304,790)	(90,276)	(2,395,066)
Total capital assets, net	<u>\$ 1,653,601</u>	<u>\$ (93,747)</u>	<u>\$ 1,596,109</u>

  

	<b>Balance at December 31, 2015</b>	<b>Changes</b>	<b>Balance at December 31, 2016</b>
Projects in progress	\$ 33,263	\$ 19,801	\$ 53,064
Easements	3,273	-	3,273
Sewer mains and equipment	3,710,066	191,988	3,902,054
Total assets	3,746,602	211,789	3,958,391
Accumulated depreciation	(2,246,350)	(58,440)	(2,304,790)
Total capital assets, net	<u>\$ 1,500,252</u>	<u>\$ 153,349</u>	<u>\$ 1,653,601</u>

In 2017, the District completed its 25 year capital improvements and financial plan reducing its Projects in Process balance to include \$21,380 for the GIS project and \$2,160 for preliminary engineering for the Districts 2018 capital projects. A small CIPP sewer main project was also completed in 2017 totaling \$41,353. The original value of the sewer mains repaired totaling \$15,300 was written off netting a \$26,053 increase in the value of the District's sewer mains. In 2016, two sewer main capital projects were completed, the cost for which totaled \$242,163. Those costs were offset by writing off the value of the original sewer mains valued at \$50,175. This resulted in a net increase in the District's assets by \$191,988. Consulting costs of \$19,801 were incurred in 2016 for additional work on the District's Geographic Information System and 25 Year Capital Improvements and Financial Plan.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2017 and 2016**

**FUTURE ECONOMIC FACTORS AND RATES**

- Metro Wastewater's estimated sewage treatment charges continue to fluctuate drastically. Their estimated charges for 2018 are \$400,799, but they overestimated the 2016 and 2017 charges, so they gave a credit of \$172,120 resulting in a net payment for 2018 of only \$228,679. Starting with 2017, the District is recording any credits to future estimated charges as prepaid treatment charges, which is reflected on the District's balance sheet on page 1 of this audit. The District's 2018 budgeted treatment charges reflects the \$400,799 charges currently estimated for 2018 only. Using this new approach, the District anticipates it will be able to plan for capital projects more consistently year over year, as well as keep the components of the sewer service fees more consistent from year to year.
- The District's 2018 sewer rates for its single family customers will increase by 2% to \$302. The portion of the rate allocated to cover Metro Wastewater's sewage treatment pass-thru fees will decrease from \$208 charged in 2017 to \$143 for 2018. Of the remaining \$159 charged to the District's single family customers, \$103 will be allocated to the District's capital reserves and the remaining \$56 will be used to cover the District's operating costs. This District's single family customers are showing an increase in average annual water usage as compared to the District's multi-family and commercial customers which explains why they are receiving a slight increase in fees while the other customers are not.
- The multi-family sewer rate for 2018 is staying the same as the 2017 rate of \$213. The portion of the fee allocated for Metro's pass-thru sewage treatment charges is being lowered from \$150 to \$94. The remaining \$119 charged to the District's multi-family customers includes \$83 for capital reserves and \$36 to cover operating costs.
- For commercial customers, their 2018 fee will, again, consist of four components. The fee component charged to cover the District's operating costs and capital reserve fee will be increasing from \$2.05 to \$3.56 per 1,000 gallons of average annual water usage (AAWU). However, the operating portion of the fee is being reduced from \$1.83 charged in 2017 to \$1.24 in 2018 while the capital reserve fee component is increasing from \$.22 to \$2.32 per 1,000 gallons of AAWU. The fee component charged to cover Metro's pass-thru sewage treatment flow fees will be increasing from \$1.10 to \$1.27 per 1,000 gallons AAWU. The fee charged to cover Metro's pass-thru loading fees will continue to vary based on a customer's business type, but overall, the 2018 commercial loading fees will decrease by more than 50% and the total commercial fees will be decreasing by 25%.
- The District's capital projects planned for 2018 include completing the District's Geographical Information System and removing and replacing approximately 550 lineal feet of sewer mains as well as lining over 2,000 lineal feet of sewer mains.
- In 2017, the District started charging \$100 a month to customers that have not had sump pump inspections or who have sump pumps that are incorrectly discharging into the District's sanitary sewer system. The District will continue to charge the monthly fee in 2018 to the few remaining sump pump customers and may also implement fines to those customers with sump pumps discharging to the District's system that have not been fixed.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended December 31, 2017 and 2016**

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT**  
**STATEMENTS OF NET POSITION**  
**December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 973,589	\$ 1,436,058
Investments	1,876,602	1,374,389
Accounts receivable	2,558	3,561
Accrued interest receivable	6,069	4,859
Prepaid expenses	7,044	238
Prepaid Metro treatment charges	221,299	-
Total current assets	3,087,161	2,819,105
<b>CAPITAL ASSETS</b>		
Projects in progress	23,540	53,064
Easements	3,273	3,273
Capital improvements study	36,255	-
Sewer mains and equipment	3,928,107	3,902,054
	3,991,175	3,958,391
Less accumulated depreciation	(2,395,066)	(2,307,790)
Total capital assets, net	1,596,109	1,650,601
<b>TOTAL ASSETS</b>	<b>\$ 4,683,270</b>	<b>\$ 4,469,706</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 11,391	\$ 13,384
Prepaid customer accounts	-	2,990
Total current liabilities	11,391	16,374
<b>NET POSITION</b>		
Net investment in capital assets	1,596,109	1,650,601
Unrestricted	3,075,770	2,802,731
Total net position	4,671,879	4,453,332
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 4,683,270</b>	<b>\$ 4,469,706</b>

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUE</b>		
Service fees	\$ 876,310	\$ 820,615
Delinquent fees	15,800	17,105
Grease trap inspection fees	3,750	6,344
Other income	9,987	11,642
Total operating revenue	<u>905,847</u>	<u>855,706</u>
<b>OPERATING EXPENSES</b>		
Depreciation	100,454	93,893
Sewer treatment charges	391,209	278,501
Engineering	26,724	13,973
Repairs and maintenance	58,133	46,656
Other	29,988	53,258
Total operating expenses	<u>606,508</u>	<u>486,281</u>
Gain from operations	<u>299,339</u>	<u>369,425</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Audit	5,200	5,100
Insurance	7,416	6,722
Election	75	837
Legal	853	2,022
Management fees	72,526	68,253
Directors' fees	3,014	3,552
Office and administration	23,315	21,095
Total general and administrative expenses	<u>112,399</u>	<u>107,581</u>
Net gain	<u>186,940</u>	<u>261,844</u>
<b>NONOPERATING REVENUE (EXPENSES)</b>		
Net investment income:		
Interest	31,516	29,090
Net increase (decrease) in fair value of investments	2,213	(25,841)
Loss on disposition of assets	(2,122)	(17,722)
Total nonoperating revenue (expenses)	<u>31,607</u>	<u>(14,473)</u>
<b>CHANGE IN NET POSITION</b>	218,547	247,371
<b>NET POSITION - BEGINNING OF YEAR</b>	4,453,332	4,205,961
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,671,879</u>	<u>\$ 4,453,332</u>

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 903,860	\$ 854,583
Cash paid to vendors	(848,551)	(498,847)
Net cash provided by operating activities	55,309	355,736
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Purchase of capital assets	(48,084)	(261,964)
Net cash required by capital financing activities	(48,084)	(261,964)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(500,000)	(2,280,000)
Maturity of investments	-	3,182,691
Interest received	30,306	20,352
Net cash provided (required) by investing activities	(469,694)	923,043
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(462,469)	1,016,815
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	1,436,058	419,243
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 973,589	\$ 1,436,058
<b>RECONCILIATION OF OPERATING GAIN TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Net gain	\$ 186,940	\$ 261,844
Adjustments to reconcile gain to net cash provided by operating activities:		
Depreciation and amortization	100,454	93,893
Effects of changes in operating assets and liabilities:		
Account receivable	1,003	(844)
Prepaid expenses	(228,105)	8,644
Payables and prepaid customer accounts	(4,983)	(7,801)
Net cash provided by operating activities	\$ 55,309	\$ 355,736

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 1 – DEFINITION OF REPORTING ENTITY**

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

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

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

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

The District has no authorized but unissued debt at December 31, 2017.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Basis of Accounting**

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**Operating Revenues and Expenses**

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

**Restricted resources**

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

**Budgets**

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

**Cash Equivalents**

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

**Capital Assets**

Capital assets are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

**System Development Fees and Contributed Lines**

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**Reclassifications**

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

**NOTE 3 - CASH AND INVESTMENTS**

Cash equivalents and investments are reflected for the December 31, 2017 and 2016 statements of net position and statements of cash flows as follows:

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents:		
Deposits with financial institutions	\$ 138,122	\$ 604,084
Colorado Statewide Investment Program	233,673	231,928
COLOTRUST	606,794	600,046
Total cash and cash equivalents	978,589	1,436,058
Investments:		
U.S. Agency Obligations	1,876,602	1,374,389
Total investments	1,876,602	1,374,389
Total cash equivalents and investments	<u>\$ 2,855,191</u>	<u>\$ 2,810,447</u>

**Cash Deposits**

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

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

At December 31, 2017, the District's cash deposits had a bank balance of \$144,965 and a carrying balance of \$138,122. At December 31, 2016, the District's cash deposits had a bank balance of \$613,690 and a carrying balance of \$604,084.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**Investments**

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

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

- . Obligations of the United States and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

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

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity</u>
Colorado Statewide Investment Program	\$ 233,673	Weighted avg. less than 60 days
COLOTRUST	606,794	Weighted avg. less than 60 days
U.S. Agency Obligations	1,876,602	1 - 5 years
Total investments	<u>\$ 2,717,069</u>	

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

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

**Interest Rate Risk**

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT**  
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**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At December 31, 2017 and 2016 the District's holdings of U.S. Government agency securities were rated AA+ by Standard and Poor's and AAA by Moody's.

As of December 31, 2017, and 2016, the District has invested \$233,673 and \$231,928, respectively, through the Colorado Statewide Investment Program (CSIP). CSIP invests in the Colorado Investors Class of the PFM Funds Government Select Series (the Fund), a money market mutual fund. The Fund invests in obligations of the United States government and its agencies, high quality fixed income securities of U.S. companies and obligations of financial institutions. The Fund is managed to maintain a dollar-weighted average portfolio of 60 days or less and to maintain a constant net asset value per share of \$1.00. The Fund is rated AAAM by Standard and Poor's.

At December 31, 2017 and 2016, the District has invested in the Colorado Local Government Liquid Asset Trust (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. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. COLOTRUST PLUS+ may also invest in the highest rated commercial paper. Both the COLOTRUST PRIME and COLOTRUST PLUS+ portfolios are rated AAAM by Standard and Poor's.

**Valuation**

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

The District also has investments not categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
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The valuation of the District's investments are as follows at December 31, 2017:

	<u>Amount</u>	<u>Level 1 Inputs</u>
<b>Investments measured at fair value:</b>		
U.S. Agency Obligations	\$ 1,876,602	\$ 1,876,602
Total investments at fair value	<u>1,876,602</u>	<u>\$ 1,876,602</u>
<b>Investments measured at NAV/ amortized cost:</b>		
Colorado Statewide Investment Program	233,673	
COLOTRUST	<u>606,794</u>	
Total investments at NAV/amortized cost:	<u>840,467</u>	
Total investments	<u>\$ 2,717,069</u>	

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

	<u>Amount</u>	<u>Level 1 Inputs</u>
<b>Investments measured at fair value:</b>		
U.S. Agency Obligations	\$ 1,374,389	\$ 1,374,389
Total investments at fair value	<u>1,374,389</u>	<u>\$ 1,374,389</u>
<b>Investments measured at NAV/ amortized cost:</b>		
Colorado Statewide Investment Program	231,928	
COLOTRUST	<u>600,046</u>	
Total investments at NAV/amortized cost:	<u>831,974</u>	
Total investments	<u>\$ 2,206,363</u>	

U.S. Agency Obligations are recorded at fair value based on level 1 inputs.

CSIP invests in the Colorado Investors Class of the PFM Funds Government Select Series (the Fund). The Fund calculates the NAV as of 2:00 PM on each business day. The NAV is calculated by determining total assets, subtracting total liabilities from total assets, then dividing the result by the number of outstanding shares. Liabilities include all accrued expenses and fees, which are accrued daily. The NAV is calculated on an amortized cost basis as provided for by GASB Statement 79. It is the goal of the Fund to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the value of the securities held by PFM and there can be no assurance that the NAV will not vary from \$1.00 per share.

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
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COLOTRUST determines the NAV of the shares of each portfolio as of the close of business of each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs in determine value in accordance with FASB guidance. It is the goal of the Trust to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by COLOTRUST and there can be no assurance that the NAV will not vary from \$1.00 per share.

**Concentration of Credit Risk**

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

At December 31, 2017, the District had the following investments:

<u>Investment Type</u>	<u>2017 Amount</u>	<u>Percent of Total Portfolio</u>	
Colorado Statewide Investment Program	\$ 233,673	Not subject to disclosure	8.60%
COLOTRUST	606,794	Not subject to disclosure	22.33%
Fannie Mae Notes	295,297	10.87%	10.87%
Freddie Mac Note	292,820	10.78%	10.78%
Federal Farm Credit Bank	268,065	9.87%	9.87%
Federal National Mortgage Association	523,084	19.25%	19.25%
Federal Home Loan Bank	497,336	18.30%	18.30%
	<u>\$ 2,717,069</u>		<u>100.00%</u>

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

At December 31, 2016, the District had the following investments:

<u>Investment Type</u>	<u>2016 Amount</u>	<u>Percent of Total Portfolio</u>	
Colorado Statewide Investment Program	\$ 231,928	Not subject to disclosure	8.54%
COLOTRUST	600,046	Not subject to disclosure	22.08%
Fannie Mae Notes	294,509	10.84%	10.84%
Freddie Mac Note	290,027	10.67%	10.67%
Federal Farm Credit Bank	263,224	9.69%	9.69%
Federal National Mortgage Association	227,354	8.37%	8.37%
Federal Home Loan Bank	299,275	11.01%	11.01%
	<u>\$ 2,206,363</u>		<u>81.20%</u>

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance at January 1, 2017</u>	<u>Increases/ Reclasses</u>	<u>Decreases/ Reclasses</u>	<u>Balance at December 31, 2017</u>
Capital assets not being depreciated:				
Projects in progress	\$ 53,064	\$ 6,731	\$ 36,255	\$ 23,540
Easements	3,273	-	-	3,273
Capital assets, being depreciated:				
Capital improvements study	-	36,255	-	36,255
Sewer mains and equipment	3,902,054	41,353	15,300	3,928,107
Total capital assets being depreciated	<u>3,958,391</u>	<u>84,339</u>	<u>51,555</u>	<u>3,991,175</u>
Less accumulated depreciation:				
Equipment	5,955	-	-	5,955
Sewer mains	2,301,835	100,454	13,178	2,389,111
Total accumulated depreciation	<u>2,307,790</u>	<u>100,454</u>	<u>13,178</u>	<u>2,395,066</u>
Total capital assets, net	<u>\$ 1,650,601</u>	<u>\$ (16,115)</u>	<u>\$ 38,377</u>	<u>\$ 1,596,109</u>

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

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

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

**NOTE 5 - NET POSITION**

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

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017 and 2016, the District had invested in capital assets of \$1,596,109 and \$1,650,601, respectively equal to its net capital assets as the District has no outstanding debt.

**NOTE 6 – INTERGOVERNMENTAL AGREEMENTS**

**WATER SERVICE AGREEMENT**

**Denver Water Board**

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**SEWER SERVICE AGREEMENT**

**Metropolitan Wastewater Reclamation District**

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

The composition of the charges for actual flows in 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Preliminary estimate for current year	\$ 481,675	\$ 433,738
Preliminary adjustment for current year	(87,318)	38,588
Final adjustment for current year	<u>(49,179)</u>	<u>(84,802)</u>
Total annual charges	<u>\$ 345,178</u>	<u>\$ 387,524</u>

**NOTE 7 - RISK MANAGEMENT**

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS**

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

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

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

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

**SUPPLEMENTAL INFORMATION**

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**Year Ended December 31, 2017**

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
<b>REVENUE</b>			
Service fees	\$ 877,585	\$ 876,310	\$ (1,275)
Delinquent fees	15,000	15,800	800
Grease trap inspections	4,000	3,750	(250)
Interest income	31,000	31,516	516
Increase in fair value of investments	-	2,213	2,213
Miscellaneous	13,000	9,987	(3,013)
Total revenues	940,585	939,576	(1,009)
<b>EXPENDITURES</b>			
Sewer treatment and operations:			
Sewer treatment charges	785,566	391,209	394,357
Engineering maintenance	10,880	18,915	(8,035)
Repairs and maintenance	95,713	58,133	37,580
Utility locates and tap inspections	3,800	10,357	(6,557)
Grease trap inspection expense	4,120	2,501	1,619
Sump pump inspections	19,000	16,009	2,991
Public relations	700	1,121	(421)
General operations:			
Audit	5,200	5,200	-
General engineering	16,264	7,809	8,455
Insurance	7,200	7,416	(216)
Election costs	-	75	(75)
Legal	1,000	853	147
Management and accounting fees	80,000	72,526	7,474
Directors' fees	4,000	3,014	986
Office and administrative	25,200	23,315	1,885
Capital outlay and reserve	55,000	48,084	6,916
Contingency	100,000	-	100,000
Total expenditures	1,213,643	666,537	547,106
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(273,058)	273,039	546,097
<b>FUNDS AVAILABLE - BEGINNING OF YEAR</b>	2,805,994	2,802,731	(3,263)
<b>FUNDS AVAILABLE - END OF YEAR</b>	\$ 2,532,936	\$ 3,075,770	\$ 542,834

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

Current assets	\$ 3,087,161
Current liabilities	(11,391)
	\$ 3,075,770

**SOUTHWEST SUBURBAN DENVER WATER AND SANITATION DISTRICT  
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF  
REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year Ended December 31, 2017**

Revenue (budgetary basis)	\$ 939,576
	<u>939,576</u>
Revenues per Statements of Revenues, Expenses and Changes in Net Position	<u>939,576</u>
Expenditures (budgetary basis)	666,537
Depreciation	100,454
Capital outlay	(48,084)
Loss on disposition of assets	2,122
	<u>721,029</u>
Expenses per Statements of Revenues, Expenses and Changes in Net Position	<u>721,029</u>
Change in net position per Statements of Revenues, Expenses and Changes in Net Position	<u><u>\$ 218,547</u></u>