

SOUTH ARAPAHOE SANITATION DISTRICT
Arapahoe County, Colorado

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED DECEMBER 31, 2018 AND 2017

**SOUTH ARAPAHOE SANITATION DISTRICT
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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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Board of Directors
South Arapahoe Sanitation District
Arapahoe County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of South Arapahoe Sanitation District (the "District") as of and for the year ended December 31, 2018, 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 audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South Arapahoe Sanitation District as of December 31, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of South Arapahoe Sanitation District for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on March 29, 2018.

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

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

Stratagem PC
Certified Public Accountants
Lakewood, Colorado

May 21, 2019

**SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

The management of South Arapahoe Sanitation District (the District) offers the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2018.

Financial Highlights

- Net position increased \$355,664 during 2018.
- The District had \$4,265,366 of operating revenue for sewer services as compared to revenue of \$4,240,892 in 2017, and \$3,590,888 of operating expenses for sewer as compared to expenses of \$3,634,381 in 2017.
- Operating revenues, exclusive of service treatment fees, and operating expenses, exclusive of depreciation and sewage treatment expense (which is offset dollar for dollar by service treatment fees), increased 0.64% and decreased 7.43% over 2017 revenues and expenses, respectively.
- No net sewer taps were issued in 2018, keeping the total number of Single Family Equivalents (SFE) in the District to 11,114.
- Funds available (current assets less current liabilities and deferred inflows of resources) increased \$193,997 from \$4,794,492 in 2017 to \$4,988,489 in 2018.
- The District constructed \$477,220 of capital improvements during 2018.

Overview of the Financial Statements

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

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

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

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

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

**SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

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

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

Statement of Net Position

	December 31,		
	2018	2017	2016
ASSETS			
Current Assets	\$ 6,127,640	\$ 5,696,363	\$ 5,422,581
Capital Assets	7,454,133	7,292,466	7,247,413
Total Assets	<u>13,581,773</u>	<u>12,988,829</u>	<u>12,669,994</u>
LIABILITIES			
Current Liabilities	1,139,151	901,871	924,280
Total Liabilities	<u>1,139,151</u>	<u>901,871</u>	<u>924,280</u>
NET POSITION			
Net Assets Invested in Capital Assets	7,454,133	7,292,466	7,247,413
Unrestricted Net Position	4,988,489	4,794,492	4,498,301
Total Net Position	<u>\$ 12,442,622</u>	<u>\$ 12,086,958</u>	<u>\$ 11,745,714</u>

The District increased its net position by \$355,664 during 2018 and \$341,244 during 2017. Current assets increased \$431,277 from 2017 primarily due to the increase in cash and investments due to revenues exceeding expenses. The District's deferred transmission fee revenue was 44% of Englewood's service treatment fees. The "Funds Available" (current assets less current liabilities and deferred inflows of resources) calculates to \$4,988,489 for 2018 and \$4,794,492 for 2017, which is available primarily for future operations and capital projects.

**SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Review of Change in Net Position

	December 31,		
	2018	2017	2016
REVENUES			
Operating Revenue:			
Sewer Services	\$ 4,265,366	\$ 4,240,892	\$ 4,251,830
Total Operating Revenue	<u>4,265,366</u>	<u>4,240,892</u>	<u>4,251,830</u>
Nonoperating Revenue (Expenses):			
Investment Income	86,751	42,800	26,356
Other Income	8,004	17,119	39,757
Total Nonoperating Revenue	<u>94,755</u>	<u>59,919</u>	<u>66,113</u>
Capital Contributions:			
Tap Fees	17,010	1,995	13,485
Capital Contributions from Third Parties	-	94,099	-
Total Nonoperating Revenue	<u>17,010</u>	<u>96,094</u>	<u>13,485</u>
Total Revenue	<u>4,377,131</u>	<u>4,396,905</u>	<u>4,331,428</u>
EXPENSES			
Operating Expenses:			
Sewer	3,590,888	3,634,381	3,725,796
Total Operating Expenses	<u>3,590,888</u>	<u>3,634,381</u>	<u>3,725,796</u>
General and Administrative	115,026	116,054	125,231
Depreciation	315,553	305,226	286,449
Total Expenses	<u>4,021,467</u>	<u>4,055,661</u>	<u>4,137,476</u>
CHANGE IN NET POSITION	355,664	341,244	193,952
Net Position - Beginning of Year	<u>12,086,958</u>	<u>11,745,714</u>	<u>11,551,762</u>
NET POSITION - END OF YEAR	<u>\$ 12,442,622</u>	<u>\$ 12,086,958</u>	<u>\$ 11,745,714</u>

Total revenue decreased \$19,774 in 2018. Sewer services increased \$24,474 and nonoperating revenue increased \$34,836. In 2018, tap fees increased by \$15,015. The increase in net investment income was due mostly to an increase in interest earnings on the District's local government investment pools. The City bills annually in advance in June, September, and December. The 2018 billings were billed at the same rate as 2017. District transmission fees are a percentage of the City's service treatment fees, which were 44% in 2018, 2017, and 2016. Operating and general and administrative expenses decreased \$44,521 over 2017 expenses.

**SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Budgetary Highlights

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

Total revenue of the District was more than the budgeted revenue by \$83,851 due mainly to the positive variances for service treatment fees, district transmission fees, tap fees and investment income.

Actual expenditures of the District were less than the budgeted appropriation by \$236,866, which included positive variances for repairs and maintenance, engineering management, and capital improvements. The positive variances were offset to an extent by negative variances for sewer treatment, customer communications and locates.

**SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Capital Assets Activity

The activity related to capital assets during 2018, 2017, and 2016 is as follows:

	December 31, 2017	Net Changes	December 31, 2018
Land and Easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer System	343,026 <u>15,108,767</u>	- <u>477,220</u>	343,026 <u>15,585,987</u>
Total Capital Assets	<u>15,515,850</u>	<u>477,220</u>	<u>15,993,070</u>
Accumulated Depreciation	<u>(8,223,384)</u>	<u>(315,553)</u>	<u>(8,538,937)</u>
Net Capital Assets	<u>\$ 7,292,466</u>	<u>\$ 161,667</u>	<u>\$ 7,454,133</u>
	December 31, 2016	Net Changes	December 31, 2017
Land and Easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer System	343,026 <u>14,758,488</u>	- <u>350,279</u>	343,026 <u>15,108,767</u>
Total Capital Assets	<u>15,165,571</u>	<u>350,279</u>	<u>15,515,850</u>
Accumulated Depreciation	<u>(7,918,158)</u>	<u>(305,226)</u>	<u>(8,223,384)</u>
Net Capital Assets	<u>\$ 7,247,413</u>	<u>\$ 45,053</u>	<u>\$ 7,292,466</u>
	December 31, 2015	Net Changes	December 31, 2016
Land and Easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer System	343,026 <u>13,646,545</u>	- <u>1,111,943</u>	343,026 <u>14,758,488</u>
Total Capital Assets	<u>14,053,628</u>	<u>1,111,943</u>	<u>15,165,571</u>
Accumulated Depreciation	<u>(7,631,709)</u>	<u>(286,449)</u>	<u>(7,918,158)</u>
Net Capital Assets	<u>\$ 6,421,919</u>	<u>\$ 825,494</u>	<u>\$ 7,247,413</u>

The 2018 capital asset activity of \$477,220 and the 2017 capital asset activity of \$350,279 were spent for engineering, design, and construction of sewer pipe by cured-in-place rehabilitation and manhole rehabilitation.

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

**SOUTH ARAPAHOE SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2018**

Economic and Other Factors

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

The District intends to maintain its percentage for transmission fees at a rate that will generate revenues to produce a funds available balance that will be sufficient to provide a capital reserve for future replacement of the District's sewer system assets, as well as unforeseen contingencies. The District's targeted reserves for capital replacement at December 31, 2018, was \$3,042,597.

Request for Information

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

South Arapahoe Sanitation District
8390 E. Crescent Parkway, Suite 300
Greenwood Village, CO 80111

BASIC FINANCIAL STATEMENTS

**SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017**

ASSETS	2018	2017
CURRENT ASSETS		
Cash	\$ 516,448	\$ 734,190
Investments	4,831,081	4,265,230
Accounts Receivable	764,968	680,623
Accounts Receivable - Other	-	2,972
Interest Receivable	8,557	7,229
Prepaid Expenses	6,586	6,119
Total Current Assets	6,127,640	5,696,363
CAPITAL ASSETS, Net		
Capital Assets Not Being Depreciated	407,083	407,083
Capital Assets, Net of Accumulated Depreciation	7,047,050	6,885,383
Total Capital Assets, Net	7,454,133	7,292,466
Total Assets	\$ 13,581,773	\$ 12,988,829
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 336,955	\$ 100,387
Unearned Revenue	802,196	801,484
Total Current Liabilities	1,139,151	901,871
NET POSITION		
Net Investment in Capital Assets	7,454,133	7,292,466
Unrestricted	4,988,489	4,794,492
Total Net Position	12,442,622	12,086,958
Total Liabilities and Net Position	\$ 13,581,773	\$ 12,988,829

See accompanying Notes to Basic Financial Statements.

**SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
OPERATING REVENUES		
Service Treatment Fees	\$ 2,951,334	\$ 2,935,262
District Transmission Fees	1,297,426	1,289,505
Industrial Pretreatment Program	16,606	16,125
Total Operating Revenues	4,265,366	4,240,892
OPERATING EXPENSES		
Sewage Treatment	2,951,334	2,935,262
Repairs and Maintenance	408,739	469,878
Depreciation	315,553	305,226
Engineering Management	188,967	194,497
Accounting	48,075	52,121
Audit	3,850	3,850
Conferences/Seminars	1,564	669
Customer Communications	4,591	4,299
Directors' Fees	5,300	6,000
Dues/Licenses	1,238	1,238
Insurance and Fidelity Bonds	6,119	8,645
Legal Fees	42,683	37,153
Locates	32,651	18,960
Miscellaneous	222	518
Payroll Taxes	405	459
Plan Review/Construction Observation	9,197	15,784
Utilities	979	1,102
Total Operating Expenses	4,021,467	4,055,661
OPERATING INCOME	243,899	185,231
NONOPERATING REVENUES (EXPENSES)		
Investment Income	86,751	42,800
Plan Review/Construction Observation Fees	3,436	2,000
Other Income	4,568	15,119
Total Nonoperating Revenues	94,755	59,919
CAPITAL CONTRIBUTIONS		
Tap Fees	17,010	1,995
Capital Contributions from Third Parties	-	94,099
Total Capital Contributions	17,010	96,094
CHANGE IN NET POSITION	355,664	341,244
Total Net Position - Beginning of Year	12,086,958	11,745,714
TOTAL NET POSITION - END OF YEAR	\$ 12,442,622	\$ 12,086,958

See accompanying Notes to Basic Financial Statements.

**SOUTH ARAPAHOE SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 1,230,399	\$ 1,412,569
Payment for Operating Expenses	(518,479)	(852,889)
Net Cash Provided by Operating Activities	711,920	559,680
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tap Fees	17,010	1,995
Other Nonoperating Revenue	10,976	14,147
Net Cash Provided by Noncapital Financing Activities	27,986	16,142
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(477,220)	(256,180)
Net Cash (Required) by Capital and Related Financing Activities	(477,220)	(256,180)
CASH FLOWS FROM INVESTING ACTIVITIES		
Certificate of Deposit Maturity	495,000	495,000
Purchase of Certificate of Deposit	(495,000)	(495,000)
Decrease (Increase) in U.S. Government Investments	439,674	(112,993)
Interest Received	85,423	44,413
Net Cash Provided (Required) by Investing Activities	525,097	(68,580)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	787,783	251,062
Cash and Cash Equivalents - Beginning of Year	1,883,593	1,632,531
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,671,376	\$ 1,883,593
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES		
Income from Operations	\$ 243,899	\$ 185,231
Adjustments to Reconcile Income (Loss) from Operations to Net Cash Flows Provided by Operating Activities:		
Depreciation/Amortization	315,553	305,226
Net (Increase) Decrease in Accounts Receivable	(84,345)	97,508
Net (Increase) Decrease in Prepaid Expenses	(467)	(5,876)
Net Increase (Decrease) in Accounts Payable	236,568	(31,840)
Net Increase (Decrease) in Unearned Revenue	712	9,431
Net Cash Provided by Operating Activities	\$ 711,920	\$ 559,680

See accompanying Notes to Basic Financial Statements.

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 DEFINITION OF REPORTING ENTITY

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

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

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

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of Accounting

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

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

Budgets

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

Cash Equivalents

For purposes of the statements of cash flows, the District considers all cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives of 10 to 40 years.

Contributed Public Improvements

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Public Improvements (Continued)

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

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

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

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

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of December 31, 2018 and 2017 are classified in the accompanying financial statements as follows:

	<u>2018</u>	<u>2017</u>
Statement of Net Position:		
Cash	\$ 516,448	\$ 734,190
Investments	4,831,081	4,265,230
Total Cash and Investments	<u>\$ 5,347,529</u>	<u>\$ 4,999,420</u>

Cash and cash equivalents per the statement of cash flows as of December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Deposits with Financial Institutions	\$ 14,385	\$ 235,286
Certificates of Deposits	502,063	498,904
Less Principal Amount of CDs	(495,000)	(495,000)
Investments	4,831,081	4,265,230
Less Investments with a Maturity Greater than Three Months	<u>(2,181,153)</u>	<u>(2,620,827)</u>
Total Cash and Investments, Net	<u>\$ 2,671,376</u>	<u>\$ 1,883,593</u>

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

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

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

At December 31, 2018 and 2017, the District's cash deposits had a bank balance of \$24,717 and \$235,286 and a carrying balance of \$14,385 and \$235,286, respectively.

At December 31, 2018 and 2017, the District's deposits also included certificates of deposit with financial institutions of \$502,063 and \$498,904, respectively; \$494,436 and 493,917, respectively, is insured through the FDIC, with the remaining balance collateralized through single institution pools.

Investments

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

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

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

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

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

Fair Value Measurement and Application

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

As of December 31, 2018 and 2017, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>	
		<u>2018</u>	<u>2017</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted Average Under 60 Days	\$ 2,649,929	\$ 1,644,403
Farmer Mac	June 2018	-	201,392
Federal Home Loan Bank	August 2018	-	199,108
Federal Home Loan Bank Step	October 2021 - December 2021	544,082	543,091
Federal Home Loan Mortgage Corp.	August 2021 - December 2022	1,137,785	987,651
Federal National Mortgage Assn.	November 2019	99,195	299,836
International Bank for Reconstruction and Development	May 2018	-	49,702
Resolution Funding Corporation	January 2018 - April 2018	-	39,904
Tennessee Valley Authority	April 2018 - October 2018	-	225,212
U.S. Treasury Notes	June 2018	-	49,969
Zero Coupon Treasures	June 2018	-	24,962
Federal Farm Credit Bank	March 2023 - April 2023	400,090	-
Total		<u>\$ 4,831,081</u>	<u>\$ 4,265,230</u>

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The state securities commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

U.S. Treasury Securities

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

U.S. Government Agency Securities

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

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

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

Federal Farm Credit Bank (FFCB) - FFCB is an integral part of the Farm Credit System (FCS), a leading provider of loans, leases and services to rural communities and U.S. agriculture. The FCS is a government sponsored enterprise, created in 1916 and dedicated to assuring a steady source of financing to qualified borrowers. The Funding Corporation issues highly rated notes and bonds on behalf of the FCS. All institutions in the FCS are examined and regulated by the Farm Credit Administration. FFCB is rated AAA by Moody's and AA+ by S&P.

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 CAPITAL ASSETS

An analysis of the changes in capital assets for the years ended December 31, 2018 and 2017 follows:

	Balance - December 31, 2017	Increases	Decreases	Balance - December 31, 2018
Capital Assets Not Being Depreciated:				
Land and Easements Capacity in Southgate's Big Dry Creek Interceptor	\$ 64,057	\$ -	\$ -	\$ 64,057
Total Capital Assets, Not Being Depreciated	<u>343,026</u>	<u>-</u>	<u>-</u>	<u>343,026</u>
Capital Assets Being Depreciated:				
GIS Program	92,022	-	-	92,022
Sewer System	15,016,745	477,220	-	15,493,965
Total Capital Assets Being Depreciated	<u>15,108,767</u>	<u>477,220</u>	<u>-</u>	<u>15,585,987</u>
Less Accumulated Depreciation For:				
GIS Program	(44,130)	(9,201)	-	(53,331)
Sewer System	(8,179,254)	(306,352)	-	(8,485,606)
Total Accumulated Depreciation	<u>(8,223,384)</u>	<u>(315,553)</u>	<u>-</u>	<u>(8,538,937)</u>
Total Capital Assets Being Depreciated	<u>6,885,383</u>	<u>161,667</u>	<u>-</u>	<u>7,047,050</u>
Capital Assets, Net	<u>\$ 7,292,466</u>	<u>\$ 161,667</u>	<u>\$ -</u>	<u>\$ 7,454,133</u>

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Balance - December 31, 2016	Increases	Decreases	Balance - December 31, 2017
Capital Assets Not Being Depreciated:				
Land and Easements Capacity in Southgate's Big Dry Creek Interceptor	\$ 64,057	\$ -	\$ -	\$ 64,057
Total Capital Assets Not Being Depreciated	<u>343,026</u>	<u>-</u>	<u>-</u>	<u>343,026</u>
Capital Assets Being Depreciated:				
GIS Program	92,022	-	-	92,022
Sewer System	14,666,466	350,279	-	15,016,745
Total Capital Assets Being Depreciated	<u>14,758,488</u>	<u>350,279</u>	<u>-</u>	<u>15,108,767</u>
Less Accumulated Depreciation For:				
GIS Program	(34,927)	(9,203)	-	(44,130)
Sewer System	(7,883,231)	(296,023)	-	(8,179,254)
Total Accumulated Depreciation	<u>(7,918,158)</u>	<u>(305,226)</u>	<u>-</u>	<u>(8,223,384)</u>
Total Capital Assets Being Depreciated	<u>6,840,330</u>	<u>45,053</u>	<u>-</u>	<u>6,885,383</u>
Capital Assets, Net	<u>\$ 7,247,413</u>	<u>\$ 45,053</u>	<u>\$ -</u>	<u>\$ 7,292,466</u>

Depreciation expense for the year ended December 31, 2018 and 2017 was charged to the following operations:

	2018	2017
Sewer	<u>\$ 315,553</u>	<u>\$ 305,226</u>
Total Depreciation Expense	<u>\$ 315,553</u>	<u>\$ 305,226</u>

NOTE 5 INTERGOVERNMENTAL AGREEMENTS

City of Englewood Sewage Treatment

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

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 5 INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Basin Interceptor Agreement

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

Englewood bills the residents in each party's service area for the estimated maintenance costs of the interceptor and retains all billing collections in trust. The Basin Interceptor Agreement charges were \$207,006 and \$209,201 in 2018 and 2017, respectively.

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

Southgate Sanitation District

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

Wastewater Connector and Transmission Agreement

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 NET POSITION

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

Net investment in capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2018 and 2017, the District had net investment in capital assets calculated as follows:

	2018	2017
Net Investment in Capital Assets:		
Capital Assets, Net	\$ 15,993,070	\$ 15,515,850
Less Depreciation	(8,538,937)	(8,223,384)
Net Investment in Capital Assets	\$ 7,454,133	\$ 7,292,466

The unrestricted component of net position is the net amount of the assets, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

NOTE 7 COMMITMENTS

On September 17, 2018, the District entered into a contract with Insituform Technologies, Inc., for cured-in-place lining of the District's 8" pipeline and associated manhole rehabilitation. The amount of the contract was for \$439,677. The amount remaining on the contract as of December 31, 2018, was retainage in the amount of \$22,016.

NOTE 8 RISK MANAGEMENT

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

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

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

**SOUTH ARAPAHOE SANITATION DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 9 TAX, SPENDING, AND DEBT LIMITATIONS

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

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

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

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

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

SUPPLEMENTARY INFORMATION

**SOUTH ARAPAHOE SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
YEAR ENDED DECEMBER 31, 2018**

	Original Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Service Treatment Fees	\$ 2,933,700	\$ 2,951,334	\$ 17,634
District Transmission Fees	1,290,830	1,297,426	6,596
Tap Fees	1,500	17,010	15,510
Industrial Pretreatment Program	15,750	16,606	856
Plan Review Fees	4,000	3,436	(564)
Investment Income	46,500	86,751	40,251
Other Income	1,000	4,568	3,568
Total Revenues	<u>4,293,280</u>	<u>4,377,131</u>	<u>83,851</u>
EXPENDITURES			
Sewage Treatment	2,933,700	2,951,334	(17,634)
Repairs and Maintenance	582,100	408,739	173,361
Engineering Management	224,000	188,967	35,033
Accounting	52,000	48,075	3,925
Audit	3,850	3,850	-
Conferences/Seminars	750	1,564	(814)
Customer Communications	3,000	4,591	(1,591)
Directors' Fees	6,000	5,300	700
Dues/Licenses	1,300	1,238	62
Insurance and Fidelity Bonds	9,000	6,119	2,881
Legal Fees	45,000	42,683	2,317
Locates	20,000	32,651	(12,651)
Miscellaneous	500	222	278
Payroll Taxes	458	405	53
Plan Review/Construction Observation	26,000	9,197	16,803
Utilities	1,500	979	521
Capital Improvements	500,000	477,220	22,780
Contingency	10,842	-	10,842
Total Expenditures	<u>4,420,000</u>	<u>4,183,134</u>	<u>236,866</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(126,720)	193,997	320,717
Funds Available - Beginning of Year	<u>4,712,995</u>	<u>4,794,492</u>	<u>81,497</u>
FUNDS AVAILABLE - END OF YEAR	<u><u>\$ 4,586,275</u></u>	<u><u>\$ 4,988,489</u></u>	<u><u>\$ 402,214</u></u>

**SOUTH ARAPAHOE SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2018**

	Actual
Funds Available Are Defined As Follows:	
Current Assets	\$ 6,127,640
Less Current Liabilities	(1,139,151)
Funds Available	\$ 4,988,489
Reconciliation of Budgetary Basis (Actual) To Statement of Revenues, Expenses and Changes in Net Position:	
Revenues (Budgetary Basis)	\$ 4,377,131
Total Revenue Per Statement of Revenues, Expenses And Changes in Net Position	4,377,131
Expenditures (Budgetary Basis)	4,183,134
Depreciation	315,553
Capital Outlay	(477,220)
Total Expenses Per Statement of Revenues, Expenses And Changes in Net Position	4,021,467
Change in Net Position Per Statement of Revenues, Expenses and Changes in Net Position	\$ 355,664