

**SOUTH ARAPAHOE SANITATION DISTRICT  
Arapahoe County, Colorado**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

**SOUTH ARAPAHOE SANITATION DISTRICT  
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## Independent Auditors' Report

Board of Directors  
South Arapahoe Sanitation District  
Arapahoe County, Colorado

### **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, 2019, 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; 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. 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, 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

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

Our audit was conducted for the purpose of forming 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.

## **Prior Period Financial Statements**

The financial statements of South Arapahoe Sanitation District for the year ended December 31, 2018, were audited by Stratagem PC, who merged with Wipfli LLP as of January 1, 2020, and whose report dated May 21, 2019 expressed an unmodified opinion on the financial statements.

*Wipfli LLP*  
*Lakewood, Colorado*

April 3, 2020

**SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

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, 2019.

**Financial Highlights**

- Net position increased \$343,396 during 2019.
- The District had \$1,327,882 of operating revenue for sewer services as compared to revenue of \$1,314,032 in 2018, and \$1,132,828 of operating expenses for sewer as compared to expenses of \$1,070,133 in 2018.
- Operating revenues and operating expenses, exclusive of depreciation, increased 1.05% and increased 6.99% over 2018 revenues and expenses, respectively.
- One sewer tap was issued in 2019, raising the total number of Single Family Equivalents (SFE) in the District to 11,115.
- Funds available (current assets less current liabilities and deferred inflows of resources) increased \$252,915 from \$4,988,489 in 2018 to \$5,241,404 in 2019.
- The District constructed \$395,516 of capital improvements and accepted \$20,500 of contributed pipelines during 2019.

**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, 2019**

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,		
	2019	2018	2017
<b>ASSETS</b>			
Current Assets	\$ 6,165,540	\$ 6,127,640	\$ 5,696,363
Capital Assets	7,544,614	7,454,133	7,292,466
Total Assets	<u>13,710,154</u>	<u>13,581,773</u>	<u>12,988,829</u>
<b>LIABILITIES</b>			
Current Liabilities	924,136	1,139,151	901,871
Total Liabilities	<u>924,136</u>	<u>1,139,151</u>	<u>901,871</u>
<b>NET POSITION</b>			
Net Assets Invested in Capital Assets	7,544,614	7,454,133	7,292,466
Unrestricted Net Position	5,241,404	4,988,489	4,794,492
Total Net Position	<u>\$ 12,786,018</u>	<u>\$ 12,442,622</u>	<u>\$ 12,086,958</u>

The District increased its net position \$343,396 during 2019 and \$355,664 during 2018. Current assets increased \$37,900 from 2018. The "Funds Available" (current assets less current liabilities and deferred inflows of resources) calculates to \$5,241,404 for 2019 and \$4,988,489 for 2018, which is available primarily for future operations and capital projects.

**SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Review of Change in Net Position**

	December 31,		
	2019	2018	2017
<b>REVENUES</b>			
Operating Revenue:			
Sewer Services	\$ 1,327,882	\$ 1,314,032	\$ 1,305,630
Total Operating Revenue	<u>1,327,882</u>	<u>1,314,032</u>	<u>1,305,630</u>
Nonoperating Revenue (Expenses):			
Investment Income	119,878	86,751	42,800
Other Income	6,464	8,004	17,119
Total Nonoperating Revenue	<u>126,342</u>	<u>94,755</u>	<u>59,919</u>
Capital Contributions:			
Tap Fees	1,500	17,010	1,995
Capital Contributions from Third Parties	20,500	-	94,099
Total Capital Contributions	<u>22,000</u>	<u>17,010</u>	<u>96,094</u>
Total Revenue	<u>1,476,224</u>	<u>1,425,797</u>	<u>1,461,643</u>
<b>EXPENSES</b>			
Operating Expenses:			
Sewer	701,110	639,554	699,119
Total Operating Expenses	<u>701,110</u>	<u>639,554</u>	<u>699,119</u>
General and Administrative	106,183	115,026	116,054
Depreciation	325,535	315,553	305,226
Total Expenses	<u>1,132,828</u>	<u>1,070,133</u>	<u>1,120,399</u>
<b>CHANGE IN NET POSITION</b>	343,396	355,664	341,244
Net Position - Beginning of Year	<u>12,442,622</u>	<u>12,086,958</u>	<u>11,745,714</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 12,786,018</u>	<u>\$ 12,442,622</u>	<u>\$ 12,086,958</u>

Total revenue increased \$50,427 in 2019. Sewer services increased \$13,850 and nonoperating revenue increased \$36,577. In 2019, tap fees decreased by \$15,510. The increase in net investment income was due mostly to the District transferring \$1,535,015 from its Morgan Stanley government investments to the District's local government investment pool, which has a higher annual interest yield. The City bills annually in advance in June, September, and December. District transmission fees are a percentage of the City's service treatment fees, which were 43% in 2019 and 44% in 2018 and 44% in 2017. Operating and general and administrative expenses increased \$52,713 over 2018 expenses, due mainly to increased costs for locates and repairs and maintenance.

**SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**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 \$23,574 due mainly to the positive variances for investment income and contributed capital, offset by a negative variance for District transmission fees.

Actual expenditures of the District were less than the budgeted appropriation by \$349,549, which included positive variances for legal fees, repairs and maintenance, engineering management, plan review and construction observation, and capital improvements. The positive variances were offset by a negative variance for locates.

**SOUTH ARAPAHOE SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED DECEMBER 31, 2019**

**Capital Assets Activity**

The activity related to capital assets during 2019, 2018, and 2017 is as follows:

	December 31, 2018	Net Changes	December 31, 2019
Land and Easements	\$ 64,057	\$ -	\$ 64,057
Capacity in Southgate's Big Dry Creek Interceptor Sewer System	343,026 15,585,987	- 416,016	343,026 16,002,003
Total Capital Assets	<u>15,993,070</u>	<u>416,016</u>	<u>16,409,086</u>
Accumulated Depreciation	<u>(8,538,937)</u>	<u>(325,535)</u>	<u>(8,864,472)</u>
Net Capital Assets	<u>\$ 7,454,133</u>	<u>\$ 90,481</u>	<u>\$ 7,544,614</u>
	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 15,108,767	- 477,220	343,026 15,585,987
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 14,758,488	- 350,279	343,026 15,108,767
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>

The 2019 capital asset activity of \$395,516 and the 2018 capital asset activity of \$477,220 were spent for engineering, design, and construction of sewer pipe by cured-in-place rehabilitation and manhole rehabilitation. In 2019, the District also accepted \$20,500 of contributed capital.

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, 2019**

**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, 2019, was \$3,073,023.

**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, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 2,085,473	\$ 516,448
Investments	3,296,066	4,831,081
Accounts Receivable	779,276	764,968
Interest Receivable	4,725	8,557
Prepaid Expenses	-	6,586
Total Current Assets	6,165,540	6,127,640
<b>CAPITAL ASSETS, Net</b>		
Capital Assets Not Being Depreciated	407,083	407,083
Capital Assets, Net of Accumulated Depreciation	7,137,531	7,047,050
Total Capital Assets, Net	7,544,614	7,454,133
Total Assets	\$ 13,710,154	\$ 13,581,773
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 90,224	\$ 336,955
Unearned Revenue	833,912	802,196
Total Current Liabilities	924,136	1,139,151
<b>NET POSITION</b>		
Net Investment in Capital Assets	7,544,614	7,454,133
Unrestricted	5,241,404	4,988,489
Total Net Position	12,786,018	12,442,622
Total Liabilities and Net Position	\$ 13,710,154	\$ 13,581,773

See accompanying Notes to Basic Financial Statements.

**SOUTH ARAPAHOE SANITATION DISTRICT  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES</b>		
District Transmission Fees	\$ 1,313,382	\$ 1,297,426
Industrial Pretreatment Program	14,500	16,606
Total Operating Revenues	1,327,882	1,314,032
<b>OPERATING EXPENSES</b>		
General and Administrative		
Accounting	52,129	48,075
Audit	3,850	3,850
Conferences/Seminars	2,570	1,564
Customer Communications	4,103	4,591
Directors' Fees	5,400	5,300
Dues/Licenses	1,238	1,238
Insurance and Fidelity Bonds	6,586	6,119
Legal Fees	28,293	42,683
Miscellaneous	580	222
Payroll Taxes	413	405
Utilities	1,021	979
Sewer		
Depreciation	325,535	315,553
Engineering Management	192,065	188,967
Locates	63,149	32,651
Plan Review/Construction Observation	5,822	9,197
Repairs and Maintenance	440,074	408,739
Total Operating Expenses	1,132,828	1,070,133
<b>OPERATING INCOME</b>	195,054	243,899
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment Income	119,878	86,751
Plan Review/Construction Observation Fees	2,000	3,436
Other Income	4,464	4,568
Total Nonoperating Revenues	126,342	94,755
<b>CAPITAL CONTRIBUTIONS</b>		
Tap Fees	1,500	17,010
Capital Contributions from Third Parties	20,500	-
Total Capital Contributions	22,000	17,010
<b>CHANGE IN NET POSITION</b>	343,396	355,664
Total Net Position - Beginning of Year	12,442,622	12,086,958
<b>TOTAL NET POSITION - END OF YEAR</b>	\$ 12,786,018	\$ 12,442,622

See accompanying Notes to Basic Financial Statements.

**SOUTH ARAPAHOE SANITATION DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 1,345,290	\$ 1,230,399
Payment for Operating Expenses	(1,047,438)	(518,479)
Net Cash Provided by Operating Activities	297,852	711,920
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Tap Fees	1,500	17,010
Other Nonoperating Revenue	6,464	10,976
Net Cash Provided by Noncapital Financing Activities	7,964	27,986
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets	(395,516)	(477,220)
Net Cash (Required) by Capital and Related Financing Activities	(395,516)	(477,220)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Certificate of Deposit Maturity	495,000	495,000
Purchase of Certificate of Deposit	(250,000)	(495,000)
Decrease in U.S. Government Investments	2,181,153	439,674
Interest Received	123,710	85,423
Net Cash Provided by Investing Activities	2,549,863	525,097
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,460,163	787,783
Cash and Cash Equivalents - Beginning of Year	2,671,376	1,883,593
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 5,131,539	\$ 2,671,376
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Income from Operations	\$ 195,054	\$ 243,899
Adjustments to Reconcile Income from Operations to Net Cash Flows Provided by Operating Activities:		
Depreciation/Amortization	325,535	315,553
Net (Increase) Decrease in Accounts Receivable	(14,308)	(84,345)
Net (Increase) Decrease in Prepaid Expenses	6,586	(467)
Net Increase (Decrease) in Accounts Payable	(246,731)	236,568
Net Increase (Decrease) in Unearned Revenue	31,716	712
Net Cash Provided by Operating Activities	\$ 297,852	\$ 711,920

See accompanying Notes to Basic Financial Statements.

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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, 2019 AND 2018**

**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.

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

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributed Public Improvements (Continued)**

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

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

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

**Reclassifications**

For comparability, certain 2017 and 2018 amounts have been reclassified where appropriate to conform with the 2019 financial statement presentation.

**NOTE 3 CASH AND INVESTMENTS**

Cash and investments as of December 31, 2019 and 2018 are classified in the accompanying financial statements as follows:

	<u>2019</u>	<u>2018</u>
Statement of Net Position:		
Cash	\$ 263,188	\$ 516,448
Investments	5,118,351	4,831,081
Total Cash and Investments	<u>\$ 5,381,539</u>	<u>\$ 5,347,529</u>

Cash and cash equivalents per the statement of cash flows as of December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Deposits with Financial Institutions	\$ 5,335	\$ 14,385
Certificates of Deposits	257,853	502,063
Less Principal Amount of CDs	(250,000)	(495,000)
Investments	5,118,351	4,831,081
Less Investments with a Maturity Greater than Three Months	-	(2,181,153)
Total Cash and Investments, Net	<u>\$ 5,131,539</u>	<u>\$ 2,671,376</u>

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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, 2019 and 2018, the District's cash deposits had a bank balance of \$6,385 and \$24,717 and a carrying balance of \$5,335 and \$14,385, respectively.

At December 31, 2019 and 2018, the District's deposits also included certificates of deposit with financial institutions of \$257,853 and \$502,063, respectively; \$250,000 and \$494,436, 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, 2019 AND 2018**

**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), and COLOTRUST which are recorded at net asset value.

As of December 31, 2019 and 2018, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>	
		<u>2019</u>	<u>2018</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted Average Under 60 Days	\$ 3,296,066	\$ 2,649,929
Morgan Stanley - MSILF Govt Sec Part	Weighted Average 33 Days	1,822,285	-
Federal Home Loan Bank Step	October 2021 - December 2021	-	544,082
Federal Home Loan Mortgage Corp.	August 2021 - December 2022	-	1,137,785
Federal National Mortgage Assn.	November 2019	-	99,195
Federal Farm Credit Bank	March 2023 - April 2023	-	400,090
Total		<u>\$ 5,118,351</u>	<u>\$ 4,831,081</u>

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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 (S&P). 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.

**Morgan Stanley Institutional Liquidity Funds**

The District has invested in the Morgan Stanley Institutional Liquidity Funds – Governmental Securities Portfolio. This portfolio is an institutional mutual fund which invests in U.S. Agency and U.S. Treasury securities, with weighted average maturities of 33 days or less. The portfolio is rated AAAM by S&P.

**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, 2019 AND 2018**

**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, 2019 AND 2018**

**NOTE 4 CAPITAL ASSETS**

An analysis of the changes in capital assets for the years ended December 31, 2019 and 2018 follows:

	Balance - December 31, 2018	Increases	Decreases	Balance - December 31, 2019
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	15,493,965	416,016	-	15,909,981
Total Capital Assets Being Depreciated	<u>15,585,987</u>	<u>416,016</u>	<u>-</u>	<u>16,002,003</u>
Less Accumulated Depreciation For:				
GIS Program	(53,331)	(9,203)	-	(62,534)
Sewer System	(8,485,606)	(316,332)	-	(8,801,938)
Total Accumulated Depreciation	<u>(8,538,937)</u>	<u>(325,535)</u>	<u>-</u>	<u>(8,864,472)</u>
Total Capital Assets Being Depreciated	<u>7,047,050</u>	<u>90,481</u>	<u>-</u>	<u>7,137,531</u>
Capital Assets, Net	<u>\$ 7,454,133</u>	<u>\$ 90,481</u>	<u>\$ -</u>	<u>\$ 7,544,614</u>

**SOUTH ARAPAHOE SANITATION DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 4 CAPITAL ASSETS (CONTINUED)**

	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	<u>15,016,745</u>	<u>477,220</u>	<u>-</u>	<u>15,493,965</u>
Total Capital Assets Being Depreciated	15,108,767	477,220	-	15,585,987
Less Accumulated Depreciation For:				
GIS Program	(44,130)	(9,201)	-	(53,331)
Sewer System	<u>(8,179,254)</u>	<u>(306,352)</u>	<u>-</u>	<u>(8,485,606)</u>
Total Accumulated Depreciation	(8,223,384)	(315,553)	-	(8,538,937)
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>

Depreciation expense for the year ended December 31, 2019 and 2018 was charged to the following operations:

	2019	2018
Sewer	<u>\$ 325,535</u>	<u>\$ 315,553</u>
Total Depreciation Expense	<u>\$ 325,535</u>	<u>\$ 315,553</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. Englewood Service treatment fees were \$3,031,353 and \$2,951,334 in 2019 and 2018, respectively.

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, 2019 AND 2018**

**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 \$207,839 and \$207,006 in 2019 and 2018, 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, 2019 AND 2018**

**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, 2019 and 2018, the District had net investment in capital assets calculated as follows:

	2019	2018
Net Investment in Capital Assets:		
Capital Assets, Net	\$ 16,409,086	\$ 15,993,070
Less Depreciation	(8,864,472)	(8,538,937)
Net Investment in Capital Assets	\$ 7,544,614	\$ 7,454,133

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 July 15, 2019, 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 \$380,031. The amount remaining on the contract as of December 31, 2019, was retainage in the amount of \$16,893, which is included in accounts payable and accrued expenses as of December 31, 2019.

**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, 2019 AND 2018**

**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, 2019**

	Original Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>			
District Transmission Fees	\$ 1,357,600	\$ 1,313,382	\$ (44,218)
Tap Fees	1,500	1,500	-
Industrial Pretreatment Program	15,750	14,500	(1,250)
Plan Review Fees	4,000	2,000	(2,000)
Investment Income	72,800	119,878	47,078
Other Income	1,000	4,464	3,464
Contributed Capital	-	20,500	20,500
Total Revenues	<u>1,452,650</u>	<u>1,476,224</u>	<u>23,574</u>
<b>EXPENDITURES</b>			
Repairs and Maintenance	521,100	440,074	81,026
Engineering Management	258,000	192,065	65,935
Accounting	52,000	52,129	(129)
Audit	4,000	3,850	150
Conferences/Seminars	1,800	2,570	(770)
Customer Communications	3,600	4,103	(503)
Directors' Fees	6,000	5,400	600
Dues/Licenses	1,300	1,238	62
Insurance and Fidelity Bonds	5,500	6,586	(1,086)
Legal Fees	45,000	28,293	16,707
Locates	30,000	63,149	(33,149)
Miscellaneous	500	580	(80)
Payroll Taxes	459	413	46
Plan Review/Construction Observation	27,000	5,822	21,178
Utilities	1,500	1,021	479
Capital Improvements	600,000	416,016	183,984
Contingency	15,099	-	15,099
Total Expenditures	<u>1,572,858</u>	<u>1,223,309</u>	<u>349,549</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>			
	(120,208)	252,915	373,123
Funds Available - Beginning of Year	<u>4,917,647</u>	<u>4,988,489</u>	<u>70,842</u>
<b>FUNDS AVAILABLE - END OF YEAR</b>	<u><u>\$ 4,797,439</u></u>	<u><u>\$ 5,241,404</u></u>	<u><u>\$ 443,965</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, 2019**

	Actual
Funds Available Are Defined As Follows:	
Current Assets	\$ 6,165,540
Less Current Liabilities	(924,136)
Funds Available	\$ 5,241,404
Reconciliation of Budgetary Basis (Actual) To Statement of Revenues, Expenses and Changes in Net Position:	
Revenues (Budgetary Basis)	\$ 1,476,224
Total Revenue Per Statement of Revenues, Expenses And Changes in Net Position	1,476,224
Expenditures (Budgetary Basis)	1,223,309
Depreciation	325,535
Capital Outlay	(416,016)
Total Expenses Per Statement of Revenues, Expenses And Changes in Net Position	1,132,828
Change in Net Position Per Statement of Revenues, Expenses and Changes in Net Position	\$ 343,396