SOUTH DURANGO SANITATION DISTRICT

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2017 and 2016

CONTENTS

Beckstead & Co.LLC

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2018

To the Board of Directors
South Durango Sanitation District

Report on the Financial Statements

We have audited the accompanying statements of net position of South Durango Sanitation District as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, the statement of cash flows, and the notes to the financial statements for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Durango Sanitation District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Beckstead & Co., LLC

The management of the South Durango Sanitation District (the "District"), has provided this narrative overview and analysis of the financial affairs of the District for the fiscal year ended December 31, 2017 as part of the District's audited Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis, basic financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

BASIC FINANCIAL STATEMENTS

Statement of Net Position. The statement of net position includes all of the District's assets and liabilities, with the difference between the two reported as *net position*. It provides information pertaining to the nature of the District's current assets and utility plant in service (assets) and its current and non-current obligations (liabilities). The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position. The statement of revenues, expenses and changes in net position includes all of the revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g., earned, but unused, vacation leave). These statements measure the success of the District's overall operation and can be used to determine if the District's user fees, rates and charges are adequate to cover expenses and develop sufficient reserves.

Statement of Cash Flows. The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments and net cash from operating, investing and capital and related financing activities.

FINANCIAL HIGHLIGHTS

1. The District's net position on December 31, 2017 totaled $5,630,262. Net position was slightly higher than the prior year due primarily to an increase in net investment in capital assets. This increase was primarily the result of early redemption of long-term debt.

2. In 2017 Operating Expenses totaling $768,800 exceeded Operating Revenues of $607,826 resulting in an operating loss of $160,974. The 2017 operating loss includes depreciation, amortization and other non-cash adjustments of $273,197. After deducting non-cash adjustments, the net cash provided by operating activities was $112,223.

3. Cash receipts from tap fees were $587,625 in 2017, an increase of $300,000 over 2016 tap fee revenue. The District expects continued increases in tap fee revenue in 2018.

FINANCIAL ANALYSIS OF THE SOUTH DURANGO SANITATION DISTRICT

The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

FINANCIAL POLICY PRIORITIES

The financial goal of the District is to operate in a cost-efficient manner that is similar to the practices of private enterprise. The Board of Directors of the District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way;
2. Cost of administration and operations are funded from user fees;
3. User fees will fund a portion of capital improvement costs when it is determined that the improvement is needed to serve current customers or when plant investment fees are not sufficient; and,
4. Plant investment fees are used for capital improvements or debt service for capital improvements that are required to serve new customers.

In order to develop and monitor financial policies that adhere to the financial policy priorities, the District completed a comprehensive master plan in 2003. The primary components of the master plan were a long-range Capital Improvement Plan (CIP) that identified capital improvements that would be needed over the next 20 years in order to meet projected demand for service. The second primary component of the master plan was a financial plan which included a model to project the amount of plant investment fees (tap fees) necessary to generate the funds needed to make the improvements recommended in the CIP. In 2004 the District commenced the first major step in the CIP, the Phase 1 expansion of the wastewater treatment facility. Some continued expansion and upgrades of the collection system were commenced in 2005 and completed in 2007. The collection system now has adequate capacity for all foreseeable growth within the projected service area for at least the next 40 years.

The Phase 1 wastewater treatment plant expansion and Grandview interceptor line upgrade were funded by the District's 2004 Series Sewer Revenue Bonds in the amount of $4,645,000 and District capital reserves. The bonds were fully paid in 2010.

The District's 2006 Series Revenue Bond in the amount of $2,000,000 was issued to pay for an upgrade of the District's other main interceptor line which serves the South Durango area. The bond is backed by a pledge of user fees and was restructured in 2009 to reduce debt service payments by delaying the repayment of principal. It was restructured again in 2010 with a 15 year repayment schedule that can be met with funds currently available from user fees.

The Phase 2 expansion was completed in December 2012. The Phase 2 expansion was paid for with a $250,000 energy impact grant, an $800,000 loan from the Colorado Water Resource and Power Development Authority through its Water Pollution Control Revolving Loan program and the balance from District reserves.

As a result of these capital projects the District now has substantial capacity in its collection and treatment system to serve the additional demand which is anticipated in the District's service area in the next several years. The tap fees from new customers will enable the District to repay the bonds and the loan which were used to finance the projects and to accumulate capital reserves for the next expansion.

In 2014 the District completed an analysis of its tap fee structure. That analysis showed that the District standard of wastewater flows of 250 gallons per day (gpd) for each tap was much higher than actual flow records indicated. As a result, the District lowered its standard for each tap to 180 gpd. This is consistent with industry trends due to increased water efficient plumbing fixtures that produce lower flows and general trends toward water conservation by customers. Because of this change the District was able to lower its tap fee by a proportionate amount. The unused capacity in the treatment system based on the new standard will allow for the sale of additional taps. The sale of additional taps at a lower rate will produce the same capital revenue for the District.

The District authorized the development of an updated master plan in 2017 schedule for completion in 2018. The updated master plan will provide an evaluation of the existing wastewater collection and treatment system of the District to evaluate current and projected capacities necessary to meet the projected growth scenarios recently developed and provided by the City of Durango. Once completed the master plan will provide a technical and economic framework for dealing with existing and new service demands.

Day-to-Day Operational Control of the District

For operational control, the District has segmented its budget into two primary categories: operating expenses and non-operating expenses consisting of capital projects and debt service for bonds and loans used to fund capital projects. This has improved the District's ability to track operating and non-operating revenues and expenditures, which allows the District to determine if its financial policy priorities are being achieved. Based on current growth trends and projections the District will be able to pay non-operating expenses from non-operating revenues (tap fees) except where those expenses are properly allocated to capital projects serving existing customers.

The District operates as a self-supporting enterprise. The operating expenses include costs for sewage collection, sewage treatment and administration. These expenses are paid by operating revenues from user fees. Non-operating expenses consist of capital projects and debt service. Non-operating revenues are provided by Plant Investment Fees (tap fees), proceeds from bond issues or other loans and interest earnings on capital reserves. In cases where capital improvements are needed to serve existing customers, operating reserves or user fees are used to fund the current customers' share of the improvements. Operating reserves or user fees may also be used to pay debt service for capital improvements where taps fees are not sufficient.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents monthly financial reports to the District Board of Directors. The reports contain revenue and expenditure comparisons to the adopted budget. It is an essential tool that is critical to the District's long-range financial planning efforts.

Financial Analysis

Net Position

A summary of the statement of net position is included as Table A which appears below. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net position can be indicators of improving or deteriorating financial health. This, coupled with factors such as population growth, regulatory changes or policy changes, provide an integrated assessment of the District's health.

TABLE A
Summary Statement of Net Position

	2017	**2016**
Current assets	$ 462,914	$ 478,948
Net utility plant in service	7,054,711	7,326,951
Total assets	7,517,625	$7,805,899
Current liabilities	$ 310,298	$ 332,915
Long-term liabilities	1,577,047	2,202,423
Total liabilities	$1,887,363	$ 2,535,338
Net position:		
Invested in capital assets (net)	$ 5,252,294	$4,911,320
Restricted for debt service	115,408	104,991
Unrestricted	262,561	254,250
Total net position	$ 5,630,262	$ 5,270,561

From December 31, 2016 to December 31, 2017, total assets decreased by $288,326. This decrease was due primarily to depreciation. Total liabilities decreased by $647,975 as a result of the reduction in existing long term debt. The overall effect was an increase in total net position which is likely to continue increasing from tap fee revenue and reductions in long term debt in future years.

Revenues, Expenses and Changes in Net Position

Table B shows the revenues, expenses and changes in net position for 2016-2017 for the District. Table B demonstrates that immediate financial needs are being budgeted and can be reasonably expected to be met. On a year to year basis, the District plans to operate in accordance with its financial policies. Tap fee revenue is expected to provide sufficient revenue in future years to pay all debt service except that portion attributable to existing customers for collection system improvements.

Non-cash expenditures such as depreciation are not always covered by operating revenue. When no tap fee revenue was available, user fee revenues were used to pay debt service so the amount available to cover non-cash expenditures was reduced. Future tap fee revenue is projected to be substantial and provide funds for payment of debt service, so the additional revenue from user fees that was previously used for debt service is now available to cover all or a portion of non-cash expenditures. The District reviewed its operating budget in 2015 and determined that a decrease in monthly user fees was appropriate since user fee revenue was almost 150% of the total of all operating expenses except depreciation. That has reduced operating revenue coverage to about 125%.

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

	2017	2016
Total operating revenues	$ 607,826	$ 562,430
Total operating expenses	768,800	756,052
Operating income	(160,974)	(193,622)
Non-operating revenue	$ 592,904	$ 289,721
Non-operating expense	(72,229)	(78,861)
Total non-operating revenue	520,675	210,860
Net income	$ 359,701	$ 17,238
Beginning net position	$ 5,270,561	$ 5,253,323
Ending net position	$ 5,630,262	$ 5,270,561

Table B shows an increase in net position of the District from 2016 to 2017. The District anticipates its financial statement will show an increase in net position in future years as economic conditions stabilize and normal annual growth resumes.

ECONOMIC FACTORS; NEXT YEAR'S BUDGET AND RATES

The Board of Directors and the management of the South Durango Sanitation District considered many factors when it established the budget for 2018. Projected revenue from user fees and changes in operating costs were evaluated and considered before a final budget was adopted. The 2018 budget projects an increase in use fee revenue due to an increase in the number of customers. The budget also projects tap fee revenue substantially higher than the amount received in 2017 based on projects currently planned for 2018.

The Capital Improvements Plan (CIP) of the District is updated based on revised cost estimates, timing of capital improvements and interest costs for capital financing. If necessary, the rate for tap fees is adjusted to insure that the District's Financial Policy Priorities continue to be achieved. The change in the District standard for gpd/tap as discussed above resulted in an adjustment. No additional adjustments are projected for the next few years. As part of the master plan that will be completed in 2018 the CIP will be updated.

CONTACTING THE DISTRICT

This financial report is designed to provide our residents, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact the South Durango Sanitation District at PO Box 2024, Durango, Colorado 81302-2024.

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South Durango Sanitation District

STATEMENTS OF NET POSITION

December 31,

		2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents		$ 71,028	$ 304,029
Investments		318,777	103,010
Accounts receivable		50,869	56,075
Prepaid expenses		-	-
Inventory		615	615
Due from Loma Linda Sanitation District		7,530	3,748
Due from developers		14,095	11,471
	Total current assets	462,914	478,948
Utility Plant in Service			
Land and easements		243,120	243,120
Furniture and fixtures		5,035	5,035
Well		15,124	15,124
Plant and improvements		10,637,715	10,624,213
Storage building		20,828	-
Equipment		576,312	575,712
		11,498,134	11,463,204
Less accumulated depreciation		(4,443,423)	(4,136,253)
	Net utility plant in service	7,054,711	7,326,951
	Total assets	$ 7,517,625	$ 7,805,899
LIABILITIES AND NET POSITION			
Liabilities			
Current Liabilities			
Accounts payable		$ 30,374	$ 64,803
Accrued interest		4,255	6,123
Revenue received in advance of service		50,317	48,781
Current portion of long-term debt		171,586	160,866
Current portion of capital lease obligation		53,757	52,342
	Total current liabilities	310,289	332,915
Non-current liabilities			
Long-term debt, net of current portion		1,316,582	1,888,168
Capital lease obligation, net of current portion		260,492	314,255
	Total non-current liabilities	1,577,074	2,202,423
	Total liabilities	1,887,363	2,535,338
Net Position			
Net investment in capital assets		5,252,294	4,911,320
Restricted for debt service		115,408	104,991
Unrestricted		262,561	254,250
	Total net position	5,630,262	5,270,561
	Total liabilities and net position	$ 7,517,625	$ 7,805,899

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31,

	2017	2016
Operating Revenues		
Charges for services	$ 607,826	$ 562,430
Operating Expenses		
Collection and treatment	594,925	582,742
General and administrative	173,875	173,310
Total operating expenses	768,800	756,052
Operating income (loss)	(160,974)	(193,622)
Non-operating Revenues (Expenses)		
Tap fees	587,625	287,675
Investment earnings	5,159	1,871
Other income (expense)	120	175
Interest expense	(72,229)	(78,861)
Total non-operating revenues (expenses)	520,675	210,860
Net income (loss)	359,701	17,238
Net position at beginning of year	5,270,561	5,253,323
Net position at end of year	$ 5,630,262	$ 5,270,561

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2017	2016
Cash Flows from Operating Activities		
Cash received from customers	$ 614,688	$ 558,789
Cash paid to suppliers	(431,922)	(321,087)
Cash paid to employees	(70,543)	(70,087)
Net Cash Provided (Used) by Operating Activities	112,223	167,615
Cash Flows from Non-capital Financing Activities		
Tap fees	587,625	287,675
Net Cash Provided (Used) by Non-capital Financing Activities	587,625	287,675
Cash Flows from Capital and Related Financing Activities		
Debt and capital lease principal payments	(613,214)	(170,813)
Interest on debt	(74,097)	(79,078)
Purchases of capital assets	(34,930)	(78,049)
Net Cash Provided (Used) by Capital and Related Financing Activities	(722,241)	(327,940)
Cash Flows from Investing Activities		
Sale (purchase) of investments	(215,767)	(100,043)
Interest income	5,159	1,871
Net Cash Provided (Used) by Investing Activities	(210,608)	(98,172)
Net Cash Increase (Decrease)	(233,001)	29,178
Cash at beginning of year	304,029	274,851
Cash at end of year	$ 71,028	$ 304,029
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net operating income (loss)	$ (160,974)	$ (193,622)
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	307,170	336,088
Other income (expense)	120	175
(Increase) Decrease in accounts receivable	5,206	(9,573)
(Increase) Decrease in due from Loma Linda Sanitation District	(3,782)	(323)
(Increase) Decrease in due from / to developers	(2,624)	(7,094)
(Increase) Decrease in prepaid expenses and inventory	-	11,982
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	(34,429)	24,225
Increase (Decrease) in revenue received in advance of service	1,536	5,757
Total Adjustments	273,197	361,237
Net Cash Provided (Used) by Operating Activities	$ 112,223	$ 167,615
Noncash Capital and Related Financing Activities		
Capital lease obligation incurred for capital assets	$ -	$ 382,250

The accompanying notes are an integral part of these statements.

NOTE A – DEFINITION OF REPORTING ENTITY

The South Durango Sanitation District (the District) was formed November 9, 1983, for the purpose of providing sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

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 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

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

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

Proprietary Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operations are accounted for as one enterprise fund.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Unbilled sewer system utility service receivables are recorded at year end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Tap fees received are recorded as non-operating revenues.

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the person designated by the Board of Directors submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.

2. Public hearings are conducted to obtain public comment.

3. Prior to December 31, the budget is legally enacted through passage of a resolution.

4. The person designated by the Board is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.

5. State statutes require the adoption of a summary budget for proprietary funds.

6. Appropriations lapse at the end of each calendar year.

7. The District Board may authorize supplemental appropriations during the year.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Prepaid Items

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

Allowances for Uncollectibles

No allowance for uncollectibles has been provided because the District has a statutory lien against the property served for all unpaid charges. The Board of Directors of the District believes it will collect on all past due accounts because by statute the lien is perpetual until paid.

Inventories

Inventories are stated at cost.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives range from 5 to 40 years.

Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. The District’s policy with regard to the order of spending is to spend the restricted funds first

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating 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 services 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 non-operating revenues and expenses.

NOTE C – CASH AND INVESTMENTS

Cash is stated at cost, which approximates fair value, and consists of cash in checking and certificates of deposit. Investments consist of money market accounts, Colotrust, and CSAFE. The differences between the carrying amount and the bank balances are due to outstanding checks and deposits not yet processed by the bank.

Balances in these accounts at December 31, 2017 and 2016, are as follows:

	2017			2016		
	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
Cash and cash equivalents	$ 71,028	$ 97,556	$ -	$ 304,029	$ 326,116	$ -

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

Pledged collateral must be held in an escrow account with another financial institution approved by the state banking commission. The pledged collateral cannot be released unless approval is obtained from the banking commission.

NOTE C – CASH AND INVESTMENTS – CONTINUED

Investments

Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosure (GASB 40) establishes disclosure requirements related to investment risks including credit risk, custodial risk, interest rate risk and foreign currency risk.

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenues bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or all collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

NOTE C – CASH AND INVESTMENTS – CONTINUED

The District has invested $318,777 (2017) and $102,345 (2016) in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), and $0 (2017) and $665 (2016) in CSAFE, investment vehicles established for local government entities in Colorado to pool surplus funds. Colotrust and CSAFE operate similarly to a money market fund and each share is equal in value to $1.00. A designated custodial bank provides safekeeping and depository services to Colotrust and CSAFE in connection with the direct investment and withdrawal functions. Substantially all securities owned by Colotrust and CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust and CSAFE.

Colotrust and CSAFE funds carry a Standard and Poor's AAAm rating. The custodian's internal records segregate investments owned by the Trust. Colotrust and CSAFE record their investments at amortized cost and the District records its investment in Colotrust and CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period. There is no custodial, interest rate or foreign currency risk exposure.

The Districts investments consisted of:

	2017	2016
CSAFE	$ -	$ 665
ColoTrust	318,777	102,345
Total	$318,777	$103,010

NOTE D – TAX SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District qualifies as an "Enterprise" because it is a government owned business authorized to issue revenue bonds and it receives less than 10% of its annual revenue in grants from state and local grants. It is therefore exempt from some provisions of the 1992 amendment. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE E – LONG TERM DEBT

	2017	2016
Series 2006 revenue bonds	$ 855,000	$ 1,380,000
CWRPDA note payable	633,168	669,034
	1,488,168	2,049,034
Less current portion	171,586	160,866
Noncurrent portion	$ 1,316,582	$ 1,888,168

Changes in long-term debt for 2017 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
Series 2006 revenue bonds	$ 1,380,000	$ -	$ 525,000	$ 855,000	$ 135,000
CWRPDA note payable	669,034	-	35,866	633,168	36,586
Total	$ 2,049,034	$ -	$ 560,866	$ 1,488,168	$ 171,586

Changes in long-term debt for 2016 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Due Within
Series 2006 revenue bonds	$ 1,490,000	$ -	$ 110,000	$ 1,380,000	$ 125,000
CWRPDA note payable	704,194	-	35,160	669,034	35,866
Total	$ 2,194,194	$ -	$ 145,160	$ 2,049,034	$ 160,866

NOTE E – LONG TERM DEBT – CONTINUED

Revenue Bonds Series 2006

On December 28, 2006, the District issued $2,000,000 of Revenue Bonds.

The interest rate is recalculated each year on the first day of every calendar year which will be 300 basis points below the rate publicly announced by JP Morgan Chase Bank at its principal office in New York as its principal office in the City of New York. The interest rate will not be less than 4% per annum and shall not be in excess of a maximum net effective rate of 12% per annum. Semi-annual payments are required through 2025.

CWRPDA Note Payable

On May 15, 2012, the District obtained an $800,000 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District's wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through November, 2032. The loan is secured by a lien on the District's wastewater treatment facility.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

NOTE E – LONG TERM DEBT – CONTINUED

The following is a summary of the debt service requirements to maturity on the District's Revenue Bonds, Series 2006 and the CWRPDA note payable:

Year	Principal	Interest	Total
2018	$ 171,586	$ 46,682	$ 218,268
2019	182,322	40,546	222,868
2020	193,073	33,995	227,068
2021	198,837	27,031	225,868
2022	209,619	19,849	229,468
2023-2027	300,361	38,579	338,940
2028-2032	232,370	12,970	245,340
	$1,488,168	$219,652	$1,707,820

NOTE F – CAPITAL LEASE OBLIGATION

NBH Bank Lease Purchase

On June 24, 2016, the District entered into a $392,250 lease purchase agreement to finance the purchase of equipment.

The lease purchase agreement bears interest at 2.68% per annum and requires quarterly principal and interest payments of $15,411 through June, 2023. The lessor owns the equipment until the obligation is satisfied in full. Though the lease payments are subject to annual appropriation, accounting standards require that the principal portion of future scheduled payments be presented as a liability of the District.

Equipment capitalized related to this lease purchase obligation amounts to $392,250, with accumulated depreciation of $29,419 at December 31, 2017. Amortization of this asset is included with depreciation expense.

The following is a schedule of the changes in the capital lease obligation for 2017:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
NBH Bank lease purchase	$366,597	$ -	$ 52,348	$314,249	$ 53,757

NOTE F – CAPITAL LEASE OBLIGATION – CONTINUED

The following is a schedule of the changes in the capital lease obligation for 2016:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
NBH Bank lease purchase	$ -	$392,250	$ 25,653	$366,597	$ 52,342

The following reflects future scheduled payments of the capital lease obligation:

Year		Scheduled Payments
2018		$ 61,644
2019		61,644
2020		61,644
2021		61,644
2022		61,644
2023		30,822
		$ 339,042
	Less amount representing interest	24,793
	Principal portion of capital lease obligation	$ 314,249

NOTE G – CAPITAL ASSETS

A summary of changes in capital assets during 2017 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land	$ 243,120	$ -	$ -	$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	575,712	-	600	576,312
Well	15,124	-	-	15,124
Storage building	-	20,828	-	20,828
Plant and improvements	10,624,213	14,102	(600)	10,637,715
	11,463,204	34,930	-	11,498,134
Less accumulated depreciation	4,136,253	307,170	-	4,443,423
Net Utility Plant in Service	$ 7,326,951	$(272,240)	$ -	$ 7,054,711

NOTE G – CAPITAL ASSETS – CONTINUED

A summary of changes in capital assets during 2016 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land	$ 243,120	$ -	$ -	$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	153,076	422,636	-	575,712
Well	15,124	-	-	15,124
Plant and improvements	10,576,550	47,663	-	10,624,213
	10,992,905	470,299	-	11,463,204
Less accumulated depreciation	3,800,165	336,088	-	4,136,253
Net Utility Plant in Service	$ 7,192,740	$ 134,211	$ -	$ 7,326,951

NOTE H – TAP PURCHASE AGREEMENT

The District entered into a tap purchase agreement with the Tierra Group, LLC and its anticipated successor, GRVP, LLC (Developer), both of whom are wholly owned subsidiaries of the Southern Ute Indian Tribe (the Tribe) on April 16, 2004. This agreement grants the Developer exclusive right to purchase 490 taps between 2004 and 2009. The agreement also required the Developer to purchase taps when requested by the District (Guaranty Taps) when tap sales did not provide sufficient funds for payment of debt service on the District's 2004 revenue bonds. The Developer purchased 182 Guaranty Taps from the District which were assigned to various lots as development occurred. The final Guaranty Tap owned by the Developer was assigned in 2015.

The agreement recognizes the credit enhancement provided by the Tribe, which enabled the District to obtain funds necessary to complete Phase 1 of the Wastewater Treatment Plant and the Grandview Interceptor. In recognition of that enhancement, the District agreed to guarantee the Developer exclusive right to 40% of the capacity in the interceptor.

NOTE I – RISK OF LOSS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance. The District is insured for property, general liability, miscellaneous property and public official liability through membership in the Colorado Special District Property and Liability Insurance Pool (CSDPLP). The CSDPLP has a legal obligation for claims against its members to the extent that funds are available in its annually established loss fund and amounts are available from insurance providers under excess specific and aggregate insurance contracts. Losses incurred in excess of loss funds and amounts recoverable from excess insurance are direct liabilities of the participating members. The CSDPLP has indicated that the amount of any excess losses would be billed to members in proportion to their contributions in the years such excess occurs, although it is not legally require to do so. Ultimate liability to the District resulting from claims not covered by CSDPLP is not presently determinable. There were no material reductions in insurance coverage provided to the District and any amounts of settlements have not exceeded insurance coverage for the past three years.

CSDPLP has contracted with other third parties to operate, administer and manage the Pool. The Pool is responsible for its own budgets. CSDPLP's summary audited financial information as of December 31, 2016 (the most recent available), is as follows:

Assets	$52,645,796
Liabilities	$28,757,242
Surplus	23,888,554
	$52,645,796
Revenues	$19,338,769
Expenses	14,100,230
Net Income (Loss)	$ 5,238,539

SUPPLEMENTAL INFORMATION

South Durango Sanitation District

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2017	2016
Collection and treatment		
Depreciation	$ 307,170	$ 336,088
System maintenance	87,390	73,048
Employee payroll	70,543	70,087
Utilities	70,143	57,683
Engineering costs	33,067	19,490
Insurance	15,155	14,619
Chemical testing	11,457	11,727
Total collection and treatment	$ 594,925	$ 582,742
General and Administrative		
Accounting and legal	$ 82,558	$ 82,342
Operators	37,500	37,500
Payroll tax expense	23,688	23,838
Postage and office	16,793	16,573
Other	5,982	6,369
Board of directors	5,598	5,813
Dues and licenses	1,756	875
Total general and administrative expenses	$ 173,875	$ 173,310

South Durango Sanitation District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31, 2017 and 2016

	Original Budget	Final Budget	Expenditures Reported on the GAAP Basis	Adjustments to Budgetary Basis	Expenditures on the Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
2017						
Total expenditures	$ 771,021	$ 1,182,003	$ 841,029	$ 340,974	$ 1,182,003	$ -
2016						
Total expenditures	$ 631,018	$ 748,018	$ 834,913	$ (87,226)	747,687	331

Adjustments to budgetary basis are comprised of principal reductions on long-term debt, capital expenditures, and depreciation expense.

South Durango Sanitation District

SCHEDULE OF COLORADO WATER RESOURCES AND
POWER DEVELOPMENT AUTHORITY LOAN COMPLIANCE

For the year ended December 31, 2017

Rate Covenant			
Gross Revenue:			
Charges for services			$ 607,826
Tap fees			587,625
Investment earnings			5,159
Other income			120
			1,200,730
Operation and maintenance expenses:			
Total operating expenses	768,800		
Less depreciation expense	(307,170)		
		461,630	
Current year debt service requirements for CWRPDA loan and parity lien obligations:			
2012 Colorado Water Resources and Power Development Authority Loan	49,068		
2006 Revenue Bonds	176,200		
	225,268		
Required coverage	110%		
		247,795	
Current year required payments into debt service reserve account for CWRPDA loan and parity lien obligations		-	
Current year debt service requirements on subordinate lien obligations		61,644	
Current year debt service requirements on other obligations		-	
			771,069
Excess (deficiency) of gross revenues over covered expenses			$ 429,661

Operations and Maintenance Reserve Covenant

Required reserve equal to three months operations and maintenance expenses	$ 115,408
Restricted net position on the Statement of Net Position	115,408

Lien Representation

No new obligations with liens on the wastewater treatment facility were incurred during the year.