SOUTH DURANGO SANITATION DISTRICT

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016 and 2015

C O N T E N T S

Beckstead & Co. LLC
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 3, 2017

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, 2016 and 2015, 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, 2016 and 2015, 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.

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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, 2016 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, 2016 totaled $5,270,561. Net position was virtually unchanged from the prior year however net investment in capital assets increased and the unrestricted portion decreased primarily due to lease purchase financing of certain capital equipment.

2. In 2016 Operating Expenses totaling $756,052 exceeded Operating Revenues of $562,430 resulting in an operating loss of $193,622. The 2016 operating loss includes depreciation, amortization and other non-cash adjustments of $361,237. After deducting non-cash adjustments, the net cash provided by operating activities was $167,615.

3. Cash receipts from tap fees were $287,675 in 2016, an increase of $117,175 over 2015 tap fee revenue.

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.

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. Indications are that in future years 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

	2016	2015
Current assets	$ 478,948	$ 344,719
Net utility plant in service	7,326,951	7,192,740
Total assets	$7,805,899	$ 7,537,459
Current liabilities	$ 332,915	$ 235,101
Long-term liabilities	2,202,423	2,049,035
Total liabilities	$2,535,338	$ 2,284,136
Net position:		
Invested in capital assets (net)	$5,277,917	$ 4,998,546
Restricted for debt service	104,991	90,432
Unrestricted	(112,347)	164,345
Total net position	$5,270,561	$ 5,253,323

From December 31, 2015 to December 31, 2016, total assets increased by $268,440. This increase was due primarily to the acquisition of sludge handling equipment. Total liabilities increased by $251,202, the difference between the new liability for the sludge handing equipment and the reduction in existing long term debt. The overall effect was a slight 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 Assets

Table B shows the revenues, expenses and changes in net position for 2015-2016 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 increase 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

	2016	**2015**
Total operating revenues	$ 562,430	$ 566,240
Total operating expenses	756,052	687,092
Operating income	(193,622)	(120,852)
Non-operating revenue	$ 289,546	$ 171,797
Non-operating expense	(78,861)	(79,411)
Total non-operating revenue	210,860	(92,386)
Net income	$ 17,238	$ (28,466)
Beginning net position	$ 5,253,323	$ 5,281,789
Ending net position	$ 5,270,561	$ 5,253,323

Table B shows a slight increase in net position of the District from 2015 to 2016. 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 2017. Projected revenue from user fees and changes in operating costs were evaluated and considered before a final budget was adopted. The 2017 budget project 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 2016 based on projects currently planned for 2017.

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. Since the District has substantial capacity following the completion of the Phase 2 expansion in 2012 and the main interceptor upgrades in 2007, no further capital projects are likely for several years. As normal growth appears to be resuming, the District will update its CIP in the upcoming years based on new growth projections and capital cost estimates.

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,

		2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents		$ 304,029	$ 274,851
Investments		103,010	2,967
Accounts receivable		56,075	46,502
Prepaid expenses		-	11,982
Inventory		615	615
Due from Loma Linda Sanitation District		3,748	3,425
Due from developers		11,471	4,377
	Total current assets	478,948	344,719
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		10,624,213	10,576,550
Equipment		575,712	153,076
		11,463,204	10,992,905
Less accumulated depreciation		(4,136,253)	(3,800,165)
	Net utility plant in service	7,326,951	7,192,740
	Total assets	$ 7,805,899	$ 7,537,459
LIABILITIES AND NET POSITION			
Liabilities			
Current Liabilities			
Accounts payable		$ 64,803	$ 40,578
Accrued interest		6,123	6,340
Revenue received in advance of service		48,781	43,024
Current portion of long-term debt		160,866	145,159
Current portion of capital lease obligation		52,342	-
	Total current liabilities	332,915	235,101
Non-current liabilities			
Long-term debt, net of current portion		1,888,168	2,049,035
Capital lease obligation, net of current portion		314,255	-
	Total non-current liabilities	2,202,423	2,049,035
	Total liabilities	2,535,338	2,284,136
Net Position			
Net investment in capital assets		5,277,917	4,998,546
Restricted for debt service		104,991	90,432
Unrestricted		(112,347)	164,345
	Total net position	5,270,561	5,253,323
	Total liabilities and net position	$ 7,805,899	$ 7,537,459

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,

	2016	2015
Operating Revenues		
Charges for services	$ 562,430	$ 566,240
Operating Expenses		
Collection and treatment	582,742	521,649
General and administrative	173,310	165,443
Total operating expenses	756,052	687,092
Operating income (loss)	(193,622)	(120,852)
Non-operating Revenues (Expenses)		
Tap fees	287,675	170,500
Investment earnings	1,871	1,297
Other income (expense)	175	-
Interest expense	(78,861)	(79,411)
Total non-operating revenues (expenses)	210,860	92,386
Net income (loss)	17,238	(28,466)
Net position at beginning of year	5,253,323	5,281,789
Net position at end of year	$ 5,270,561	$ 5,253,323

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	$ 558,789	$ 579,939
Cash paid to suppliers	(321,087)	(273,340)
Cash paid to employees	(70,087)	(66,628)
Net Cash Provided (Used) by Operating Activities	167,615	239,971
Cash Flows from Non-capital Financing Activities		
Tap fees	287,675	170,500
Net Cash Provided (Used) by Non-capital Financing Activities	287,675	170,500
Cash Flows from Capital and Related Financing Activities		
Debt and capital lease principal payments	(170,813)	(194,466)
Interest on debt	(79,078)	(79,802)
Purchases of capital assets	(78,049)	(30,101)
Net Cash Provided (Used) by Capital and Related Financing Activities	(327,940)	(304,369)
Cash Flows from Investing Activities		
Sale (purchase) of investments	(100,043)	(4)
Interest income	1,871	1,297
Net Cash Provided (Used) by Investing Activities	(98,172)	1,293
Net Cash Increase (Decrease)	29,178	107,395
Cash at beginning of year	274,851	167,456
Cash at end of year	$ 304,029	$ 274,851

	2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Net operating income (loss)	$ (193,622)	$ (120,852)
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	336,088	325,365
Other income (expense)	175	-
(Increase) Decrease in accounts receivable	(9,573)	19,694
(Increase) Decrease in due from Loma Linda Sanitation District	(323)	(483)
(Increase) Decrease in due from / to developers	(7,094)	4,711
(Increase) Decrease in prepaid expenses and inventory	11,982	(11,982)
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	24,225	29,513
Increase (Decrease) in revenue received in advance of service	5,757	(5,995)
Total Adjustments	361,237	360,823
Net Cash Provided (Used) by Operating Activities	$ 167,615	$ 239,971

	2016	2015
Noncash Capital and Related Financing Activities		
Capital lease obligation incurred for capital assets	$ 392,250	$ -

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, 2016 and 2015, are as follows:

	2016			2015		
	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
Cash and cash equivalents	$ 304,029	$ 326,116	$ -	$ 274,851	$ 290,703	$ -

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 $102,345 (2016) and $2,305 (2015) in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), and $665 (2016) and $662 (2015) 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. There is no custodial, interest rate or foreign currency risk exposure.

The Districts investments consisted of:

	2016	2015
CSAFE	$ 665	$ 662
ColoTrust	102,345	2,305
Total	$103,010	$ 2,967

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

	2016	2015
Series 2006 revenue bonds	$1,380,000	$1,490,000
CWRPDA note payable	669,034	704,194
	2,049,034	2,194,194
Less current portion	213,208	145,159
Noncurrent portion	$1,835,826	$2,049,035

Changes in long-term debt for 2016 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
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

Changes in long-term debt for 2015 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Due Within
Series 2006 revenue bonds	$ 1,650,000	$ -	$ 160,000	$ 1,490,000	$ 110,000
CWRPDA note payable	738,660	-	34,466	704,194	35,159
Total	$ 2,388,660	$ -	$ 194,466	$ 2,194,194	$ 145,159

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, the CWRPDA note payable, and the NBH Bank lease purchase agreement:

Year	Principal	Interest	Total
2017	$ 160,866	$ 68,402	$ 229,268
2018	171,586	62,682	234,268
2019	182,322	56,546	238,868
2020	193,073	49,995	243,068
2021	198,837	43,031	241,868
2022-2026	866,217	102,523	968,740
2027-2031	227,791	17,549	245,340
2032	48,342	726	49,068
	$2,049,034	$401,454	$2,450,488

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 $9,806 at December 31, 2016. Amortization of this asset is included with depreciation expense.

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

NOTE F – CAPITAL LEASE OBLIGATION – CONTINUED

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

Year	Scheduled Payments
2017	$ 61,644
2018	61,644
2019	61,644
2020	61,644
2021	61,644
2022	61,644
2032	30,822
	$ 400,686
Less amount representing interest	34,089
Principal portion of capital lease obligation	$ 366,597

NOTE G – CAPITAL ASSETS

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
Building 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 G – CAPITAL ASSETS – CONTINUED

A summary of changes in capital assets during 2015 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	137,315	15,761	-	153,076
Well	15,124	-	-	15,124
Building and improvements	10,562,210	14,340	-	10,576,550
	10,962,804	30,101	-	10,992,905
Less accumulated depreciation	3,474,800	325,365	-	3,800,165
Net Utility Plant in Service	$ 7,488,004	$(295,264)	$ -	$ 7,192,740

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, 2015 (the most recent available), is as follows:

Assets	$44,054,744
Liabilities	$24,739,781
Surplus	19,314,963
	$44,054,744
Revenues	$16,561,452
Expenses	14,839,993
Net Income (Loss)	$ 1,721,459

SUPPLEMENTAL INFORMATION

South Durango Sanitation District

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2016	2015
Collection and treatment		
Depreciation	$ 336,088	$ 325,365
System maintenance	73,048	47,917
Employee payroll	70,087	66,628
Utilities	57,683	50,244
Engineering costs	19,490	10,888
Insurance	14,619	13,992
Chemical testing	11,727	6,615
Total collection and treatment	$ 582,742	$ 521,649
General and Administrative		
Accounting and legal	$ 82,342	$ 73,954
Operators	37,500	34,080
Payroll tax expense	23,838	22,183
Postage and office	16,573	17,500
Other	6,369	8,952
Board of directors	5,813	6,459
Dues and licenses	875	2,315
Total general and administrative expenses	$ 173,310	$ 165,443

South Durango Sanitation District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31, 2016 and 2015

	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)
2016						
Total expenditures	$ 631,018	$ 748,018	$ 834,913	$ (87,226)	$ 747,687	$ 331
2015						
Total expenditures	738,593	738,593	766,503	$ (100,798)	665,705	72,888

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, 2016

Rate Covenant			
Gross Revenue:			
Charges for services			$ 562,430
Tap fees			287,675
Investment earnings			1,871
Other income			175
			852,151
Operation and maintenance expenses:			
Total operating expenses	756,052		
Less depreciation expense	(336,088)		
		419,964	
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	169,600		
	218,668		
Required coverage	110%		
		240,535	
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		30,822	
Current year debt service requirements on other obligations		-	
			691,321
Excess (deficiency) of gross revenues over covered expenses			$ 160,830

Operations and Maintenance Reserve Covenant

Required reserve equal to three months operations and maintenance expenses	$ 104,991
Restricted net position on the Statement of Net Position	104,991

Lien Representation

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