

**LITTLETON / ENGLEWOOD
WASTEWATER TREATMENT PLANT**



ANNUAL FINANCIAL REPORT
Year Ended December 31, 2016

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ANNUAL FINANCIAL REPORT

LITTLETON / ENGLEWOOD WASTEWATER TREATMENT PLANT JOINT VENTURE

Year Ended December 31, 2016

Supervisory Committee

City of Littleton

Mark Relph, Acting City Manager and
Director of Public Services

City of Englewood

Eric Keck, City Manager
Dave Henderson, Director of Public Works

Dennis W. Stowe, Manager

**LITTLETON / ENGLEWOOD WASTEWATER TREATMENT PLANT
JOINT VENTURE**

**Annual Financial Report
Year Ended December 31, 2016**

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To the Members
Littleton/Englewood Wastewater Treatment Plant Joint Venture
Englewood, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Littleton/Englewood Wastewater Treatment Plant Joint Venture as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Littleton/Englewood Wastewater Treatment Plant Joint Venture, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Littleton/Englewood Wastewater Treatment Plant Joint Venture as of December 31, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

The Littleton/Englewood Wastewater Treatment Plant Joint Venture has omitted the management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Matters (Supplementary Information)

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Littleton/Englewood Wastewater Treatment Plant Joint Venture’s basic financial statements. The other supplementary 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 the 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



May 8, 2017

Littleton/Englewood Wastewater Treatment Plant Joint Venture

Statement of Net Position

As of December 31, 2016

	2016
Assets	
Current assets	
Cash and investments	\$ 1,154,655
Receivable from City of Littleton	159,640
Receivable from City of Englewood	168,243
Interest receivable	6,244
Other receivables	47,772
Total current assets	1,536,554
Noncurrent assets	
Capital assets not being depreciated	5,362,992
Treatment plant	123,698,901
Vehicles, equipment and other	79,703,382
Less accumulated depreciation	(109,416,610)
Capital assets, net of accumulated depreciation	93,985,673
Total noncurrent assets	99,348,665
Total assets	100,885,219
Liabilities	
Current liabilities	
Accounts payable	691,846
Retainage payable	21,665
Accrued liabilities	315,098
Total current liabilities	1,028,609
Noncurrent liabilities	
Accrued liabilities	185,615
Total noncurrent liabilities	185,615
Total liabilities	1,214,224
Net position	
Invested in capital assets	99,348,665
Unrestricted	322,330
Total net position	\$ 99,670,995

The notes to the financial statements are an integral part of this statement.

Littleton/Englewood Wastewater Treatment Plant Joint Venture

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended December 31, 2016

	2016
Operating revenues	
Reimbursement of operating expenses	
City of Littleton	\$ 5,950,271
City of Englewood	7,135,691
Total operating revenues	13,085,962
Operating expenses	
Sewage treatment	
Treatment	5,457,265
Engineering and Maintenance	2,987,530
Laboratory Services	875,614
Beneficial use	824,793
Total sewage treatment	10,145,202
Administration	
Contractual	3,075,206
Commodities	158,595
Total administration	3,233,801
Depreciation	6,692,614
Total operating expenses	20,071,617
Operating loss	(6,985,655)
Nonoperating revenues	
Septic hauling	198,816
Farm income from crop sales	61,719
Industrial wastewater sampling and analysis	14,432
Net investment income	8,492
Other	9,582
Total nonoperating revenues	293,041
Loss before contributions	(6,692,614)
Capital contributions	
City of Littleton	440,420
City of Englewood	440,420
Total capital contributions	880,840
Change in net position	(5,811,774)
Total net position - beginning	105,482,769
Total net position - ending	\$ 99,670,995

The notes to the financial statements are an integral part of this statement.

Littleton/Englewood Wastewater Treatment Plant Joint Venture

**Statement of Cash Flows
For the Year Ended December 31, 2016**

	2016
Cash flows from operating activities	
Cash received from joint venturers	\$ 12,616,475
Cash payments to suppliers for goods and services	(13,172,619)
Net cash provided (required) by operating activities	(556,144)
Cash flows from noncapital financing activities	
Septic hauling	198,816
Other cash received	49,660
Net cash provided by noncapital financing activities	248,476
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(960,722)
Capital contributions from joint venturers	880,840
Net cash provided by capital and related financing activities	(79,882)
Cash flows from investing activities	
Net investment income	6,535
Net cash provided by investing activities	6,535
Net increase in cash and cash equivalents	(381,015)
Cash and cash equivalents - January 1,	1,535,670
Cash and cash equivalents - December 31,	\$ 1,154,655
Reconciliation of operating loss to net cash provided (required) by operating activities	
Loss from operations	\$ (6,985,655)
Adjustments to reconcile operating loss to net cash provided (required) by operating activities:	
Depreciation	6,692,614
Effect of changes in operating assets and liabilities	
Receivable from joint venturers	(469,487)
Accounts payable	143,329
Accrued liabilities	63,055
Total adjustments	6,429,511
Net cash provided (required) by operating activities	\$ (556,144)

The notes to the financial statements are an integral part of this statement.

Littleton / Englewood Wastewater Treatment Plant Joint Venture
Notes to the Financial Statements
December 31, 2016

The financial statements of the Littleton/Englewood Wastewater Treatment Plant Joint Venture have been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The following notes to the financial statements are an integral part of this report.

Note 1 – Summary of Significant Accounting Policies

Definition of Reporting Entity

The Cities of Littleton, Colorado (Littleton) and Englewood, Colorado (Englewood), participate in the Littleton/Englewood Wastewater Treatment Plant Joint Venture (the Joint Venture) for the operation of a wastewater treatment facility. Control of the Joint Venture rests in a four-member committee, with two members appointed by each city. Littleton and Englewood each own a 50 percent interest in the Joint Venture. The Joint Venture has its own workforce for operating purposes. For payroll and pension participation, the joint venture's workforce is considered to be City of Englewood employees. Englewood provides the Joint Venture with administrative services on a cost reimbursement basis.

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

Basis of Accounting

The Joint Venture uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes, if any, would be recorded as a reduction in liabilities.

Operating Revenues and Expenses

The Joint Venture distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Fund Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Joint Venture's purpose of providing services to the joint venturers. Operating revenues consist of charges to venturers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

The Joint Venture does not have nor is it anticipated to ever have the power to assess an ad valorem tax on the property of the participating cities. Accordingly, it is management's contention that this would remove it from the scope of the State of Colorado Budget Law. However, budgets are prepared as a management control device, and budget and actual comparisons are presented as supplementary information in the financial statements.

Cash Equivalents

For purposes of the statement of cash flows, the Joint Venture considers cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. Cash and investments held as part of the City of Englewood's pooled cash and investments are considered cash equivalents.

Accounts Receivable

Accounts receivable includes amounts due from the Joint Venturers related to ongoing operating costs as well as other related ancillary charges. Based on a review of outstanding receivables at year end no allowance was deemed necessary.

Capital Assets

Capital assets are stated at cost. Maintenance and repairs are charged to current period operating expenses and improvements are capitalized. The Joint Venture currently capitalizes infrastructure projects that cost more than \$25,000 and have a life of one year or more. Upon retirement or other disposition of property, plant and equipment, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in nonoperating income (expenses).

Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Asset Type</u>	<u>Years</u>
Treatment plant	20-50
Vehicles	2-8
Laboratory equipment	5-10
Other equipment	2-7

Reimbursement of Operating Expenses

Variable operating expenses are shared by the venturers based on actual usage of the facility and fixed operating expenses, excluding depreciation, are shared equally. Additionally, in accordance with the Joint Venture Agreement, Littleton pays an administration fee to Englewood equal to 3% of operating expenses. Littleton paid \$401,370 and \$411,735 during the years ended December 31, 2016 and 2015, respectively.

Capital Contributions

The joint venturers share capital expenditures equally. The amount reported as capital contributions on the Statements of Revenues, Expenses and Changes in Fund Net Position represents the amount paid by the joint venturers for capital improvements.

Compensated Absences, Pension and Other Post-Employment Benefits

The Joint Venture is charged for Compensated Absences, Pension and Other Post-Employment benefit costs related to the workforce. Please refer to the City of Englewood's Comprehensive Annual Financial Report for complete descriptions of the City's benefits. This report may be obtained by calling the City of Englewood's Department of Finance and Administrative Services at 303-762-2300 or by visiting Englewood's website at www.EnglewoodCO.gov.

Net Position

The Joint Venture utilizes a net position presentation. Net Position is categorized as investments in capital assets (net of related debt) and is either restricted or unrestricted. Net position is restricted when constraints placed on the use of resources are externally imposed. In order to calculate the amounts to report as restricted-net position or unrestricted-net position, a flow assumption must be made about the order in which the resources are to be applied. It is this Joint Venture's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Use of 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.

Note 2 – Cash and Investments

The Joint Venture's cash and investments are combined with Englewood's pooled cash and investment funds. Englewood allocates interest earnings from the combined investments on a pro-rata basis. See the City of Englewood's Comprehensive Annual Financial Report at www.EnglewoodCO.gov for additional details.

At December 31, 2016, the Joint Venture had cash and investments as follows:

Unrestricted

Deposits and investments with the City of Englewood internal investment pool	<u>\$ 1,154,655</u>
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Under the terms of the joint venture agreement, the venturers agreed to restrict \$1,000,000 of their individual City's sewer fund cash to finance major capital repairs and replacements of the joint venture. Each City is also required to deposit an amount equal to two months of budgeted operating expenditures. For the year ended December 31, 2016 the deposit balances were \$1,210,000 and \$1,430,000 for the Cities of Littleton and Englewood respectively.

Note 3 – Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 5,362,992	\$ -	\$ -	\$ 5,362,992
Construction in process	1,185,125	-	(1,185,125)	-
Total capital assets not being depreciated	<u>6,548,117</u>	<u>-</u>	<u>(1,185,125)</u>	<u>5,362,992</u>
Capital assets being depreciated				
Treatment plant	123,698,901	-	-	123,698,901
Vehicles	1,111,129	265,497	(25,013)	1,351,613
Operating machinery and equipment	67,818,438	1,668,745	(139,286)	69,347,897
Other improvements	8,872,149	131,723	-	9,003,872
Total capital assets being depreciated	<u>201,500,617</u>	<u>2,065,965</u>	<u>(164,299)</u>	<u>203,402,283</u>
Less accumulated depreciation for:				
Treatment plant	62,678,560	2,926,389	-	65,604,949
Vehicles	742,374	90,576	(25,013)	807,937
Operating machinery and equipment	37,002,200	3,479,598	(139,286)	40,342,512
Other improvements	2,465,161	196,051	-	2,661,212
Total accumulated depreciation	<u>102,888,295</u>	<u>6,692,614</u>	<u>(164,299)</u>	<u>109,416,610</u>
Total capital assets being depreciated, net	<u>98,612,322</u>	<u>(4,626,649)</u>	<u>-</u>	<u>93,985,673</u>
Total capital assets, net	<u>\$ 105,160,439</u>	<u>\$ (4,626,649)</u>	<u>\$ (1,185,125)</u>	<u>\$ 99,348,665</u>

Note 4 – Risk Management

The Joint Venture is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors or omissions and natural disasters.

In order to reduce insurance costs, the Joint Venture participates in the City of Englewood's Risk Management and Health Insurance Programs. Amounts payable to the City are based on historical claims experience. Please refer to the City's Comprehensive Annual Financial Report for complete descriptions of the City's risk management activities. Settled claims have not exceeded insurance coverage in any of the past three years.

Note 5 – Tax, Spending and Debt Limitations

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

The cities of Englewood and Littleton account for the operations of the Joint Venture within their respective sewer utility funds. Any TABOR implications or considerations related to the Joint Venture have been considered individually by each of the cities as part of their annual financial reporting process.

Note 6 – Other Contingencies

The City of Englewood was identified as a responsible party at the Superfund site known as the Lowry Landfill by the United States Environmental Protection Agency. The City has entered into an agreement with the primary party responsible for the Lowry Landfill. The primary party will be responsible for the actual cleanup of the site and will respond, on the City's behalf, to all inquiries or notifications received by the EPA. Based on estimates provided during the settlement process, City management does not believe additional cleanup costs will be necessary.

Littleton/Englewood Wastewater Treatment Plant Joint Venture
Schedule of Changes in Joint Venturers' Equity
For The Year Ended December 31, 2016

	<u>City of Littleton</u>	<u>City of Englewood</u>	<u>Total</u>
Restated December 31, 2014 net position	\$ 54,841,355	\$ 54,841,355	\$ 109,682,710
Change in net position	<u>(2,993,430)</u>	<u>(2,993,430)</u>	<u>(5,986,860)</u>
December 31, 2015 net position	51,847,925	51,847,925	\$ 103,695,850
Restatement of December 31, 2015 net position	<u>893,460</u>	<u>893,459</u>	<u>1,786,919</u>
Restated December 31, 2015 net position	52,741,385	52,741,384	105,482,769
Change in net position	<u>(2,905,887)</u>	<u>(2,905,887)</u>	<u>(5,811,774)</u>
Balance at December 31, 2016	<u>\$ 49,835,498</u>	<u>\$ 49,835,497</u>	<u>\$ 99,670,995</u>

See Independent Auditor's Report

Littleton/Englewood Wastewater Treatment Plant Joint Venture

**Schedule of Revenues, Expenditures and Changes in Funds Available -
Budget and Actual (Budgetary Basis)**

For the Year Ended December 31, 2016

With Comparative Totals for the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget -</u>	<u>2015 Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>	
Revenues					
Reimbursement of operating expenses					
City of Littleton	\$ 6,999,870	\$ 6,999,870	\$ 5,950,271	\$ (1,049,599)	\$ 6,250,607
City of Englewood	7,285,579	7,285,579	7,135,691	(149,888)	7,305,056
Capital contributions					
City of Littleton	1,328,750	1,328,750	440,420	(888,330)	352,990
City of Englewood	1,328,750	1,328,750	440,420	(888,330)	352,990
Septic hauling	50,000	50,000	198,816	148,816	85,926
Farm income from crop sales	86,599	86,599	61,719	(24,880)	55,236
Industrial wastewater sampling and analysis	11,000	11,000	14,432	3,432	9,100
Net investment income	23,447	23,447	8,492	(14,955)	6,035
Other	83,126	83,126	9,582	(73,544)	18,326
Total revenues	<u>17,197,121</u>	<u>17,197,121</u>	<u>14,259,843</u>	<u>(2,937,278)</u>	<u>14,436,266</u>
Expenditures					
Treatment	6,049,467	6,049,467	5,457,265	592,202	5,787,557
Engineering and Maintenance	3,021,672	3,021,672	2,987,530	34,142	3,019,683
Laboratory Services	910,956	910,956	875,614	35,342	836,232
Beneficial use	912,788	912,788	824,793	87,995	784,694
Contractual	3,416,614	3,416,614	3,075,206	341,408	3,061,140
Commodities	228,124	228,124	158,595	69,529	240,980
Capital outlay	2,657,500	2,657,500	880,840	1,776,660	705,980
Total expenditures	<u>17,197,121</u>	<u>17,197,121</u>	<u>14,259,843</u>	<u>2,937,278</u>	<u>14,436,266</u>
Change in Net Position, Budgetary Basis	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjustments to GAAP Basis					
Depreciation			(6,692,614)		(6,692,841)
Capital Outlay			880,840		705,981
Change in Net Position, GAAP Basis			<u>\$ (5,811,774)</u>		<u>\$ (5,986,860)</u>

See Independent Auditor's Report

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