

**LITTLETON / ENGLEWOOD
WASTEWATER TREATMENT PLANT**



**ANNUAL FINANCIAL REPORT
Year Ended December 31, 2017**

ANNUAL FINANCIAL REPORT

LITTLETON / ENGLEWOOD WASTEWATER TREATMENT PLANT JOINT VENTURE

Year Ended December 31, 2017

Supervisory Committee

City of Littleton

Mark Relph, City Manager
Keith Reester, Director of Public Services

City of Englewood

Eric Keck, City Manager
Larry Nimmo, Acting Director of Public Works

John Kuosman, Plant Manager

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

**Annual Financial Report
Year Ended December 31, 2017**

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**HINKLE &
COMPANY**

Strategic PC
Business Advisors

Independent Auditors' Report

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

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, 2017, 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, 2017, 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 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.

Hick & Company, PC

Greenwood Village, Colorado
May 25, 2018



Littleton/Englewood Wastewater Treatment Plant Joint Venture

Statement of Net Position

As of December 31, 2017

	2017
Assets	
Current assets	
Cash and investments	\$ 1,098,333
Receivable from City of Littleton	489,206
Receivable from City of Englewood	510,268
Interest receivable	6,671
Other receivables	27,083
Total current assets	2,131,561
Noncurrent assets	
Capital assets not being depreciated	5,995,302
Buildings	123,981,575
Vehicles, equipment and other	80,894,470
Less accumulated depreciation	(116,174,520)
Capital assets, net of accumulated depreciation	88,701,525
Total noncurrent assets	94,696,827
Total assets	96,828,388
Liabilities	
Current liabilities	
Accounts payable	1,252,112
Retainage payable	53,151
Accrued liabilities	309,375
Total current liabilities	1,614,638
Noncurrent liabilities	
Accrued liabilities	194,592
Total noncurrent liabilities	194,592
Total liabilities	1,809,230
Net position	
Invested in capital assets	94,696,827
Unrestricted	322,331
Total net position	\$ 95,019,158

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, 2017

	2017
Operating revenues	
Reimbursement of operating expenses	
City of Littleton	\$ 6,578,544
City of Englewood	7,961,676
Total operating revenues	14,540,220
Operating expenses	
Sewage treatment	
Strategic Programs	1,844,044
Operations and Maintenance	8,410,893
Total sewage treatment	10,254,937
Administration	
Business Administration and Communication	4,612,586
Total administration	4,612,586
Depreciation	6,757,909
Total operating expenses	21,625,432
Operating loss	(7,085,212)
Nonoperating revenues	
Septic hauling	186,258
Farm income from crop sales	78,963
Net investment income	13,354
Other	48,728
Total nonoperating revenues	327,303
Loss before contributions	(6,757,909)
Capital contributions	
City of Littleton	1,053,036
City of Englewood	1,053,036
Total capital contributions	2,106,072
Change in net position	(4,651,837)
Total net position - beginning	99,670,995
Total net position - ending	\$ 95,019,158

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, 2017**

	2017
Cash flows from operating activities	
Cash received from joint venturers	\$ 13,868,629
Cash payments to suppliers for goods and services	(14,513,942)
Net cash provided (required) by operating activities	(645,313)
Cash flows from noncapital financing activities	
Septic hauling	186,258
Other cash received	148,381
Net cash provided by noncapital financing activities	334,639
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(1,864,647)
Capital contributions from joint venturers	2,106,072
Net cash provided by capital and related financing activities	241,425
Cash flows from investing activities	
Net investment income	12,927
Net cash provided by investing activities	12,927
Net increase in cash and cash equivalents	(56,322)
Cash and cash equivalents - January 1,	1,154,655
Cash and cash equivalents - December 31,	\$ 1,098,333
Reconciliation of operating loss to net cash provided (required) by operating activities	
Loss from operations	\$ (7,085,212)
Adjustments to reconcile operating loss to net cash provided (required) by operating activities:	
Depreciation	6,757,909
Effect of changes in operating assets and liabilities	
Receivable from joint venturers	(671,591)
Accounts payable	350,327
Accrued liabilities	3,254
Total adjustments	6,439,899
Net cash provided (required) by operating activities	\$ (645,313)

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, 2017

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 non-operating 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 non-operating 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 and equipment that costs \$5,000 or more and has a life of more than one year. 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 non-operating 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>
Buildings	25-50
Infrastructure	20-50
Other Improvements	2-20
Machinery and Equipment	2-15

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 \$446,026 during the year ended December 31, 2017.

Capital Contributions

The joint venturers share capital expenditures equally. The amount reported as capital contributions on the Statement 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.engagewoodco.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 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.engagewoodco.gov for additional details.

At December 31, 2017, the Joint Venture had cash and investments as follows:

Unrestricted

Deposits and investments with the City of Englewood internal investment pool	<u>\$ 1,098,333</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, 2017 the deposit balances were \$1,210,000 and \$1,430,000 for the Cities of Littleton and Englewood respectively.

Note 3 – Capital Assets

Certain beginning balances have been reclassified to conform to the current year presentation. Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 5,422,996	\$ -	\$ -	\$ 5,422,996
Construction in process	-	572,306	-	572,306
Total capital assets not being depreciated	<u>5,422,996</u>	<u>572,306</u>	<u>-</u>	<u>5,995,302</u>
Capital assets being depreciated				
Buildings	123,981,575	-	-	123,981,575
Infrastructure	5,712,915	1,176,413	-	6,889,328
Other improvements	3,230,953	134,148	-	3,365,101
Machinery and Equipment	70,416,836	223,205	-	70,640,041
Total capital assets being depreciated	<u>203,342,279</u>	<u>1,533,766</u>	<u>-</u>	<u>204,876,045</u>
Less accumulated depreciation for:				
Buildings	65,887,624	2,888,890	-	68,776,514
Infrastructure	1,091,647	120,713	-	1,212,360
Other improvements	1,569,565	74,681	-	1,644,246
Machinery and Equipment	40,867,775	3,673,625	-	44,541,400
Total accumulated depreciation	<u>109,416,611</u>	<u>6,757,909</u>	<u>-</u>	<u>116,174,520</u>
Total capital assets being depreciated, net	<u>93,925,668</u>	<u>(5,224,143)</u>	<u>-</u>	<u>88,701,525</u>
Total capital assets, net	<u>\$ 99,348,664</u>	<u>\$ (4,651,837)</u>	<u>\$ -</u>	<u>\$ 94,696,827</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, 2017

	<u>City of Littleton</u>	<u>City of Englewood</u>	<u>Total</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	49,835,498	49,835,497	\$ 99,670,995
Change in net position	<u>(2,325,919)</u>	<u>(2,325,918)</u>	<u>(4,651,837)</u>
Balance at December 31, 2016	<u>\$ 47,509,579</u>	<u>\$ 47,509,579</u>	<u>\$ 95,019,158</u>

See Independent Auditors' 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, 2017

With Comparative Totals for the Year Ended December 31, 2016

	Budgeted Amount	Actual Amounts	Variance with Final Budget - Positive (Negative)	2016 Actual
Revenues				
Reimbursement of operating expenses				
City of Littleton	\$ 7,179,666	\$ 6,578,544	\$ (601,122)	\$ 5,950,271
City of Englewood	7,472,715	7,961,676	488,961	7,135,691
Capital contributions				
City of Littleton	2,040,000	1,053,036	(986,964)	440,420
City of Englewood	2,040,000	1,053,036	(986,964)	440,420
Septic hauling	90,000	186,258	96,258	198,816
Farm income from crop sales	176,899	78,963	(97,936)	61,719
Industrial wastewater sampling and analysis	10,000	-	(10,000)	14,432
Net investment income	23,447	13,354	(10,093)	8,492
Other	122,515	48,728	(73,787)	9,582
Total revenues	19,155,242	16,973,595	(2,181,647)	14,259,843
Expenditures				
Strategic Programs	2,557,286	1,844,044	713,242	1,700,407
Operations and Maintenance Solutions	9,429,150	8,410,893	1,018,257	8,444,795
Business Administration and Communications	4,435,806	4,612,586	(176,780)	3,233,801
Capital outlay	2,733,000	2,106,072	626,928	880,840
Total expenditures	19,155,242	16,973,595	2,181,647	14,259,843
Change in Net Position, Budgetary Basis	-	-	-	-
Adjustments to GAAP Basis				
Depreciation		(6,757,909)		(6,692,614)
Capital Outlay		2,106,072		880,840
Change in Net Position, GAAP Basis		\$ (4,651,837)		\$ (5,811,774)

See Independent Auditors' Report