*Penrose Water District*

# Financial Statements

**with Independent Auditors' Report**

***December 31, 2016***

# Table of Contents

# Management’s Discussion and Analysis

# PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

## Management's Discussion and Analysis

The Management Discussion and Analysis (MD&A) is designed to provide an easy-to-read discussion of the District's financial condition and operating results and to disclose to the reader important financial activities and issues related to the District's basic operations and mission.

The District has one financial category referred to as a business type activity.

### *DESCRIPTION OF FINANCIAL STATEMENTS*

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements (including the accompanying footnotes)*, and *supplementary information*. The *supplementary information* is not a required part of the financial statements under generally accepted accounting principles.

The basic financial statements consist of the statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. These statements report information about the District as a whole and include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The basic financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

These statements report the District's *Net Position* and changes in it. The District's Net Position is one way to measure the District's financial health, or *financial position*. Over time, increases or decreases in the District's Net Position is one indicator of whether its financial health is improving or deteriorating.

### *HIGHLIGHTS*

- In 2016 total assets were $14,480,000, a decrease of $335,000 from 2015.
- In 2016 total liabilities were $8,367,000, a decrease of $358,000 from 2015.
- Operating income for 2016 was $80,000 compared to $131,000 in 2015.
- Net nonoperating income (expense) was $94,000 in 2016 compared to $52,000 in 2015. Details of the difference are shown on the statement of revenue, expenses, and changes in net position.

**STATEMENTS OF NET POSITION**

The perspective of the statement of Net Position is of the District as a whole. Following is a summary of the District's Net Position for 2016 compared to 2015:

# PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

| | 2016 | 2015 |
|---|---|---|
| Assets: | | |
| Current Assets | $ 2,458,393 | $ 2,535,549 |
| Capital Assets, Net of Accumulated Depreciation | 11,585,110 | 11,837,531 |
| Other Assets | 436,063 | 442,078 |
| Total Assets | $ 14,479,566 | $ 14,815,158 |
| | | |
| Liabilities: | | |
| Current Liabilities | $ (296,073) | $ (479,343) |
| Long-Term Debt | (8,070,478) | (8,245,841) |
| Total Liabilities | $ (8,366,551) | $ (8,725,184) |
| | | |
| Deferred Inflow of Resources | $ (157,475) | $ (152,058) |
| | | |
| Net Position: | | |
| Invested in Capital Assets, Net of Related Debt | $ 3,339,269 | $ 3,421,847 |
| Restricted | 588,336 | 821,510 |
| Unrestricted | 2,027,935 | 1,694,559 |
| Total Net Position | $ 5,955,540 | $ 5,937,916 |

**STATEMENTS OF ACTIVITIES**

The following table reflects the change in Net Position for fiscal year 2016 and 2015.

| | 2016 | 2015 |
|---|---|---|
| Operating revenue | $ 1,249,590 | $ 1,182,006 |
| Capital contributions | 33,671 | 208,493 |
| Taxes | 161,427 | 148,124 |
| Interest income | 31,857 | 28,708 |
| Total Revenues | $ 1,480,045 | $ 1,567,331 |
| | | |
| Cost of operations | $ 1,170,054 | $ 1,051,311 |
| Other expenses | 20,237 | 4,134 |
| Total Expenses | $ 1,462,421 | $ 1,176,438 |
| | | |
| Change in net position | $ 17,624 | $ 390,893 |

## *CAPITAL ASSETS AND DEBT ADMINISTRATION*

### Capital Assets

The following table summarizes the changes in capital assets during the year.

| **Description** | *Balance, Beginning of Year* | *Additions* | *Deletions* | ***Balance, End of Year*** |
|---|---|---|---|---|
| **Capital assets not being depreciated:** | | | | |
| Water rights | $ 1,690,687 | $ - | $ - | $ 1,690,687 |
| Water storage rights | 2,549,144 | - | - | 2,549,144 |
| Land and rights of way | 236,894 | - | - | 236,894 |
| **Capital assets being depreciated:** | | | | |
| Buildings and Improvements | 61,999 | - | - | 61,999 |
| Water Treatment Plants | 2,178,576 | - | - | 2,178,576 |
| Distribution System | 8,792,125 | - | - | 8,792,125 |
| Other Equipment | 270,164 | 35,724 | (19,622) | 286,266 |
| Total capital assets being depreciated at cost | 11,302,864 | 35,724 | (19,622) | 11,318,965 |
| Less accumulated depreciation | (3,942,058) | (294,044) | 19,622 | (4,216,480) |
| ***Net capital assets being depreciated*** | $ 7,360,806 | N/A | N/A | $ 7,102,485 |

### DEBT OUTSTANDING

The following table summarizes the debt activity of the District during the year.

| **Description** | *Balance, Beginning of Year* | *Additions* | *Payments and Deletions* | ***Balance, End of Year*** | ***Due Within One Year*** |
|---|---|---|---|---|---|
| Colorado Water Conservation Board | 8,415,684 | - | (169,843) | 8,245,841 | 175,363 |
| **Total** | $ 8,415,684 | $ - | $ (169,843) | $ 8,245,841 | $ 175,363 |

## *ECONOMIC AND OTHER FACTORS*

Since 1993 the Penrose Water District has declared enterprise status for budget purposes. Notwithstanding that declaration, in 2000, in order to comply with requirements of various State and Federal lenders, the District created the Penrose Water District Water Activity Enterprise, specific for the purpose to receive grants and loans from said agencies. The District budget presents Enterprise activities as a budget separate from the main body of the District's budget.

Since its inception in 1968, the District's raw water supply has depended solely on a lease from a local irrigation company whose supply is from a single source. From 2005 - 2016, the most evident economic factor and budgetary influence has been the District's endeavor to acquire a more secure and diverse raw water supply.

Between 2005 and 2010, the District acquired and changed a water right under the Pleasant Valley Ditch on the Arkansas River from agricultural to municipal uses. The change, completed in 2010, yielded a decree for 330 consumptive acre feet of water. Property associated with the water right was subsequently sold to private parties between 2009 and 2014.

In 2010 the District took out a 30-year, 3.25% loan for $8,844,570 from CWCB. That loan was issued to finance 90% of the purchase of the water rights, construction of a river diversion and raw water pipeline, and the purchase of storage. The District provided the remaining 10% cost of the Project. Additional funding for the project was by way of a $500,000 grant from the Department of Local Affairs awarded in 2007.

In 2011 the District purchased 500 acre feet of firm storage in Brush Hollow Reservoir from Beaver Park Water, Inc. In 2012, the District purchased 100 acres of property from Holcim US, Inc. south of Penrose, along the north side of the Arkansas River, for locating a well field to divert the Pleasant Valley Ditch water rights. In 2013, the District hired an engineering firm to design the Arkansas-Penrose Raw Water Pipeline to convey water to storage at B.H. Reservoir and the water treatment plant. The Project was awarded in 2014 and completed in December of 2015. Final payment for construction and engineering was made in early 2016.

Several budgetary and economic requirements set forth by CWCB in order to secure the loan are worthy of note and as follows:

- The District utilized the Enterprise to receive and expend the loan money to build the project. The loan was closed in 2015, with first payment made in 2016.
- To generate revenues necessary to meet the debt service on the CWCB loan, in 2006 the District Board passed a resolution increasing the base-rate charges for each equivalent residential unit (eru) by $3.00 per month each January of 2007, 2008 and 2009. Each year since, and during the work of the Project, the Board reassessed projected debt service and made rate adjustments accordingly - increasing the rates each year, as needed, from 2013 through 2016.
- Due to add-ons to the Project, the District took out an additional loan amount of $919,100.00. Additionally, the Colorado Department of Local Affairs granted additional $300,000.00 grant to the project.
- The project was completed at a lower cost than projected, allowing the District to not draw the full the full amount of the approved loan from CWCB. Additionally, the Board used reserves to pay down $200,000.00 of the existing loan balance at close of the project. The balance of the loan, therefore, requires an annual debt payment of approximately $444,000.00/year, nearly $70,000/year less than projected.
- The required reserve account for the loan was fully funded in 2015.
- The first annual debt payment was made in 2016.

Tap fees are $12,000/eru. In 2016 the District issued 3 water taps and had 1,739 taps on system at December 31st. Tap sales for the past several years remain considerably less than the prior historic annual average for tap sales.

The base monthly-minimum, which is charged to all accounts regardless of usage, is set in accordance with the District's debt service and other capital needs and is dedicated to those payments and activities. Water usage rates are primarily set in accordance with operational costs. Management reviews the revenue to cost ratio on an annual basis to ensure rates are structured in such a manner as to maintain a balanced budget. In line with that practice, rate adjustments were made in 2016 as follows:

- Base-rate increased by $1.00 to $37.50/eru/month
- Usage increased to $4.90/thousand

As previously discussed, the primary source of supply for the Penrose Water District is via leased raw water from Beaver Park Water, Inc., a local irrigation company. Rates for the lease are negotiable every 5 years. In 2014 the parties reached a price agreement for raw water provided under the lease for calendar years 2015-2020. Under that agreement, the cost for water delivered to the District in 2017 is $365.00/Acre Foot and water held, but not delivered is $85.00/Acre Foot.

### *CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT*

This financial report is designed to provide the general public with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact:

District Manager
Penrose Water District
340 Grant
Penrose, Colorado 81240-0279
Tel: (719) 372-3289
Fax: (719) 372-9347

# Independent Auditors’ Report

Holscher, Mayberry & Company, LLC
**Certified Public Accountants**

**Member of the American Institute of Certified Public Accountants**
**Governmental Audit Quality Center**
**and Private Company Practice Section**

# Independent Auditors' Report

To the Board of Directors
Penrose Water District

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Penrose Water District as of and for the year ended December 31, 2016 and the related related notes to the financial statements which collectively comprise the basic financial statements of the District 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards 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 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Penrose Water District as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

8310 South Valley Highway – Suite 300 Voice (303) 907 – 1463
Englewood, Colorado 80112 Fax (303) 496 – 0978

### *Report on Summarized Comparative Information*

We have previously audited the Penrose Water District's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Other Matters*

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i – v be presented to supplement the basic financial statements. Management's Discussion and Analysis, 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 Management's Discussion and Analysis 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 audit of the Basic Financial Statements. We do not express an opinion or provide any assurance on the Management's Discussion and Analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was performed for the purpose of forming an opinion on the Basic Financial Statements taken as a whole. The accompanying Supplementary Schedules (as listed in the table of contents) are not a required part of the Basic Financial Statements of the Penrose Water District. 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 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 such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Holscher, Mayberry & Company, LLC

Englewood, Colorado
March 8, 2017

# Basic Financial Statements

# PENROSE WATER DISTRICT

## *Statement of Net Position*

December 31, 2016 (with comparative amounts for 2015)

| **Assets** | 2016 | 2015 |
|---|---|---|
| ***Current assets*** | | |
| Cash and cash equivalents | $ 1,505,094 | $ 1,349,129 |
| Restricted cash and cash equivalents | 588,335 | 821,511 |
| Accounts receivable (no allowance considered necessary) | 103,207 | 102,727 |
| Property taxes receivable | 157,475 | 152,058 |
| Inventory | 104,282 | 110,124 |
| Total current assets | 2,458,393 | 2,535,549 |
| ***Capital Assets*** | | |
| Capital assets not being depreciated: | | |
| Water rights | 1,690,687 | 1,690,687 |
| Water storage rights | 2,549,144 | 2,549,144 |
| Land and rights of way | 242,794 | 236,894 |
| Capital assets being depreciated, net of accumulated depreciation | 7,102,485 | 7,360,806 |
| Total capital assets | 11,585,110 | 11,837,531 |
| ***Other Assets*** | | |
| Note receivable | 436,063 | 442,078 |
| Total other assets | 436,063 | 442,078 |
| Total Assets | $ 14,479,566 | $ 14,815,158 |
| **Liabilities** | | |
| ***Current liabilities*** | | |
| Accounts payable | $ 24,474 | $ 211,533 |
| Accrued salaries and payroll taxes | 29,243 | 29,589 |
| Accrued interest payable | 66,997 | 68,377 |
| Current portion of long-term debt | 175,363 | 169,843 |
| Total current liabilities | 296,073 | 479,343 |
| ***Long-term debt (net of current portion)*** | 8,070,478 | 8,245,841 |
| Total liabilities | $ 8,366,551 | $ 8,725,184 |
| **Deferred Inflow of Resources** | | |
| Deferred property taxes | $ 157,475 | $ 152,058 |
| ***Net Position*** | | |
| Net investment in capital assets | $ 3,339,269 | $ 3,421,847 |
| Restricted for: | | |
| Debt service | 445,413 | 444,437 |
| Capital improvement projects | 43,854 | 39,786 |
| Acquisition, delivery and storage of water | 99,069 | 337,287 |
| Unrestricted | 2,027,935 | 1,694,559 |
| Total Net Position | $ 5,955,540 | $ 5,937,916 |

The accompanying notes are an integral part of the financial statements.

# PENROSE WATER DISTRICT

## *Statements of Revenue, Expenses, and Changes in Net Position*

For the Year Ended December 31, 2016 (with comparative amounts for 2015)

| | 2016 | 2015 |
|---|---|---|
| **Operating revenue** | | |
| Charges for services | $ 1,233,997 | $ 1,167,886 |
| Miscellaneous | 15,593 | 14,120 |
| Total operating revenue | 1,249,590 | 1,182,006 |
| Water and distribution expenses | 1,062,478 | 934,398 |
| General and administrative expenses | 107,576 | 116,913 |
| Total operating expenses | 1,170,054 | 1,051,311 |
| Operating income (loss) | 79,536 | 130,695 |
| **Nonoperating income and expenses** | | |
| Property taxes | 151,931 | 137,308 |
| Specific ownership taxes | 9,496 | 10,816 |
| Interest income | 31,857 | 28,708 |
| Gain (loss) on sale assets | 3,500 | - |
| Interest expense | (272,130) | (120,993) |
| Treasurer commission | (20,237) | (4,134) |
| Net nonoperating income (expense) | (95,583) | 51,705 |
| Net income before tap fees and contributions | (16,047) | 182,400 |
| **Tap Fees and Contributions** | | |
| Tap fees | 33,671 | 14,860 |
| Capital contributions | - | 193,633 |
| Net income | 17,624 | 390,893 |
| **Net Position** | | |
| Balance, beginning of year | 5,937,916 | 5,547,023 |
| Balance, end of year | $ 5,955,540 | $ 5,937,916 |

The accompanying notes are an integral part of the financial statements.

# PENROSE WATER DISTRICT

## *Statement of Cash Flows*

For the Year Ended December 31, 2016 (with comparative amounts for 2015)

| **Cash flows from operating activities** | 2016 | 2015 |
|---|---|---|
| Cash received from customers | $ 1,249,110 | $ 1,169,361 |
| Cash paid to employees | (290,910) | (280,613) |
| Cash paid to suppliers and service providers | (580,211) | (633,673) |
| Net cash provided by operating activities | 377,989 | 255,075 |
| **Cash flows from noncapital financing activities** | | |
| Taxes | 141,190 | 143,990 |
| Net cash provided by noncapital financing activities | 141,190 | 143,990 |
| **Cash flows from capital and related financing activities** | | |
| Principal paid on long-term debt | (169,843) | (200,000) |
| Interest paid on bonds and notes | (273,510) | (120,993) |
| Grants received for capital purchases | - | 301,706 |
| Proceeds from loans | - | 2,077,784 |
| Water tap fees | 33,671 | 14,860 |
| Cash received on sale of capital assets | 3,500 | - |
| Purchase of capital assets | (228,075) | (3,369,600) |
| Net cash provided (used) by capital and related financing activities | (634,262) | (1,296,242) |
| **Cash flows from investing activities** | | |
| Principal received on loan | 6,015 | 5,672 |
| Interest on investments | 31,857 | 28,705 |
| Net cash provided (used) by investing activities | 37,872 | 34,377 |
| Net increase (decrease) in cash | (77,211) | (862,800) |
| Cash and cash equivalents, beginning of year | 2,170,640 | 3,033,440 |
| Cash and cash equivalents, end of year | $ 2,093,429 | $ 2,170,640 |
| **Reconciliation of Operating Income to Cash Provided by Operations** | | |
| Operating income | $ 79,536 | $ 130,695 |
| ***Adjustments to reconcile operating income to net cash provided by operating activities:*** | | |
| Depreciation | 294,044 | 169,714 |
| Decrease (increase) in inventory | 5,842 | (7,131) |
| Decrease (increase) in accounts receivable | (480) | (12,645) |
| Increase (decrease) in accounts payable | (607) | (26,100) |
| Increase (decrease) in accrued payroll | (346) | 542 |
| Net cash provided by operating activities | $ 377,989 | $ 255,075 |
| **Noncash Capital, Investing, and Financing Activities** | | |
| Accrued interest capitalized | $ - | $ 143,207 |
| **Reconciliation of Cash Shown on the Statement of Net Position to Cash and Cash Equivalents at the End of the Year as Shown Above** | | |
| Unrestricted cash and cash equivalents on the Statement of Net Position | $ 1,505,094 | $ 1,349,129 |
| Restricted cash and cash equivalents on the Statement of Net Position | 588,335 | 821,511 |
| Total cash and cash equivalents as shown above | $ 2,093,429 | $ 2,170,640 |

The accompanying notes are an integral part of the financial statements.

## *Notes to Financial Statements*

December 31, 2016

## 1. Summary of Significant Accounting Policies

### *Reporting Entity*

The Penrose Water District operates under the regulations pursuant to the Colorado Revised Statutes that designate a Board of Directors to act as the governing authority. The District provides potable water to the people within the boundaries of the District, which is located in Fremont County near Cañon City, Colorado. Because the District has been established for the sole purpose of providing water service, it has no general fund. For financial reporting purposes, the District shows its basic financial statements as one enterprise fund.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities and functions that comprise the District. Component units are legally separate entities for which the District is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Using these criteria, the District has no component units.

### *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Enterprise funds are used to account for operations financed and operated similar to businesses using the accrual basis of accounting. The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting.* Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

### *Use of Estimates*

Preparation of the financial statements of the District in conformity with generally accepted accounting principles requires the use of management's estimates, primarily related to the depreciable lives of its property and equipment. The nature of those estimates, however, is such that variances in actual results are generally immaterial.

### *Encumbrances*

The District does not employ a purchase order system; therefore, encumbrances are not reflected in the financial statements.

### *Assets, Liabilities, Deferred Inflows and Net Position*

### Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes govern the District's deposits of cash and investments.

### Accounts Receivable and Allowance for Doubtful Accounts

Because the District has the right to lien property for unpaid water bills, no allowance for doubtful accounts is considered necessary. The District considers accounts receivable outstanding more than 30 days to be past due. At December 31, 2016 the District had $34,731 in past due accounts receivable.

## Capital Assets

Enterprise fund capital assets are capitalized in the fund accounts because the capital assets are used in the production of water sold. The District's policy is to capitalize capital assets with an original cost of $5,000 or more and estimated useful life of at least 3 years. For self-constructed assets, direct costs and the cost of interest expense during the period of construction are capitalized. Overhead charges, such as employee costs overseeing the project are not charged to the cost of the asset. Depreciation is provided on a straight-line basis, for those assets subject to depreciation, over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

| *Description* | *Estimated Useful Life* |
|---|---|
| Plant and water lines | 30 – 40 years |
| Building and improvements | 10 – 30 years |
| Equipment | 5 – 10 years |

## Inventory

Inventories of materials and supplies are recorded on the balance sheet at the lower of cost or market using the first-in, first-out method of accounting.

## Deferred Inflows

In addition to liabilities, the statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

## Net Position

Net position represents the difference between assets and liabilities plus deferred inflows in the statement of net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by external restrictions by creditors, grantors, laws, or regulations of other governments.

When an expenditure is incurred for purposes for which both restricted and unrestricted balance is available, the District considers restricted funds to have been spent first.

### *Property Tax Revenue Recognition*

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied November 15 and are due and payable to the County Treasurer in full by April 30 or in two equal installments due February 28 and June 15 of the ensuing year.

Property taxes to be collected in 2017 are accrued as a receivable and the related deferred inflow of revenue recorded. Property tax revenue is recognized as income as it becomes measurable and available.

### *Operating and Nonoperating Revenue*

Operating revenue is defined as revenue that is derived from ordinary monthly billings to customers of the District and other incidental charges of a routine nature such as turn on and off fees, final read fees, etc. All other revenue, including tap fees and property taxes, are considered nonoperating revenue.

### *Reclassifications*

Various items for 2015 have been reclassified to conform to 2016 presentation.

### *Budgetary Practices*

To meet the loan requirements of the Colorado Water Conservation Board the District has established two funds for budgeting purposes. The budget for the "district accounts" accounts for all of the routine operations of the District. The "Water Activity Enterprise" budget accounts for the sources and uses of funds related to the acquisition and construction of a water project to bring water from the Arkansas River to the district's storage facility in Brush Hollow Reservoir.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

(1) In September the proposed budget is submitted to the District Board of Directors and a "Notice of Budget" is published stating that the proposed budget is on file for inspection.

(2) In December the budget is approved and adopted fixing the rate of levy of taxation upon taxable property within the District and levies are certified to the county. A certified copy of the adopted budget is sent to the Division of Local Government within 30 days of adoption.

(3) Prior to December 31, the District enacts an appropriation resolution for the ensuing fiscal year.

Budgets may be amended through the adoption of a supplemental budget and appropriate resolutions. During 2016 the District amended its budgets to reduce budgeted expenditures by $126,800.

## 2. Bank Deposits and Temporary Investments

Deposits of the District at each bank where the funds are maintained are insured up to $250,000, either by the Federal Deposit Insurance Corporation (FDIC) or by the Federal Savings and Loan Insurance Corporation (FSLIC). Colorado's Public Deposit Protection Act of 1975 enables any eligible public depository to elect to secure public deposits by pledging eligible collateral having a market value at all times equal to at least one hundred two percent (102%) of the aggregate of said deposits not insured.

### *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. Uninsured deposits in financial institutions are placed into three categories depending on the custody credit risk. The categories are as follows:

a. Uncollateralized
b. Collateralized with securities held by the pledging financial institution
c. Collateralized with securities held by the pledging financial institution's trust department, or agent but not in the entity's name.

The following is a schedule of the District's cash and temporary investment balances categorized by custody credit risk and a reconciliation to the statement of net position for the year ending December 31, 2016:

| **Description** | *Insured* | *Custody Credit Risk C* | *Total Balance* | *Carrying Balance* |
|---|---|---|---|---|
| Bank of the San Juans | $ 250,000 | $ 1,352,592 | $ 1,602,592 | $ 1,596,546 |
| Pueblo Bank and Trust | 43,854 | - | 43,854 | 43,854 |
| Colotrust Plus+(Rated AAAm by S & P) | N/A | N/A | 452,670 | 452,670 |
| Petty Cash | | | | 359 |
| **Total Cash and Temporary Investments** | $ 293,854 | $ 1,352,592 | $ 2,099,116 | $ 2,093,429 |
| **Reconciliation to the Statement of Net Position** | | | | |
| Cash on the Statement of Net Position | | | | $ 1,505,094 |
| Restricted cash and investments | | | | 588,335 |
| **Total Cash and Temporary Investments** | | | | $ 2,093,429 |

During the year ended December 31, 2016, the District invested funds in Colotrust. As an investment pool, it operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. It invests in securities that are specified by Colorado Revised Statutes (24-75-601). Authorized securities include U.S. Treasuries, U.S. Agencies, commercial paper (rated A1 or better) and bank deposits (collateralized through PDPA). Colotrust operates similar to a 2a-7-like money market fund with a share value equal to $1.00 and a maximum weighted average maturity of 60 days. This fund is rated AAAm by the Standard and Poor's Corporation.

The fair value of the investments in Colotrust and the other two money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

### *Investments*

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the year ended December 31, 2016 using quoted market prices in active markets (Level 1), significant observable inputs for similar assets (Level 2), and significant unobservable inputs (Level 3):

| **Description** | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| **Local Government Pools** | N/A | $ 452,670 | N/A | $ 452,670 |

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

> **Investment Pools:** Valued at the proportionate share of ownership of the quoted market prices of the underlying assets.

The District recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. During 2016, there were no changes in methods or assumptions utilized to derive the fair value of the District's assets and liabilities.

### *Interest Rate Risk*

The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates other than those described in Colorado Revised Statutes.

### *Credit Risk*

The District has no investment policy that limits its investment choices other than the limitation of state law as follows:

1. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged or obligations to the payment of which the full faith and credit of the State is pledged;
2. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out of state financial institutions;
3. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations;
4. Town, municipal, or school district tax supported debt obligations; bond or revenue anticipation notes; money; or bond or revenue anticipation notes of public trusts whose beneficiary is a town, municipality, or school district;
5. Notes or bonds secured by a mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association; and
6. Money market funds regulated by the Securities and Exchange Commission in which investments consist of the investments in 1, 2, 3, and 4 above.

### *Concentrations of Credit Risk*

The District places no limit on the amount it may investment in any one issuer. At December 31, 2016 the District had no concentration of investment credit risk.

The District invests excess funds under the prudent investor rule. Criteria for selection of investments and their order of priority are: 1) Safety; 2) liquidity; and 3) yield.

## 3. Restricted Cash and Investments

Cash and investments have been restricted as follows:

| **Purpose** | *Amount* |
|---|---|
| Future Capital Improvement Projects | $ 43,854 |
| Colorado Water Conservation Board Debt Service Reserve | 445,413 |
| Dedicated Revenues for Debt Repayment | 99,068 |
| **Total Restricted Cash and Investments** | $ 588,335 |

## 4. Note Receivable

The District has a note receivable in the amount of $436,063 to finance the sale of a portion of the District's land. The note has an interest rate of 6% and is due December 1, 2017. Beginning December 1, 2014 principal and interest payments of $2,698 are due monthly until the due date of the loan at which time all remaining principal and unpaid interest is due.

## 5. Property Taxes

Property tax revenue levied in 2016 and collectable in 2017 is $157,475.

## 6. Pension plan

The Penrose Water District has adopted a 401(k) pension plan known as the Penrose Water District Profit Sharing Plan administered by Mutual of Omaha for all full-time employees who, after one year of service, are eligible to participate. The District matches employee contributions up to 4% of employee compensation. The District has no liability for further pension benefits. Four full-time employees are all participating in the plan. Employee and employer contributions for each of the last 3 years were as follows:

| *Year* | *Total Payroll* | *Employee Contribution* | *Employer Contribution* |
|---|---|---|---|
| 2016 | $290,564 | $17,282 | $10,172 |
| 2015 | $281,155 | $14,683 | $10,188 |
| 2014 | $293,076 | $13,832 | $10,294 |

## 7. Changes in Capital Assets

The following is a summary of changes in capital assets for the year ended December 31, 2016:

| **Description** | *Balance, Beginning of Year* | *Additions* | *Deletions* | ***Balance, End of Year*** |
|---|---|---|---|---|
| **Capital assets not being depreciated:** | | | | |
| Water rights | $ 1,690,687 | $ - | $ - | $ 1,690,687 |
| Water storage rights | 2,549,144 | - | - | 2,549,144 |
| Land and rights of way | 236,894 | - | - | 236,894 |
| **Capital assets being depreciated:** | | | | |
| Buildings and Improvements | 61,999 | - | - | 61,999 |
| Water Treatment Plants | 2,178,576 | - | - | 2,178,576 |
| Distribution System | 8,792,125 | - | - | 8,792,125 |
| Other Equipment | 270,164 | 35,724 | (19,622) | 286,266 |
| Total capital assets being depreciated at cost | 11,302,864 | 35,724 | (19,622) | 11,318,965 |
| Less accumulated depreciation | (3,942,058) | (294,044) | 19,622 | (4,216,480) |
| ***Net capital assets being depreciated*** | $ 7,360,806 | N/A | N/A | $ 7,102,485 |

## 8. Long-term debt

Balances on outstanding long-term debt of the District are as follows:

| **Description** | *Balance* |
|---|---|
| Colorado Water Conservation Board - interest at 3.25%. Annual payments are $443,353 payable over 30 years. Secured by a pledge of the revenues of the District. | 8,245,841 |
| **Total long-term debt outstanding** | $ 8,245,841 |

The following is a summary of the long-term debt transactions for the year ended December 31, 2016:

| Description | Balance, Beginning of Year | Additions | Payments and Deletions | Balance, End of Year | Due Within One Year |
|---|---|---|---|---|---|
| Colorado Water Conservation Board | 8,415,684 | - | (169,843) | 8,245,841 | 175,363 |
| **Total** | $ 8,415,684 | $ - | $ (169,843) | $ 8,245,841 | $ 175,363 |

Principal and interest payable as follows:

| Year | Principal | Interest |
|---|---|---|
| 2017 | 175,363 | 267,990 |
| 2018 | 181,062 | 262,291 |
| 2019 | 186,947 | 256,406 |
| 2020 | 193,022 | 250,330 |
| 2021 | 199,296 | 244,057 |
| 2022 to 2026 | 1,097,949 | 1,118,814 |
| 2027 to 2031 | 1,288,346 | 928,418 |
| 2032 to 2036 | 1,511,760 | 705,004 |
| 2037 to 2041 | 1,773,916 | 442,847 |
| 2042 to 2046 | 1,638,180 | 135,230 |
| Totals | $ 8,245,841 | $ 4,611,387 |

The District had dedicated revenues for fiscal year 2016 of $504,174 towards its required debt service of $443,353 and had $99,069 set aside towards fiscal year 2017 debt service as of December 31, 2016. The District has also established the required debt service reserve account of $443,353 as described in Note 3.

## 9. Source of Supply and Related Party Transactions

### *Source of Supply*

One of the District's sources of water supply is provided by use of water from Beaver Park Water, Inc. (Beaver Park), a Colorado non-profit mutual ditch and reservoir company, under a water agreement dated March 6, 1990 and amended in 1997. The agreement runs to December 31, 2020 and provides for review and negotiations between the parties concerning the rates charged by Beaver Park every 5 years. Delivery is realized via the Brush Hollow Reservoir supply canal that is owned by Beaver Park. The reservoir, also owned by Beaver Park, has a dual purpose: Primarily to supply irrigation water for local area agriculture, and secondarily to serve as an alternate raw water supply for the District. (The District gets most of its raw water from stream flow.) The District owns 500 acre feet of storage space in the reservoir.

### *Related Party Transactions*

Many of the residents of the District are also shareholders in Beaver Park. From time to time members of the Board of Directors of the District or their relatives may own shares in Beaver Park and may serve as officers or directors of Beaver Park. The District does not have a policy forbidding board members of the District from serving as board members of Beaver Park. Management of the District believes that the shares owned by members of its Board of Directors are an insignificant number of the total shares outstanding of Beaver Park. As of December 31, 2016 two directors of the District had close relatives serving on the 5 member board of Beaver Park. During 2016 and 2015 the District paid approximately $182,953 and $174,467 respectively to Beaver Park.

## 10. Commitments and Contingencies

**Risk Management**

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**TABOR Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, also known as the Tax Payers Bill of Rights (TABOR) Amendment or Amendment 1, which has several limitations, including revenue raising, spending abilities, and other specific requirements for state and local governments. The amendment is complex and subject to judicial interpretation. 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.

# Supplementary Information

# PENROSE WATER DISTRICT

***Schedule of Sources and Uses - Budget and Actual - District Accounts***

For the Year Ended December 31, 2016

| | Final Budget | Actual | Variance |
|---|---|---|---|
| **Sources** | | | |
| ***Operating Sources*** | | | |
| Water sales - base | $ 409,602 | $ 412,277 | $ 2,675 |
| Water sales - consumption | 402,526 | 404,863 | 2,337 |
| Tap fees and availability letters | 21,671 | 33,671 | 12,000 |
| Other operating revenues | 23,241 | 15,593 | (7,648) |
| ***Total operating sources*** | 857,040 | 866,404 | 9,364 |
| ***Nonoperating sources*** | | | |
| General property tax | 64,661 | 64,614 | (47) |
| Special revenue fund | 87,397 | 87,317 | (80) |
| Specific ownership tax | 9,707 | 9,496 | (211) |
| Interest income | 31,900 | 31,857 | (43) |
| ***Total nonoperating sources*** | 193,665 | 193,284 | (381) |
| **Total District Sources** | $ 1,050,705 | $ 1,059,688 | $ 8,983 |

See Independent Auditors' Report

# PENROSE WATER DISTRICT

## *Schedule of Sources and Uses - Budget and Actual - District Accounts (continued)*

For the Year Ended December 31, 2016

| Uses | Final Budget | Actual | Variance |
|---|---|---|---|
| ***Salaries and Related*** | | | |
| Salaries | $ 287,298 | $ 290,564 | $ (3,266) |
| Employee health insurance | 98,393 | 90,613 | 7,780 |
| Payroll taxes and worker's compensation insurance | 36,035 | 36,624 | (589) |
| 401-K expenses | 11,736 | 11,807 | (71) |
| ***Total Salaries and related*** | 433,462 | 429,608 | 3,854 |
| ***Total office*** | 28,035 | 29,923 | (1,888) |
| ***Water Treatment*** | | | |
| Chemicals | 33,759 | 34,424 | (665) |
| Plant maintenance | 11,369 | 11,559 | (190) |
| Other water treatment expenses | 48,443 | 44,005 | 4,438 |
| ***Total water treatment*** | 93,571 | 89,988 | 3,583 |
| ***Total distribution system*** | 15,728 | 33,387 | (17,659) |
| ***General*** | | | |
| Raw water | 182,953 | 182,953 | - |
| Other general expenses | 69,278 | 60,020 | 9,258 |
| ***Total general*** | 252,231 | 242,973 | 9,258 |
| ***Capital Projects*** | | | |
| Equipment | 37,132 | 35,724 | 1,408 |
| Other capital projects | 6,615 | 714 | 5,901 |
| ***Total capital projects*** | 43,747 | 36,438 | 7,309 |
| **Total District Uses** | $ 866,774 | $ 862,317 | $ 4,457 |

# PENROSE WATER DISTRICT

## *Schedule of Sources and Uses - Budget and Actual - Enterprise Accounts*

For the Year Ended December 31, 2016

| | Final Budget | Actual | Variance |
|---|---|---|---|
| **Enterprise Sources** | | | |
| Base monthly minimum | $ 416,843 | $ 416,858 | $ 15 |
| ***Total Enterprise Sources*** | $ 416,843 | $ 416,858 | $ 15 |
| **Enterprise Uses** | | | |
| Loan principal and interest payments | 443,353 | 443,353 | - |
| Storage acquisition | 16,904 | 16,817 | 87 |
| Project construction | 171,901 | - | 171,901 |
| Water legal and consulting | 18,520 | 20,747 | (2,227) |
| Water engineering | 37,942 | 12,702 | 25,240 |
| Revegetation Costs | 15,663 | 15,663 | - |
| Leased Water - Pueblo Board of Water Works | 3,728 | 3,728 | - |
| ***Total Enterprise Uses*** | $ 708,011 | $ 513,010 | $ 195,001 |

See Independent Auditors' Report

# PENROSE WATER DISTRICT

***Reconciliation of Budget Basis Sources and Uses With the Change in Net Position***

For the Year Ended December 31, 2016

| | | Actual |
|---|---|---|
| Total Sources - District Accounts | $ | 1,059,688 |
| Total Sources - Enterprise Accounts | | 416,858 |
| Total Sources | | 1,476,546 |
| | | |
| Total Uses - District Accounts | | 862,317 |
| Total Uses - Enterprise Accounts | | 513,010 |
| Total Uses | | 1,375,327 |
| | | |
| Excess of Sources Over (Under) Uses | | 101,219 |
| | | |
| **Adjustments to Arrive at Increase (Decrease) in Net Position** | | |
| Depreciation | | (294,044) |
| Loan principal payments | | 169,843 |
| Purchase of capital assets | | 35,724 |
| Gain on disposal of assets | | 3,500 |
| Change in accruals | | 1,382 |
| Total Adjustments | | (83,595) |
| | | |
| Increase (Decrease) in Net Position | $ | 17,624 |

See Independent Auditors' Report

## Schedules of Operating Expenses

| | 2016 | 2015 |
|---|---|---|
| **Water and Distribution Expenses** | | |
| Salaries | $ 290,564 | $ 281,155 |
| Employee benefits | 139,043 | 168,552 |
| Plant utilities and telephone | 30,612 | 30,944 |
| Chemicals | 33,083 | 34,566 |
| Plant maintenance | 11,559 | 9,781 |
| Testing and permits | 4,531 | 4,939 |
| System maintenance | 32,936 | 8,754 |
| Vehicle expenses | 10,658 | 15,735 |
| Raw water | 203,498 | 178,086 |
| Engineering | 714 | - |
| Depreciation | 294,044 | 169,712 |
| Miscellaneous | 11,236 | 32,174 |
| Total water and distribution expenses | 1,062,478 | 934,398 |
| **General and Administrative Expenses** | | |
| Supplies | 4,409 | 4,254 |
| Postage | 10,683 | 5,020 |
| Utilities and telephone | 8,266 | 7,285 |
| Equipment | 4,143 | 2,836 |
| Insurance | 18,818 | 33,735 |
| Legal, accounting and audit | 17,848 | 22,866 |
| Water legal and engineering | 33,448 | 32,086 |
| Miscellaneous | 9,961 | 8,831 |
| Total general and administrative expenses | 107,576 | 116,913 |
| Total Operating Expenses | $ 1,170,054 | $ 1,051,311 |

See Independent Auditors' Report