

Pinewood Springs Water District

Financial Statements

For the year ended December 31, 2016

BF Borgers CPA PC
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Independent Auditor's Report

August 24, 2017

To the Board of Directors and Members
Pinewood Springs Water District

Report on the Financial Statements

We have audited the accompanying financial statements of Pinewood Springs Water District which comprise the statements of financial position as of December 31, 2016, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Pinewood Springs Water District as of December 31, 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

B F Boyer CPA PC

**Certified Public Accountants
Lakewood, CO**

Pinewood Springs Water District

Statement of Net Assets – Proprietary Fund

	<u>December 31,</u>	
	<u>2016</u>	
Assets		
Current Assets		
Cash and cash equivalents, unrestricted	\$	114,661
Cash and cash equivalents, restricted		254,750
Accounts receivable		47,790
Property taxes receivable		295,650
Total Current Assets		<u>712,851</u>
Capital assets, net		3,429,817
Loan origination costs, net		34,187
Other Non-Current Assets		
Land and water rights		302,545
Construction-in progress		42,550
Total Non-current Assets		<u>345,095</u>
Total Assets	\$	<u><u>4,521,950</u></u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$	134,436
Accrued interest		57,893
Deferred property tax revenue		295,650
Total Current Liabilities		<u>487,979</u>
Non-Current Liabilities		
Long-term debt, net of current maturities		<u>2,783,333</u>
Total Non-Current Liabilities		2,783,333
Total Liabilities	\$	<u>3,271,312</u>
Net Assets		
Net assets		<u>1,250,638</u>
Total Net Assets		<u>1,250,638</u>
Total Liabilities and Net Assets	\$	<u><u>4,521,950</u></u>

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

Pinewood Springs Water District

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Fund

	For the Year Ended December 31,
	2016
Revenues	
Water sales	\$ 407,845
Less: water testing, rental and storage expenses	(48,313)
Net Operating Revenues	359,532
 Operating Expenses	
Water operating expenses	53,694
Depreciation and amortization	188,338
General and administrative expenses	171,797
Total Operating Expenses	413,829
 Non-Operating Income (Expense)	
Property taxes	273,277
Specific ownership tax	27,799
Interest income	417
Interest expense	(113,467)
Other income (Expense)	(2,021)
Grant income	158,134
Grant expense	(193,335)
Treasurer's fees	167
Total Non-Operating Income (Expense)	150,971
 Change in Net Assets	96,674
 Net Income (Loss)	\$ 96,674
Loan Origination Costs, net from PY reclassified to Balance Sheet	36,215
Net Assets, Beginning of Year	1,117,749
Net Assets, End of Year	\$ 1,250,638

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

Pinewood Springs Water District

Statement of Cash Flows – Proprietary Fund

	For the Year Ended December 31,
	2016
Cash Flows From Operating Activities	
Change in net assets	\$ 96,674
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and Amortization	188,338
Changes in Assets and Liabilities:	
Restricted cash	(37,234)
Receivables	(37,414)
Accrued expenses	(6,959)
Deferred revenue	(3,626)
Net cash provided by (used in) operating activities	199,779
Cash Flows from Investing Activities	
Purchases of capital assets	(56,194)
Net cash provided by (used in investing activities)	(56,194)
Cash Flows from Financing Activities	
Payments on long-term debt	(136,540)
Net cash provided by (used in) financing activities	(136,540)
Net change in unrestricted cash and cash equivalents	7,045
Cash and cash equivalents, unrestricted, beginning of year	107,616
Cash and cash equivalents, unrestricted, end of year	\$ 114,661

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

Pinewood Springs Water District

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

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

Form of Organization. Pinewood Springs Water District (the "District"), a quasi-municipal corporation was organized on April 19, 1978, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Larimer County, Colorado. The District was established to provide water services to the properties within its service area.

Principles Determining Scope of Reporting Entity. The financial statements of the District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District applies all applicable GASB pronouncements, as well as ASC Standards, that do not conflict with, or contradict, GASB pronouncements.

Reporting Entity. For financial reporting purposes, management has considered all potential component units in defining the District. The basic criterion for including a potential component unit is the District's ability to exercise significant operational control or financial accountability with the District. Financial relationship or operational control is determined on the basis of the District's obligation to fund deficits, responsibility for debt, budgetary authority, fiscal management, selection of governing authority and/or management, and the ability to significantly influence operations.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

Basis of Accounting. Basis of accounting refers to the point at which revenues or expenditures are recognized in the accounts and reported in the financial statements. The accrual basis of accounting is used by the District, recognizing revenue when earned and expenses as incurred.

The District operates as an "Enterprise Fund" as prescribed in standards for governmental accounting systems because the intent of the Board is that costs and expenses (including depreciation) of providing services to its customers be financed or recovered primarily through user charges.

The enterprise fund is accounted for on a cost of services or "capital - maintenance" measurement focus. Under this concept, all assets and all liabilities associated with the activity (whether current or noncurrent) are reported on the balance sheet. The proprietary fund type operating statement reports increases (revenue) and decreases (expenses) in net total assets.

The enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues are charges to customers for water. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Allowance for Doubtful Accounts. Use and other similar fees set from time to time by the District's governing board constitute a perpetual lien on or against the property served until paid. Such liens may be foreclosed in the same manner as provided by the laws of the State of Colorado. Therefore, no provision for uncollectible receivables has been made.

These notes are an integral part of the preceding financial statements.

Pinewood Springs Water District

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (continued)

Amortization. Loan origination fees are amortized over the related debt term on the straight-line method. Amortization of these costs totaled \$2,028 for the year ending December 31, 2016.

Cash Equivalents. For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Property, Plant, and Equipment. Capitalized assets are defined by the District as assets that have a useful life of one or more years, and which the initial value equals or exceeds \$2,500. All purchased assets are valued at cost. Donated assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that does not add to the value of an asset or materially extend asset life is not capitalized. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Asset Class	Useful Life (Years)
Reservoir	50
Filtration plant	30
Water system	30
Equipment	5-20
Vehicles	5

Water Rights. The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Property Taxes. Property taxes are levied by the District Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April, or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District. Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenue is recorded as revenue in the year that it is available or collected.

Compensated Absences. Compensated absences are recorded as current salary when paid. It is the District's policy that compensated absences do not accumulate, therefore, no accrual is necessary.

Tap Fees and Contributed Lines. Tap fees are recorded as non-operating revenue when received. Lines contributed to the District by developers are recorded as non-operating revenue and additions to the systems at the developer's cost.

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition or construction of improvements on those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

These notes are an integral part of the preceding financial statements.

Pinewood Springs Water District

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (concluded)

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 and disclosure of contingent 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.

Budgets. Colorado state law requires the adoption of a budget and appropriations. The budgets and related appropriations are prepared on the legal budgetary basis, which differs from a basis consistent with generally accepted accounting principles in that:

- Capital revenues and capital expenditures are treated as operating items.
- Principal retired is budgeted as non-operating expense.
- Depreciation is not budgeted.
- Contributions are budgeted as non-operating revenue.

Note 2 – Cash and Investments

Cash Deposits. The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories with eligibility determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA, which allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate of the uninsured deposits.

At December 31, 2016 the District's cash deposits had a bank balance and a carrying balance as follows:

	2016	
	<u>Carrying Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ (315)	\$ 25,257
Deposits collateralized in single institution pools	369,725	342,905
	<u>\$ 369,410</u>	<u>\$ 368,162</u>

During 2016 the District invested in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1. COLOTRUST is comprised of two funds: PRIME and PLUS+ which can invest in U.S. Treasury, government agencies, and in the highest-rate commercial paper. PRIME carries an AAAM rating from Standard and Poor's. PLUS+ holds an AAA rating from all three rating agencies: Standard and Poor's (AAAm), Fitch (AAA/V1+), and Moody's (Aaa). A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The COLOTRUST issues a publicly available financial report that includes financial statements. This report may be obtained at their website www.colotruster.com.

These notes are an integral part of the preceding financial statements.

Pinewood Springs Water District

Notes to the Financial Statements

Note 3 – Property, Plant and Equipment

Capital asset balances and activities for the year ended December 31, 2016 was as follows:

	December 31, 2016
Equipment	\$ 133,600
Filtration plant	394,017
Water system	1,272,429
Vehicles	61,348
Reservoir	4,022,719
Other capital assets, original cost	5,884,113
Accumulated depreciation	(2,454,296)
Other capital assets, net	3,429,817
Land and water rights	302,545
Construction in progress	42,550
Total Property, Plant and Equipment	\$ 3,774,912

Depreciation expense totaled \$188,338 for the year ended December 31, 2016.

Note 4 – Construction in Progress

Construction in progress includes an amount of \$25,000 related to the consulting research done on constructing a water line to Crescent Lake. No future commitments to complete this line have been made as of the date of the Auditors' Report. An additional amount of \$17,550 was expended in 2012 for the aeration project. Due to the flood damages and repair efforts in past years, no further expenditures have taken place for this project, leaving the balance at \$42,550 for the year ended December 31, 2016.

Note 5 – Long Term Debt Obligations

\$500,000 General Obligation Water Bonds, Series, 1998. The bond is dated March 1, 1998, bears interest of 4.25% to 5.8%, and is due semi-annually on June 1 and December 1. Bonds that mature December 1, 1998 through December 1, 2008 are not callable prior to maturity. Bonds maturing thereafter are subject to redemption prior to maturity, in whole or in part, in inverse order of maturity, on December 1, 2008, and on any subsequent interest payment date, upon payment of their par value and accrued interest, without redemption premium, at the option of the District. The Bonds are general obligations of the District payable from general ad valorem taxes to be levied upon all the taxable property within the District without limitation as to rate or amount. Future payments are as follows:

	Principal	Interest	Total
2017	25,000	1,450	26,450
Total	\$ 25,000	\$ 1,450	\$ 26,450

\$123,200 Drinking Water Revolving Fund Loan. The loan is dated July 26, 2004 from the Colorado Water Resources and Power Development Authority to fund a water filtration plant. The loan bears an annual interest rate of 3.5%, with payments due semi-annually on June 1 and December 1, and terminating on December 1, 2024. The loan constitutes a general obligation of the District. The District covenants to levy ad valorem taxes on all taxable property within its boundaries without limitation as to rate and in amount sufficient to pay the principal of and interest on the loan and all other amounts due under the loan.

These notes are an integral part of the preceding financial statements.

Pinewood Springs Water District

Notes to the Financial Statements

Note 5 – Long Term Debt Obligations (continued)

The District is required to maintain an operations and maintenance reserve in an amount equal to three months of operation and maintenance expenses, excluding depreciation, of the system as set forth in the annual budget for the current fiscal year. At December 31, 2014 the District was in compliance with this covenant. Future payments are as follows:

	Principal	Interest	Total
2017-2024	59,677	9,250	68,927
Total	\$ 72,181	\$ 13,980	\$ 86,161

\$752,425 Drinking Water Revolving Fund Loan. The loan is dated April 3, 2006 from the Colorado Water Resources and Power Development Authority to fund the expansion and upgrade of the water treatment facility, water distribution lines, and related pumping facilities. The loan bears an annual interest rate of 3.5% and payments are due semi-annually on June 1 and December 1 through June 1, 2026. The first payment was December 1, 2006. The loan constitutes a general obligation of the District. The District covenants to levy ad valorem taxes on all taxable property within its boundaries without limitation as to rate and in amount sufficient to pay the principal of and interest on the loan and all other amounts due under the loan. The District is required to maintain an operations and maintenance reserve in an amount equal to three months of operation and maintenance expenses, excluding depreciation, of the system as set forth in the annual budget for the current fiscal year. At December 31, 2016 the District was in compliance with this covenant. Future payments are as follows:

	Principal	Interest	Total
2017-2024	204,871	58,259	263,130
2022-2026	217,365	19,452	236,817
	\$ 494,735	\$ 110,464	\$ 605,199

\$2,811,689 Colorado Water Conservation Board Loan. The loan is dated February 1, 2005 from the Colorado Water Conservation Board ("CWCB") to fund the completion of a new storage reservoir, pump stations, new water pipelines and other system components, and to purchase water rights. The CWCB will pay the District for eligible project costs on a periodic basis. The loan bears an annual interest rate of 4% and is due annually beginning May 1, 2010. The loan term is 30 years from substantial completion of the project. Accrued interest was first due May 1, 2009. The District irrevocably pledges revenues levied for purposes of repayment and any other funds legally available to the District in an amount sufficient to pay the annual payment due. The District shall maintain a debt service reserve account and deposit an amount equal to one-tenth of an annual payment, or \$16,260, annually for the first ten years of repayment beginning on the due date of its first annual, May 1, 2010. At December 31, 2016 the District was in compliance with this covenant. Future payments are as follows:

	Principal	Interest	Total
2017-2024	357,319	455,681	813,000
2022-2026	434,734	378,266	813,000
2027-2031	528,921	284,079	813,000
2032-2036	643,513	169,487	813,000
2037-2039	451,238	36,562	487,800
	\$ 2,540,152	\$ 1,524,848	\$ 4,065,000

These notes are an integral part of the preceding financial statements.

Pinewood Springs Water District

Notes to the Financial Statements

Note 5 – Long Term Debt Obligations (concluded)

Aggregate principal and interest on outstanding long-term debt at December 31, 2016 is as follows:

	Principal	Interest	Total
2017-2024	646,867	524,184	1,171,051
2022-2026	652,099	399,732	1,051,831
2027-2031	528,921	284,079	813,000
2032-2036	643,513	169,487	813,000
2037-2039	451,238	36,562	487,800
	<u>\$ 3,182,068</u>	<u>\$ 1,657,936</u>	<u>\$ 4,840,004</u>

Note 6 – Subsequent Review

The District has evaluated all other subsequent events through the date these financial statements were available to be issued and found no material events requiring additional disclosure.

These notes are an integral part of the preceding financial statements.