

**RED ROCK VALLEY ESTATES
WATER DISTRICT**

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2016 and 2015



RECEIVED

By the Office of the State Auditor at 4:31 pm, Aug 01, 2017

RED ROCK VALLEY ESTATES WATER DISTRICT
TABLE OF CONTENTS
DECEMBER 31, 2016 AND 2015

	Page
Independent Auditors' Report	
Management Discussion and Analysis	<i>i</i>
Basic Financial Statements:	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Net Position, Budget and Actual (Non-GAAP)	13


Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Red Rock Valley Estates Water District

We have audited the accompanying financial statements of Red Rock Valley Estates Water District which comprise the statements of net position as of December 31, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year 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.

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 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.

Opinions

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

Emphasis of Matter

As described in Note 8 to the financial statements, effective January 01, 2016, the District adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Our opinion is not modified with respect to this matter.

Other-Matters

Prior Period Financial Statements

The December 31, 2015 financial statements were compiled by us, and our report thereon, dated March 21, 2016, stated we did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise Red Rock Valley Estates Water District’s financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental 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 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.

Hoelting & Company Inc.

Colorado Springs, Colorado
July 21, 2017

RED ROCK VALLEY ESTATES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2016

As management of Red Rock Valley Estates Water District (the District) we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's assets of \$1,158,037 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$1,109,658 (*net position*). Of this amount, \$559,388 represents unrestricted net position, which may be used to meet the District's ongoing obligations.
- The District's total net position increased during the year by \$781,076.
- Capital assets net of depreciation increased by \$773,979 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenue, Expenses and Changes in Fund Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets), obligations (liabilities), and deferred inflows and outflows. The difference between assets, liabilities, and deferred inflows and outflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Fund Net Position - All revenue and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District's rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2016, the District's assets exceeded liabilities and deferred inflows by \$1,109,658 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statement of Net Position

	2016	2015
Current and other assets	\$ 162,748	\$ 150,731
Capital assets	995,289	221,310
Total assets	1,158,037	372,041
Current liabilities	2,779	7
Total liabilities	2,779	7
Deferred inflows	45,600	43,452
Net position:		
Investment in capital assets	995,289	221,310
Restricted	26,800	5,175
Unrestricted	87,569	102,097
Total net position	\$ 1,109,658	\$ 328,582

Unrestricted net position of the District at the end of the year was \$87,569, a \$14,528 or 14.2% decrease from the prior year. The decrease is primarily due to increased TABOR reserves in the current year.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	2016	2015
Revenues:		
Operating revenue	\$ 56,095	\$ 52,653
Nonoperating	836,532	119,770
Total revenues	892,627	172,423
Expenses:		
Operating	111,551	90,441
Total expenses	111,551	90,441
Change in net position	781,076	81,982
Net position, beginning, as restated	328,582	246,600
Net position, ending	\$ 1,109,658	\$ 328,582

BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with state law. An analysis of budget results in the following observations:

- Actual revenues were within 1% of budget.
- Accounting and legal fees exceeded budget by \$26,640.
- Capital outlays were less than budget by \$60,519

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities at the end of the year was \$995,289. There was a \$777,481 increase in asset purchases during the year due to the ongoing construction of the water treatment plant.

Debt Administration

At the end of current fiscal year, the District had no debt outstanding.

ECONOMIC FACTORS

- Work on the water treatment facility is expected to be completed in 2017. Approximately \$56,000 remains to be spent on the water treatment facility in 2017.
- Operating expenses in 2017 are expected to be similar to 2016.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gayle Wood, Red Rock Valley Estates Water District, 11145 Calle Corvo, Colorado Springs, Colorado 80926.

BASIC FINANCIAL STATEMENTS

RED ROCK VALLEY ESTATES WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 116,714	\$ 106,870
Due from county treasurer	434	409
Property tax receivable	<u>45,600</u>	<u>43,452</u>
Total current assets	<u>162,748</u>	<u>150,731</u>
Capital assets		
Capital assets not being depreciated	897,171	119,690
Capital assets being depreciated, net	<u>98,118</u>	<u>101,620</u>
Total capital assets	<u>995,289</u>	<u>221,310</u>
Total assets	<u>1,158,037</u>	<u>372,041</u>
LIABILITIES		
Current liabilities		
Accounts payable	<u>2,779</u>	<u>7</u>
Total liabilities	<u>2,779</u>	<u>7</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	<u>45,600</u>	<u>43,452</u>
NET POSITION		
Net investment in capital assets	995,289	221,310
Restricted	26,800	5,175
Unrestricted	<u>87,569</u>	<u>102,097</u>
Total net position	<u><u>\$ 1,109,658</u></u>	<u><u>\$ 328,582</u></u>

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

RED ROCK VALLEY ESTATES WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Operating revenues:		
Charges for services:		
Water sales and service charges	\$ 56,095	\$ 52,653
Total operating revenues	56,095	52,653
Operating expenses:		
General operating & administrative	703	3,067
Contract services	38,700	35,862
Purchased water	8,480	7,088
Water testing and treatment	4,095	13,133
Repair and maintenance	8,226	7,153
Accounting and legal fees	33,440	11,984
Insurance	4,123	3,881
Utilities	4,351	5,199
Other operating expenses	5,931	-
Depreciation	3,502	3,074
Total operating expenses	111,551	90,441
Operating income (loss)	(55,456)	(37,788)
Nonoperating revenues (expenses):		
General property taxes	43,543	40,897
Specific ownership taxes	5,000	4,654
Intergovernmental	787,654	73,896
Interest income	335	323
Total non-operating revenue (expenses)	836,532	119,770
Change in net position	781,076	81,982
Net position - beginning, as restated	328,582	246,600
Net position - ending	\$ 1,109,658	\$ 328,582

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

RED ROCK VALLEY ESTATES WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from water sales and service charges	\$ 56,095	\$ 52,653
Cash paid to vendors	<u>(105,277)</u>	<u>(96,069)</u>
Net cash used by operating activities	<u>(49,182)</u>	<u>(43,416)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	<u>48,518</u>	<u>45,499</u>
Net cash provided by non-capital financing activities	<u>48,518</u>	<u>45,499</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants	787,654	73,896
Acquisition and construction of capital assets	<u>(777,481)</u>	<u>(88,269)</u>
Net cash provided (used) by capital and related financing activities	<u>10,173</u>	<u>(14,373)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>335</u>	<u>323</u>
Net cash provided by investing activities	<u>335</u>	<u>323</u>
Increase (decrease) in cash and cash equivalents	9,844	(11,967)
Cash and cash equivalents, beginning of year	<u>106,870</u>	<u>118,837</u>
Cash and cash equivalents, end of year	<u><u>\$ 116,714</u></u>	<u><u>\$ 106,870</u></u>

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

**RED ROCK VALLEY ESTATES WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating loss	<u>\$ (55,456)</u>	<u>\$ (37,788)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	3,502	3,074
Increase (decrease) in liabilities:		
Accounts payable	<u>2,772</u>	<u>(8,702)</u>
Total adjustments	<u>6,274</u>	<u>(5,628)</u>
Net Cash Used by Operating Activities	<u><u>\$ (49,182)</u></u>	<u><u>\$ (43,416)</u></u>
Schedule of non-cash investing, capital and financing activities:		
None	\$ -	\$ -

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

NOTES TO FINANCIAL STATEMENTS

RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Red Rock Valley Estates Water District (the District) was organized under the laws of the State of Colorado to operate and maintain a special district for the purpose of transmission and distribution of water to the residents of the Red Rock Valley Estates subdivision located in southern El Paso County, Colorado.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's 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 related cash flows.

**RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents

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.

Capital assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Land and construction in progress are not depreciated. Depreciation of water distribution system, water treatment facility, wells, water tank, reservoir, and equipment is computed using the straight-line method over the estimated useful lives as follows:

Water distribution system	40 years
Water treatment facility	40 years
Wells	40 years
Water tank	40 years
Reservoir	50 years
Equipment	10 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

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

**RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, 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.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Operating and non-operating revenues and expenses

Proprietary funds distinguish 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 of the fund are water and other contract services. Operating expenses include all expenses incurred to provide contract services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

In accordance with the State Budget Law, the District’s Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District’s Board of Directors can modify the budget by line item within the total appropriation with notification. The appropriation can only be modified upon completion of notification and publication requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 102% of the uninsured deposits.

As of December 31, 2016 and 2015, the carrying amounts of the District’s deposits were \$116,613 and \$106,769, respectively and the bank balances were \$116,613 and \$109,730, respectively. In 2016 and 2015 all deposits were covered by FDIC insurance.

INVESTMENTS

The District is authorized by Colorado Statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- Notes or bonds issued to the “National Housing Act”.
- Repurchase agreements.
- Local government investment pools.

**RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

RECONCILIATION OF DEPOSITS AND INVESTMENTS TO THE STATEMENTS OF NET POSITION

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Deposits	\$ 116,613	\$ 106,769
Money Market Funds	<u>101</u>	<u>101</u>
	<u>\$ 116,714</u>	<u>\$ 106,870</u>

NOTE 4 - CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 35,000	\$ -	\$ -	\$ 35,000
Land	5,000	-	-	5,000
Construction in progress	<u>79,690</u>	<u>777,481</u>	<u>-</u>	<u>857,171</u>
Total capital assets, not being depreciated	<u>119,690</u>	<u>777,481</u>	<u>-</u>	<u>897,171</u>
Capital assets, being depreciated:				
Water treatment facility	367,446	-	-	367,446
Wells	202,228	-	-	202,228
Water distribution system	88,490	-	-	88,490
Water tank	142,055	-	-	142,055
Reservoir	19,581	-	-	19,581
Equipment	<u>84,733</u>	<u>-</u>	<u>-</u>	<u>84,733</u>
Total capital assets, being depreciated	904,533	-	-	904,533
Less accumulated depreciation	<u>(802,913)</u>	<u>(3,502)</u>	<u>-</u>	<u>(806,415)</u>
Total capital assets, being depreciated, net	<u>101,620</u>	<u>(3,502)</u>	<u>-</u>	<u>98,118</u>
Total capital assets, net	<u>\$ 221,310</u>	<u>\$ 773,979</u>	<u>\$ -</u>	<u>\$ 995,289</u>

**RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 35,000	\$ -	\$ -	\$ 35,000
Land	5,000	-	-	5,000
Construction in progress	<u>-</u>	<u>79,690</u>	<u>-</u>	<u>79,690</u>
Total capital assets, not being depreciated	<u>40,000</u>	<u>79,690</u>	<u>-</u>	<u>119,690</u>
Capital assets, being depreciated:				
Water treatment facility	367,446	-	-	367,446
Wells	202,228	-	-	202,228
Water distribution system	88,490	-	-	88,490
Water tank	142,055	-	-	142,055
Reservoir	19,581	-	-	19,581
Equipment	<u>76,154</u>	<u>8,579</u>	<u>-</u>	<u>84,733</u>
Total capital assets, being depreciated	895,954	-	-	904,533
Less accumulated depreciation	<u>(799,839)</u>	<u>(3,074)</u>	<u>-</u>	<u>(802,913)</u>
Total capital assets, being depreciated, net	<u>96,115</u>	<u>5,505</u>	<u>-</u>	<u>101,620</u>
Total capital assets, net	<u>\$ 136,115</u>	<u>\$ 85,195</u>	<u>\$ -</u>	<u>\$ 221,310</u>

**RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 – NET POSITION

Net position is reported in three separate categories—net investment in capital assets, net position-restricted, and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, net investment in capital assets was as follows:

	2016	2015
Net Investment in Capital Assets:		
Capital assets, net of depreciation	\$ 995,289	\$ 221,310

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings).

	2016	2015
Restricted:		
Emergency reserve	\$ 26,800	\$ 5,175

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss, including worker’s compensation. Settled claims have not exceeded this coverage in any of the past three fiscal years.

RED ROCK VALLEY ESTATES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including raising revenue, spending abilities, and other specific requirements of state and local governments.

The entity's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts. Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property sales, fund transfers, damage awards and fund reserves.

The Amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

The Amendment requires that Emergency Reserves be established. These reserves must be at least 3 percent of Fiscal Year Spending. Emergency reserves totaling \$26,800 and \$5,175 as of December 31, 2016 and 2015, respectively, have been presented as a component of net position-restricted. The entity is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 8 – ADOPTION OF ACCOUNTING STANDARD

In prior years, the District had not been required to undergo an audit under state statutes. During this time, it reported capital asset activity under pre-GASB 34 guidance. As of January 1, 2016, the District implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As a result of implementing this pronouncement, beginning net position of \$107,272, as originally reported, has been increased to \$328,582 to record \$221,310 of net capital assets and accumulated depreciation.

SUPPLEMENTAL INFORMATION

RED ROCK VALLEY ESTATES WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 107,272	\$ 119,280	\$ (12,008)
Water sales and service charges	56,095	53,500	2,595
General property taxes	43,543	43,452	91
Specific ownership taxes	5,000	-	5,000
Intergovernmental	787,654	790,000	(2,346)
Interest income	335	500	(165)
TOTAL REVENUES	999,899	1,006,732	(6,833)
EXPENDITURES			
General operating & administrative	703	7,270	6,567
Contract services	38,700	37,700	(1,000)
Purchased water	8,480	9,450	970
Water testing and treatment	4,095	10,100	6,005
Repair and maintenance	8,226	7,200	(1,026)
Accounting and legal fees	33,440	6,800	(26,640)
Insurance	4,123	3,900	(223)
Utilities	4,351	7,000	2,649
Other operating expenses	5,931	-	(5,931)
Capital outlay	777,481	838,000	60,519
TOTAL EXPENDITURES	885,530	927,420	41,890
EXCESS OF REVENUE OVER EXPENDITURES	114,369	\$ 79,312	\$ 35,057
Less:			
Depreciation	(3,502)		
Beginning fund balance	(107,272)		
Add:			
Capital outlay	777,481		
CHANGE IN NET POSITION	\$ 781,076		

See the accompanying independent auditors' report.

RED ROCK VALLEY ESTATES WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016

Ending fund balance is calculated as follows:

Current assets	162,748
Current liabilities	<u>(48,379)</u>
	<u>\$ 114,369</u>

See the accompanying independent auditors' report.