

Garden Valley Water and
Sanitation District

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



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REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

Board of Directors
Garden Valley Water and Sanitation District

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Garden Valley Water and Sanitation District (the "District"), as of and for the year ended December 31, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants ("US GAAS").

We conducted our audit in accordance with US GAAS. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether these financial statements are free of material misstatement.

An audit includes 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Garden Valley Water and Sanitation District, as of December 31, 2016, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted with the purpose of forming an opinion on the financial statements of the Garden Valley Water and Sanitation District taken as a whole. The supplementary information on page 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management of the District and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to our auditing procedures applied in the audit of the financial statements and certain other 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 basic financial statements taken as a whole.

Management's Discussion and Analysis

The Board of Directors has not presented the Management's Discussion and Analysis information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Marc James & Associates PC

Highlands Ranch, CO
May 30, 2017

FINANCIAL STATEMENTS

Garden Valley Water and Sanitation District

STATEMENT OF NET POSITION

December 31, 2016

ASSETS

Current assets

Cash and cash equivalents	\$ 130,423
Accounts receivable	13,579
Property taxes receivable	42,001

Total current assets	186,003
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Capital assets, net of accumulated depreciation
of \$375,461

356,086

Total assets	542,089
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LIABILITIES

Current liabilities

Note payable - current portion	16,318
Accounts payable	30,713
Accrued interest payable	990

Total current liabilities	48,021
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Note payable, less current portion

134,256

Total liabilities	182,277
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DEFERRED INFLOWS OF RESOURCES

Property taxes

42,001

NET POSITION

Invested in capital assets	205,512
Restricted for emergencies	6,300
Unrestricted	105,999

Total net position	\$ 317,811
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The accompanying notes are an integral part of these financial statements

Garden Valley Water and Sanitation District

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

For the Year ended December 31, 2016

Operating revenues	
Water charges	\$ 118,735
Sewer charges	61,357
Other operating	<u>44,610</u>
Total operating revenues	224,702
Operating expenses	
Water purchases	62,330
Electricity	12,279
Wastewater treatment	53,376
Accounting and auditing	13,157
Repairs and maintenance	9,985
Contract management	18,000
Water tank rental	12,944
Legal	20,626
Director fees	5,100
Depreciation	20,097
Other	<u>3,442</u>
Total operating expenses	<u>231,336</u>
Operating loss	(6,634)
Non-operating revenue (expense)	
Property and specific ownership taxes	42,620
Interest income	164
Interest expense	<u>(6,392)</u>
Net non-operating revenue	<u>36,392</u>
CHANGE IN NET POSITION	29,758
Net position - beginning	<u>288,053</u>
Net position - ending	<u><u>\$ 317,811</u></u>

The accompanying notes are an integral part of these financial statements

Garden Valley Water and Sanitation District

STATEMENT OF CASH FLOWS

For the Year ended December 31, 2016

Cash flows from operating activities	
Receipts from customers	\$ 225,562
Payments to suppliers	<u>(213,604)</u>
Net cash provided by operating activities	11,958
Cash flows from non-operating activities	
Property and specific ownership taxes	42,620
Cash flows from capital and related financing activities	
Note payable payments - principal	(15,685)
Note payable payments - interest	<u>(6,495)</u>
Net cash used by capital and related financing activities	(22,180)
Cash flows from investing activities	
Interest income	<u>164</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	32,562
Cash and cash equivalents - beginning of the year	<u>97,861</u>
Cash and cash equivalents - end of the year	<u><u>\$ 130,423</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (6,634)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	20,097
Change in:	
Accounts receivable	860
Accounts payable	<u>(2,365)</u>
Net cash provided by operating activities	<u><u>\$ 11,958</u></u>

The accompanying notes are an integral part of these financial statements

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Garden Valley Water and Sanitation District (the “District”) conform to the accounting principles generally accepted in the United States of America (“US GAAP”) as applicable to governmental entities. The following is a summary of the more significant policies consistently applied in the preparation of the basic financial statements of the District.

1. Reporting Entity

The District was established under State of Colorado statutes as a quasi-municipal corporation and is governed by a five-member elected Board of Directors pursuant to the provisions of the Colorado Special District Act. The District’s service area is located in El Paso County, Colorado.

The District’s primary function is to provide water and sanitary sewer services to the residents of the District. The District has no employees and all operations and administrative functions are provided through contract service arrangements.

As required by US GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local government entities. The District has no component units as defined by Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations are Component Units*.

2. Measurement Focus and Financial Accounting Framework and Presentation

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

The District’s financial statements are maintained using accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred regardless of when the cash is received and distributed.

The District distinguishes between operating revenues and expenses and non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District’s principal ongoing business of providing water and wastewater services. The District’s primary operating revenues are for charges to customers for sales of water and sewer service. Operating expenses include the cost of sales and service, administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenue and expenses.

3. Cash and Cash Equivalents

The District considers cash and cash equivalents to include cash on hand, demand deposits and money market accounts.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

4. *Fair Value of Financial Instruments*

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and deferred inflows of resources. The District estimates that the fair value of these financial instruments as of December 31, 2016 do not differ materially from the aggregate carrying values used in the accompanying financial statements. The carrying amount of these financial instruments approximates the fair value due to the short maturity of these financial instruments.

5. *Capital Assets*

The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Property, plant and equipment are stated at cost except for any assets that are contributed, which are stated at fair value when contributed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Water system	20-30 years
Sewer taps fees and lines	10-30 years

6. *Property Taxes Receivable*

Property taxes are levied on December 15 of each year, and attach as an enforceable lien on subject property as of January 1 of the following year. The property taxes are payable in full on April 30 or if paid in two installments, due on February 28 and June 15. Property taxes are considered to be delinquent as of August 1. El Paso County bills and collects the property taxes on behalf of the District and remits the collections, less the County Treasurer's fees, to the District on a monthly basis. As the property taxes result in an enforceable lien on the subject property, in the event the property taxes are not paid, the subject property will be sold at public auction to collect the delinquent property taxes. Accordingly, no provision is deemed necessary for uncollected property taxes.

As of December 31, the District has recorded the levied property taxes as a receivable and the related deferred inflow of resources.

7. *Use of Estimates*

The preparation of financial statements in conformity with US GAAP involves the use of management's estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates are based upon management's best judgment, after considering past events and assumptions about future events. Actual results could differ from those estimates. The District has estimated the useful lives of its depreciable capital assets.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE B – BUDGET INFORMATION

The District's annual budget is prepared on a Non-GAAP basis. An annual appropriated budget is adopted. All annual appropriations lapse at the end of the District's fiscal year.

The District conforms to the following procedures, in accordance with the State of Colorado Revised Statutes, in the establishment of the budgetary information reflected in the accompanying financial statements.

Prior to October 15, the District's Treasurer submits a proposed operating budget for the subsequent fiscal year to the District's Board of Directors. The Board of Directors may change the proposed budget prior to the publication of the notice of budget. Within ten days of the submission, a notice of the proposed budget is published. The operating budget includes proposed expenditures and the means of financing the expenditures.

A public hearing is held at a regular District Board of Director's meeting to allow public input on the proposed operating budget.

On or before December 15, the operating budget is adopted through passage of a budget resolution. Upon adoption, the District's Treasurer is authorized by the Board of Directors to transfer the budgeted amounts within the functions and objects of the District. The District's Board of Directors must approve revisions that change the total expenditures of the District. Appropriations are controlled and the budget can be only amended in accordance with the State of Colorado Revised Statutes that allows the District to amend the budget and adopt a supplemental appropriation in certain circumstances.

In November 2016, the District amended the 2016 budget increasing total budgeted expenditures by \$4,791. Under the amended budget it was anticipated budgeted revenues would exceed budgeted expenditures by \$34,471. It was anticipated that the excess revenues would be used to increase the District's cash and net position.

NOTE C – CASH AND INVESTMENTS

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. State regulators determine the eligibility. Amounts on deposit in excess of the Federal Deposit Insurance Corporation insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows institutions 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 uninsured public deposits. The market value of the collateral must be equal to 102% of the aggregate uninsured public deposits. The Colorado Division of Banking for banks and savings associations is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. As of December 31, 2016, all of the District's funds were held in eligible public depositories.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE D – CAPITAL ASSETS

The changes in the District's capital assets for the year ended December 31, 2016 are as follows:

	Balance December 31, 2015	Additions	Disposals	Balance December 31, 2016
Capital assets				
Water system	\$ 80,180	\$ -	\$ -	\$ 80,180
Sewer taps and lines	650,411	-	-	650,411
Furniture	956	-	-	956
Total	731,547	-	-	731,547
Accumulated depreciation				
Water system	79,166	406	-	79,572
Sewer taps and lines	275,242	19,691	-	294,933
Furniture	956	-	-	956
Total	355,364	20,097	-	375,461
Net capital assets	\$ <u>376,183</u>	\$ <u>(20,097)</u>	\$ <u>-</u>	\$ <u>356,086</u>

NOTE E – NOTE PAYABLE

Colorado Water Resources and Power Development Authority

In 2004, the District entered into a Loan Agreement with the Colorado Water Resources and Power Development Authority ("CWRPDA") under which the CWRPDA loaned the District \$300,000 to finance the cost of the District connecting to the wastewater collection system of the City of Colorado Springs, Colorado.

Water and wastewater user fees and other charges from the District's system and any other such funds of the District legally available after payment of the District's operating expenses have been pledged to repay the loan. The loan requires the semi-annual payments in the amount of \$11,090 including interest at 4%. The loan has a final payment due on November 1, 2024.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE E – NOTE PAYABLE - *continued*

The change in the District's note payable for the year ended December 31, 2016 is as follows:

	Balance December 31, 2015	Additions	Payments	Balance December 31, 2016	Due within one year
CWRPDA	\$ 166,259	\$ -	\$ (15,685)	\$ 150,574	\$ 16,318

The following is a summary of the future minimum principal and interest payments as of December 31, 2016:

Year ended December 31	Principal	Interest	Total
2017	16,318	5,862	22,180
2018	16,978	5,202	22,180
2019	17,664	4,516	22,180
2020	18,378	3,802	22,180
2021	19,120	3,060	22,180
2022-2024	62,116	4,424	66,540
Total	\$ 150,574	\$ 26,866	\$ 177,440

In 2002, the voters of the District approved an increase in the authorized debt limit to \$400,000 to be issued in any legal form. As of December 31, 2016, the amount of available debt to be issued was \$100,000.

NOTE F – NET POSITION

Net Position represents the difference between assets plus any deferred outflows, less liabilities and any deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net positions are available, the District will use the most restrictive net position first.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE G – COMMITMENTS

Water Leases

The District has lease agreements for wells, water rights and appurtenances (“Water Lease”) with Leona C. Janitell, Income Only Trust and Anthony T. Accetta & Associates, PC (“Lessors”) under which the Lessors desired to lease and supply water to the District and the District desired to lease water together with the wells, pumps and other associated equipment of the Lessors.

Under the terms of the Water Lease, water may be used for domestic, commercial, industrial and municipal use by customers of the District, but with respect to the 10 Circle Drive Mobile Home Park, related party, the water shall only be used to the extent that pumping from the Gregory Wells, related party, does not fully supply the water usage requirements.

If the District pumps in excess of 7.917 acre feet of water in any month, an additional payment will be due to the Lessors based upon the terms of the Water Lease.

In early 2016, the new leases were completed and the monthly payment was increased to \$2,600 per month per Lessor.

During 2016, the District paid the Lessors \$62,330 under the Water Leases.

Contract Operator Agreement

The District has a contract for services, as defined in the agreement, related to the operation of the District with an independent contractor. Under the terms of the agreement, the independent contractor receives a monthly service fee of \$1,500. The agreement automatically and successively renews each July 1 based upon a 12-month period. The agreement may be terminated by either party by providing notice no less than 30 days prior to the termination date. The agreement was extended through June 30, 2017.

NOTE H – RELATED PARTY TRANSACTIONS

Circle Drive Mobile Home Park

The Circle Drive Mobile Home Park (“Circle Drive”) is owned and operated by a Company (“the Company”) that is owned by a member of the District’s Board of Directors. In 2008, the Company petitioned and was granted an exclusion from the District. However, Circle Drive still receives pumping and chlorination services from the District. The Company pays a flat monthly fee in the amount \$1,500 and 50% of the monthly wastewater processing billing from the Colorado Springs Utility to the District. During the year ended December 31, 2016, the District recognized revenue from the Company in the amount of \$43,857 and as of December 31, 2016, included in accounts payable is \$2,008 which the Company over paid to the District in 2014.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE H – RELATED PARTY TRANSACTIONS - *continued*

Water Tank Easement

During 2009, the District and the Company entered into a Water Access and Storage Easement (“Easement”) under which the District conveyed to the Company its interest in a water tank, including all appurtenances for the storage of water. The Company in turn, granted the District a perpetual non-exclusive lease for water storage in the water tank owned by the Company.

Water Tank Rental

In 2008, an informal agreement was entered into between the District and the Company under which the District is to pay the Company \$3,236 per quarter for rental of the water tank.

The quarterly payments, totaling \$12,944, made during 2016 are attributed to the balance due to the Company as of December 31, 2015. As such, \$19,495 is included in accounts payable to reflect the balance due to the Company for the water tank rental as of December 31, 2016.

NOTE I – TAX, SPENDING AND DEBT LIMITATIONS

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

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District’s management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the calculation of the fiscal year spending limits will require judicial interpretation.

NOTE J - CONCENTRATIONS OF REVENUE

Operating Revenue

For 2016, two water and sanitary sewer customers accounted for approximately 72% and 89% of the District's water and sewer usage revenue, respectively. One customer solely accounted for 47% and 58% of the District's water and sewer usage revenue, respectively. In addition, Gregory & Company, a related party, which as described in NOTE H, contracts with the District for sanitary sewer services, accounted for approximately 20% of the District's operating revenue.

Total Revenue

For 2016, the District's property and specific ownership tax revenue equaled approximately 16% of the District's total revenue.

Garden Valley Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE L – MANAGEMENT’S EVALUATION OF SUBSEQUENT EVENTS

The preparation of the District’s financial statements and accompanying footnotes in conformity with US GAAP requires management of the District to evaluate transactions and events subsequent to the balance sheet date involving the District. Management has evaluated the subsequent transactions and events of the District through May 30, 2017, which is the date the financial statements and accompanying footnotes were available for issuance.

SUPPLEMENTARY INFORMATION

Garden Valley Water and Sanitation District

SCHEDULE OF REVENUES, EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP - Budgetary Basis) AND
 RECONCILIATION TO CHANGE IN NET POSITION (US GAAP Basis)

For the Year ended December 31, 2016

	Original Budget	Amended and Final Budget	Actual	Variance
Revenues				
Water and sewer charges	\$ 234,393	\$ 234,393	\$ 224,702	\$ (9,691)
Property and specific ownership taxes	38,727	38,727	42,620	3,893
Interest income	91	91	164	73
Total revenues	273,211	273,211	267,486	(5,725)
Expenditures				
Accounting and auditing	10,425	17,225	13,157	(4,068)
Repairs and maintenance	15,000	17,030	9,985	(7,045)
Contract management	18,000	18,000	18,000	-
Legal	7,600	18,090	20,626	2,536
Water tank rental	15,220	15,279	12,944	(2,335)
Utilities	73,000	61,503	65,655	4,152
Office expenses	200	200	225	25
Directors' fees	10,800	5,100	5,100	-
Water purchases	60,000	62,400	62,330	(70)
Other	1,524	1,733	3,217	1,484
Debt service				
Principal	15,685	15,685	15,685	-
Interest	6,495	6,495	6,392	(103)
Total expenditures	233,949	238,740	233,316	(5,424)
Revenues over expenditures	\$ 39,262	\$ 34,471	34,170	\$ (301)
Reconciliation to Change in Net Position				
Principal payments on note payable			15,685	
Depreciation			(20,097)	
CHANGE IN NET POSITION			\$ 29,758	