

**Genesee Water and Sanitation District
(Jefferson County, Colorado)**

FINANCIAL STATEMENTS

with Independent Auditor's Report

December 31, 2016 and 2015



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Genesee Water and Sanitation District

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December 31, 2016 and 2015

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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Genesee Water and Sanitation District
Jefferson County, Colorado

We have audited the accompanying financial statements of Genesee Water and Sanitation District (the District) as of and for the years ended December 31, 2016 and 2015 and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Genesee Water and Sanitation District, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages i through vi 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 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and legal requirements, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Darner Higgs & Associates, PC

Lakewood, Colorado
April 24, 2017

Genesee Water and Sanitation District

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Genesee Water and Sanitation District (the District), we offer readers of the District's basic financial statements this narrative overview and analysis of the financial activities of Genesee Water and Sanitation District for the year ended December 31, 2016.

Financial Highlights

- Net Position increased by \$42,080 (.41%) when compared to 2015
- District Revenues increased by \$151,982 (5.1%) from 2015 to 2016
- District Expenses decreased by \$53,200 (1.7%) from 2015 to 2016

Overview of the Financial Statements

The basic financial statements of the District are presented as a special purpose government engaged in business type activities – providing water and sanitation services, through its enterprise.

The *Statements of Net Position* present information on all of the District's assets, liabilities, and deferred inflows and outflows of resources, with the difference reported as Net Position. Over time, increases or decreases in the Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information, which reflects how the District's Net Position changed during the past year. All changes in the Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, non-capital financing, capital and investing activities.

These financial statements distinguish between functions of the District that will be principally supported by service charges and property taxes. The functions of the District include effective and economical operation of water and sanitation systems within the jurisdictional boundaries of the District.

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budgetary comparisons presented for legal compliance.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Genesee Water and Sanitation District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Analysis

As noted earlier, Net Position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities and deferred inflows by \$6,292,378 and \$3,924,099 for water and sanitation, respectively.

	NET POSITION			
	Water		Sanitation	
	<u>2016</u>	<u>2015 (restated)</u>	<u>2016</u>	<u>2015</u>
Assets				
Current assets	\$ 7,090,425	\$ 11,829,019	\$ 914,825	\$ 770,498
Capital assets, net	<u>16,044,871</u>	<u>11,014,593</u>	<u>3,789,711</u>	<u>4,126,001</u>
Total	<u>23,135,296</u>	<u>22,843,612</u>	<u>4,704,536</u>	<u>4,896,499</u>
Liabilities				
Current liabilities	\$ 2,241,863	\$ 1,306,218	\$ 143,233	\$ 137,317
Long-term liabilities	<u>13,719,498</u>	<u>14,476,335</u>	<u>526,111</u>	<u>625,956</u>
Total	<u>15,961,361</u>	<u>15,782,553</u>	<u>669,344</u>	<u>763,273</u>
Deferred Inflows of Resources	<u>881,557</u>	<u>908,271</u>	<u>111,093</u>	<u>111,617</u>
Net Position				
Net invested in capital assets	7,264,211	6,945,985	3,213,326	3,442,912
Restricted				
Governmental reserve	24,640	-	26,048	-
Capital replacements	313,084	-	368,361	237,970
Loan operating reserve	264,700	251,900	-	-
Emergency reserve	29,431	32,080	3,572	3,300
Unrestricted	<u>(1,603,688)</u>	<u>(1,077,177)</u>	<u>312,792</u>	<u>337,427</u>
Total Net Position	<u>\$ 6,292,378</u>	<u>\$ 6,152,788</u>	<u>\$ 3,924,099</u>	<u>\$ 4,021,609</u>

The largest portion of the District's Net Position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Genesee Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS**

REVENUE, EXPENSES AND CHANGES IN NET POSITION

	<u>Water</u>		<u>Sanitation</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
REVENUE				
Operating Revenue	\$ 789,318	\$ 720,172	\$ 816,484	\$ 802,103
Nonoperating Revenue	1,228,423	1,195,950	271,940	235,958
Total Revenue	<u>2,017,741</u>	<u>1,916,122</u>	<u>1,088,424</u>	<u>1,038,061</u>
EXPENSES				
Operating/Administrative & General Expenses	864,125	929,411	792,894	781,276
Depreciation	722,912	705,489	369,391	372,459
Nonoperating Expenses	291,114	301,960	23,649	26,690
Total Expenses	<u>1,878,151</u>	<u>1,936,860</u>	<u>1,185,934</u>	<u>1,180,425</u>
Income Before Contributions	139,590	(20,738)	(97,510)	(142,364)
Capital Contributions	-	-	-	-
Change in Net Positions	<u>139,590</u>	<u>(20,738)</u>	<u>(97,510)</u>	<u>(142,364)</u>
Net Position - Beg of Year	<u>6,152,788</u>	<u>6,173,526</u>	<u>4,021,609</u>	<u>4,163,973</u>
Net Position - End of Year	<u>\$ 6,292,378</u>	<u>\$ 6,152,788</u>	<u>\$ 3,924,099</u>	<u>\$ 4,021,609</u>

District water operating revenue increased \$69,146 (9.6%) from 2015 to 2016.

District sanitation operating revenue increased by \$14,381 (1.8%) from 2015 to 2016.

Investment earnings remained low in 2016. The District continues to monitor and maximize interest earnings with available funds.

General operations and administrative expenses of the water and sewer operations decreased \$53,668 (3.1%) from 2015 to 2016. The largest increase was interest expense, \$48,368 (23.6%). Repairs and maintenance decreased by \$52,856 (30%).

The District received \$222,894 in tax revenue from the 3.00 mill tax levy and \$340,232 in Capital Replacement Fees (CRF) fees (\$15.00 per month, per customer, \$30 per 2-month billing cycle). All revenue generated from this mill levy is restricted and used to fund only capital replacements and reserves.

Genesee Water and Sanitation District

MANAGEMENT’S DISCUSSION AND ANALYSIS

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of debt issuance, sale of assets and debt repayments, as well as capital outlay in addition to operations and non-operating revenue and contributions. Capital contributions of facilities and depreciation are not reflected on the budget since they do not affect “funds available.” Additionally, the budget includes the separation of the Enterprise and Government functions within the District.

Revenue to the Government Fund

Income received from property taxes, specific ownership taxes, bond proceeds and related investment earnings will be used to pay for long term debt service, which includes interest and principal on bonds and loans, Jefferson County Treasurer property tax collection fees, loan administration fees and bank servicing fees associated with bonds. In past years a transfer from the Government fund to the Enterprise fund was made for associated administrative services provided by the Enterprise on behalf of the Government. However, effective January 1, 2014 it has been determined the Government will directly perform related duties. In May 2008 voters approved an additional 3.0 mills property tax to fund capital replacements beginning in 2009 and ending in 2018. Money received will be restricted funds and administered through the Enterprise capital replacement program. For more information see the Capital Replacement Fund.

Revenue to the Enterprise Fund

Revenues, primarily from water and sewer service charges (excluding property taxes, specific ownership taxes) are used to pay for most operations and administrative expenses of the District.

Water service fees and Water Capital Replacement Fund charges were increased on December 26, 2015. The current rates are summarized below:

Schedule of Fees and Charges			
Effective 12/26/15			
Single and Multi-Family dwellings			
Base Charges - 2 Month Period			
Water		\$ 46.00	
Sewer		\$ 90.00	
Capital Replacement Fund		\$ 40.00	
Consumption Charges			
1,000-5,000	Gallons	\$ 3.25	Per 1,000 Gallons
6,000-10,000	Gallons	\$ 3.90	Per 1,000 Gallons
11,000-15,000	Gallons	\$ 4.60	Per 1,000 Gallons
16,000-20,000	Gallons	\$ 5.30	Per 1,000 Gallons
21,000 Plus	Gallons	\$ 6.00	Per 1,000 Gallons

Water and Sewer service fees along with associated revenues and operating expenses are reviewed annually.

Genesee Water and Sanitation District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Replacement Fund

On May 5, 2008 District voters approved a 3.0 property tax mill levy with a term of 2009 through 2018 to establish a restricted reserve fund for Capital replacements. At the time of review it was decided to fund the Capital Replacement fund partially through property taxes with the remaining amounts needed by any and all other revenue sources. It is estimated 3.0 mills will fund approximately one half of the projected capital replacement needs for the next ten years, exclusive of the new water treatment facility project described previously on page 2, long term debt . The fund will help to assure that as District infrastructure ages, most of which is now 30-plus years old, repair and replacement funds will be available to continue to provide high quality water and sewer service. Other related revenue sources include a Capital Replacement Fee (CRF) which was increased effective December 26, 2015 to \$25 for water with sewer remaining at \$15 bringing the bi-monthly total to \$40. This fee is added to each customer's bill to help meet the unfunded portion of the District's capital replacement plan.

Capital Asset and Debt Administration

Capital Assets

The District's investment in capital assets at December 31, 2016 amounts to \$10,477,537 (net of accumulated depreciation). This investment in capital assets includes water rights, operating system and equipment and vehicles. It should be noted that the actual value of the District's water rights portfolio cannot be accurately quantified as the rights have a perpetual life, and generally become increasingly valuable over time. Management feels the water rights currently held by the District have a greater value than the acquisition price reflected in the financial statements. Analyses of changes in capital assets are as follows:

- Continued construction of Advanced Water Treatment Facility.
- Continued meter replacement program
- Modifications to Base and Larkspur Pump Stations
- Improvements to Waste Water Treatment Facility to include conversion of Chlorine

Additional information on the District's capital assets can be found in Note 4 of this report.

Long-Term Debt

Refunding of the remaining principal balance of the July 1, 2004 outstanding reservoir bonds ("2004 Series") in the amount of \$2,435,000 was accomplished on December 12, 2014 through a new "2014 Series" general obligation loan agreement with JP Morgan Chase Bank. In addition to the refunding, issuance of \$500,000 in new funds was provided for within the loan for a total "2014 Series" loan amount of \$2,988,000 and includes all costs of issuance. The "2014 Series" loan has a term of 10 years, no provision for early redemption and an interest rate of 2.25% per annum. Issuance of the \$500,000 amount was provided in order to continue with engineering, geotechnical and permitting associated with the replacement of the District's 32 year old water treatment facility. At a November 4, 2014 election, the District electorate authorized (with an overwhelming 77% in favor) \$10,300,000 in general obligation debt to be used for the full replacement of its aging water treatment facility along with other water system replacements and improvements. Unfortunately, bidding results came in higher than expected for the Advanced Water Treatment Facility and in order to complete all water system replacements anticipated to be covered/funded with the \$10,300,000 voter authorization, the District Enterprise implemented another loan with the Colorado Water Resources and Power Development Authority. This loan is a 0% interest, 20 year term and is secured with a revenue pledge from the District. Proceeds from this loan will be used to fund any shortfalls which may develop with the water treatment project and to complete the other water system replacements and improvements.

Genesee Water and Sanitation District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's (2016) Budget and Rates

- Completion of Advanced Water Treatment Facility.
- Completion of modifications to the Wastewater Treatment Facility.
- Continued Implementation of Customer Meter Replacement Program.
- Completion of Base Pump Station and Reservoir modifications.
- Completion of Larkspur Pump Station modifications.
- Property taxes - Budgeted in the amount of \$770,498 to pay the District debt service requirements and \$222,152 to be restricted and used only for capital repair and replacements scheduled in 2017.
- Capital Replacement Fee (CRF) revenue is estimated at \$343,200 for 2017 and is restricted and used only for capital replacements.

Requests for Information

This report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Director of Administration
2310 Bitterroot Lane
Golden, CO 80401

BASIC FINANCIAL STATEMENTS

Genesee Water and Sanitation District
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	<u>Water</u>	<u>Sanitation</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u> <u>(Restated)</u>
ASSETS				
Current assets				
Cash and investments	\$ (313,238)	\$ 235,335	\$ (77,903)	\$ (81,097)
Cash and investments - restricted				
Governmental reserve	24,640	26,048	50,688	-
Capital reserve	313,084	368,361	681,445	237,970
Cash and investments held with trustee	5,646,103	-	5,646,103	11,111,348
Accounts receivable - service fees	141,946	162,739	304,685	270,930
Other receivables	375,170	-	375,170	-
Property taxes receivable	887,878	111,799	999,677	1,027,778
Other current assets	<u>14,842</u>	<u>10,543</u>	<u>25,385</u>	<u>32,588</u>
Total current assets	<u>7,090,425</u>	<u>914,825</u>	<u>8,005,250</u>	<u>12,599,517</u>
Capital assets not being depreciated	<u>7,216,633</u>	<u>-</u>	<u>7,216,633</u>	<u>1,882,621</u>
Capital assets being depreciated, net	<u>8,828,238</u>	<u>3,789,711</u>	<u>12,617,949</u>	<u>13,257,973</u>
TOTAL ASSETS	<u>\$ 23,135,296</u>	<u>\$ 4,704,536</u>	<u>\$ 27,839,832</u>	<u>\$ 27,740,111</u>
LIABILITIES				
Current liabilities				
Accounts payable	\$ 1,382,737	\$ 16,694	\$ 1,399,431	\$ 473,066
Other current liabilities	2,745	1,330	4,075	2,765
Current portion of long-term obligations	766,775	109,784	876,559	859,240
Accrued interest payable	76,037	2,066	78,103	80,891
Accrued salaries and benefits	<u>13,569</u>	<u>13,359</u>	<u>26,928</u>	<u>27,573</u>
Total current liabilities	<u>2,241,863</u>	<u>143,233</u>	<u>2,385,096</u>	<u>1,443,535</u>
Long-term liabilities				
Long-term obligations	13,659,988	466,601	14,126,589	15,003,805
Compensated absences	<u>59,510</u>	<u>59,510</u>	<u>119,020</u>	<u>98,486</u>
Total long-term liabilities	<u>13,719,498</u>	<u>526,111</u>	<u>14,245,609</u>	<u>15,102,291</u>
TOTAL LIABILITIES	<u>15,961,361</u>	<u>669,344</u>	<u>16,630,705</u>	<u>16,545,826</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenue	<u>881,557</u>	<u>111,093</u>	<u>992,650</u>	<u>1,019,888</u>
Total deferred inflows of resources	<u>881,557</u>	<u>111,093</u>	<u>992,650</u>	<u>1,019,888</u>
NET POSITION				
Net invested in capital assets	7,264,211	3,213,326	10,477,537	10,388,897
Restricted				
Governmental reserve	24,640	26,048	50,688	-
Capital replacements	313,084	368,361	681,445	237,970
Loan operating reserve	264,700	-	264,700	251,900
Emergency reserve	29,431	3,572	33,003	35,380
Unrestricted	<u>(1,603,688)</u>	<u>312,792</u>	<u>(1,290,896)</u>	<u>(739,750)</u>
TOTAL NET POSITION	<u>\$ 6,292,378</u>	<u>\$ 3,924,099</u>	<u>\$ 10,216,477</u>	<u>\$ 10,174,397</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Genesee Water and Sanitation District
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended December 31, 2016 and 2015

	<u>Water</u>	<u>Sanitation</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
OPERATING REVENUE				
Service fees	\$ 789,318	\$ 816,484	\$ 1,605,802	\$ 1,522,275
OPERATING EXPENSES				
Auto and travel	12,704	12,704	25,408	23,894
Chemicals and supplies	40,176	42,343	82,519	89,830
Depreciation	722,912	369,391	1,092,303	1,077,948
Directors' fees	2,750	2,750	5,500	5,500
Ditch assessments	4,559	-	4,559	4,303
Dues and publications	1,865	12,210	14,075	13,631
Elections	52	52	104	-
Insurance	22,086	22,086	44,172	42,896
Legal fees	9,978	4,072	14,050	28,377
Miscellaneous	2,604	3,990	6,594	6,112
Office supplies and expenses	16,443	16,972	33,415	32,974
Professional fees	4,108	3,830	7,938	12,827
Repairs and maintenance	37,982	84,562	122,544	175,312
Salaries and benefits	511,468	477,993	989,461	961,564
Small tools and equipment	14,576	5,522	20,098	19,451
Telephone and communications	15,197	10,215	25,412	24,738
Testing and analysis	12,342	8,584	20,926	17,814
Utilities	155,235	85,009	240,244	251,464
Total operating expenses	<u>1,587,037</u>	<u>1,162,285</u>	<u>2,749,322</u>	<u>2,788,635</u>
(LOSS) FROM OPERATIONS	<u>(797,719)</u>	<u>(345,801)</u>	<u>(1,143,520)</u>	<u>(1,266,360)</u>
NONOPERATING REVENUE AND (EXPENSES)				
Property taxes	906,883	111,447	1,018,330	1,083,501
Specific ownership taxes	67,250	7,472	74,722	90,902
Capital replacement fee	212,359	127,873	340,232	252,554
Tap and water resource fees	35,000	25,000	60,000	-
Interest income	16	30	46	595
Other revenue	6,915	118	7,033	4,356
Bond issue costs	(45,855)	-	(45,855)	(70,313)
Interest expense	(231,750)	(21,989)	(253,739)	(242,084)
Treasurer and debt servicing fees	(13,509)	(1,660)	(15,169)	(16,253)
Total nonoperating revenue	<u>937,309</u>	<u>248,291</u>	<u>1,185,600</u>	<u>1,103,258</u>
CHANGE IN NET POSITION	139,590	(97,510)	42,080	(163,102)
NET POSITION - BEGINNING OF YEAR	<u>6,152,788</u>	<u>4,021,609</u>	<u>10,174,397</u>	<u>10,337,499</u>
NET POSITION - END OF YEAR	<u>\$ 6,292,378</u>	<u>\$ 3,924,099</u>	<u>\$ 10,216,477</u>	<u>\$ 10,174,397</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Genesee Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	<u>Water</u>	<u>Sanitation</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 759,051	\$ 812,996	\$ 1,572,047	\$ 1,525,859
Cash payments to employees for services	(502,238)	(467,334)	(969,572)	(945,619)
Cash payments to suppliers for goods and services	(794,641)	(309,908)	(1,104,549)	(700,574)
Net cash provided (used) by operating activities	<u>(537,828)</u>	<u>35,754</u>	<u>(502,074)</u>	<u>(120,334)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Net property and specific ownership taxes received	960,624	117,259	1,077,883	1,158,150
Capital replacement fees received	212,359	127,873	340,232	252,554
Tap and water resource fees received	35,000	25,000	60,000	-
Loan proceeds	5,044,220	-	5,044,220	1,178,964
Acquisition of fixed assets	(4,380,533)	(33,026)	(4,413,559)	(1,715,909)
Principal paid on general obligation debt	(753,201)	(106,696)	(859,897)	(756,450)
Interest paid on general obligation debt	(233,943)	(22,584)	(256,527)	(170,807)
Bond issue costs	-	-	-	(70,313)
Cash paid for capital lease servicing fees	-	-	-	(179,626)
Other revenue	6,915	118	7,033	4,356
Net cash provided (used) by capital and related financing activities	<u>891,441</u>	<u>107,944</u>	<u>999,385</u>	<u>(299,081)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment earnings received	16	30	46	595
Net cash provided by investing activities	<u>16</u>	<u>30</u>	<u>46</u>	<u>595</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	353,629	143,728	497,357	(418,820)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>(329,143)</u>	<u>486,016</u>	<u>156,873</u>	<u>575,693</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 24,486</u>	<u>\$ 629,744</u>	<u>\$ 654,230</u>	<u>\$ 156,873</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

(continued)

Genesee Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(continued)

		<u>Water</u>	<u>Sanitation</u>	<u>Totals</u>	
				<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING (LOSS)					
TO NET CASH PROVIDED/(USED) BY OPERATING					
ACTIVITIES					
Operating (loss)	\$	(797,719)	\$ (345,801)	\$(1,143,520)	\$(1,266,360)
Adjustments to reconcile operating (loss) to cash flows provided (used) by operating activities					
Depreciation		722,912	369,391	1,092,303	1,077,948
(Increase) decrease in:					
Receivables		(30,267)	(3,488)	(33,755)	3,584
Other current assets		4,921	2,282	7,203	44,540
Increase (decrease) in:					
Accounts payable for operations		(448,215)	2,711	(445,504)	2,699
Payroll liabilities		9,230	10,659	19,889	15,945
Other current liabilities		1,310	-	1,310	1,310
Net cash provided (used) by operating activities	\$	(537,828)	\$ 35,754	\$ (502,074)	\$ (120,334)

The accompanying Notes to Financial Statements are an integral part of these statements.

Genesee Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

Note 1 – Definition of reporting entity

The District, a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Jefferson County, Colorado. The District was established to provide water and sewage treatment services to the properties within its service area.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. Based on this definition, the District has determined that the Genesee Water and Sanitation Building Authority, a nonprofit corporation organized and existing under the laws of the State of Colorado, is a component unit of the District and has blended the financial information of the Corporation into the District's financial statements.

The District established an Enterprise of the Genesee Water and Sanitation District (the "Enterprise") by Resolution of the Board of Directors of the District in 1993. The Enterprise was organized as a "Water Activity Enterprise" within the meaning of Title 37, Article 45.1, Part 1, C.R.S. and has been established as and constitutes an enterprise within the meaning of Article X, Section 20 of the Colorado Constitution (see Note 10). The District's Board of Directors serves as the Board of Directors for the Enterprise. The Enterprise is considered a component unit of the District and blended in the District's financial statements. Separate financial statements of the Enterprise are not issued.

The District is not a component unit of any other primary governmental entity.

Note 2 – Summary of significant accounting policies

The more significant accounting policies of the District are described as follows:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Basis of accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets; and payments on long-term obligations are recorded as reductions in liabilities. Tap fees are recorded as capital contribution revenue when received.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from non-operating items in the Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Cash equivalents

For purposes of the Statements of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition, to be cash equivalents.

Investments

Investments for the District are reported at fair value.

Accounts receivable, allowance for doubtful accounts

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

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

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

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 the 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 revenues are recorded as revenue in the year they are available or collected.

Capital assets

Capital assets include water and sanitation operating systems and equipment and vehicles. Capital assets are defined by the District as those assets with an initial, individual cost of \$1,000 or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developer's cost.

The District believes it has substantial value in the form of currently unused capital assets, including water rights, water and wastewater treatment plant capacities, and water and sewer main lines (taps) and stations. 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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

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

Operating systems	5 to 49 years
Equipment and vehicles	2 to 10 years

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Compensated absences

District employees earn a general leave benefit at the rate of 30 to 42 days per year based on length of service which is to be used for vacations, medical leave and holidays. Employees are generally allowed to accrue up to 70 days of unused general leave days each at the end of each calendar year. Compensated absences are recognized as current salary cost when earned.

Contributed capital

Tap fees and water resource fees are generally recorded as capital contribution revenue when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developer's cost.

Budgets

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 without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2016 and 2015 Statements of Net Position as follows:

	Water	Sanitation	2016	2015
Cash and investments	\$ (313,238)	\$ 235,335	\$ (77,903)	\$ (81,097)
Cash and investments - restricted:				
Governmental reserve	24,640	26,048	50,688	-
Capital reserve	313,084	368,361	681,445	237,970
Total cash and investments	\$ 24,486	\$ 629,744	\$ 654,230	\$ 156,873

Cash and investments as of December 31, 2016 and 2015 consist of the following:

Deposits with financial institutions	\$ 653,642	\$ 84,299
Investments	588	72,574
Total cash and investments	\$ 654,230	\$ 156,873

At December 31, 2016 and 2015, the District's cash deposits had bank balances of \$681,666 and \$128,782, respectively, and carrying balances of \$653,642 and \$84,299 respectively.

Deposits with financial institutions

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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2016 and 2015, the federal insurance limits were \$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

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's cash deposit and investment policy adopts state statutes regarding custodial credit risk for deposits. As of December 31, 2016 and 2015, none of the District's bank balances were exposed to custodial credit risk.

Genesee Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

Investments

The District's investment policy adopts state statutes regarding investments.

The District primarily limits its investments to local government investments pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States and certain U.S. government agency securities
- . Certain international agency securities
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized cost.

The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

As of December 31, 2016 and 2015, the District had the following investments, recorded at fair value:

<u>Investment</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>
Colorado Liquid Asset Trust (Colostrust)	Weighted average under 60 days	\$ 588	\$ 72,574

COLOTRUST

The District invests in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State Statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. Colostrust is rated AAAM by Standard and Poor's.

Restricted cash and investments

The District levied 3 mills for property taxes to be collected in 2016 and 2015. All revenue generated from the 3 mills and transfers from the General Government are restricted to fund future capital replacements and general reserves. Restricted cash and investments represent funds available as follows:

	<u>2016</u>	<u>2015</u>
General Government reserve	\$ 50,688	\$ -
Capital reserve	681,445	237,970
Restricted cash and investments	<u>\$ 734,149</u>	<u>\$ 239,985</u>

Genesee Water and Sanitation District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2016 and 2015

Note 4 – Capital assets

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

	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
<u>Water</u>				
Capital assets, not being depreciated				
Water rights	\$ 147,563	\$ -	\$ -	\$ 147,563
Construction in progress	1,735,058	5,334,012	-	7,069,070
Total capital assets not being depreciated	<u>1,882,621</u>	<u>5,334,012</u>	<u>-</u>	<u>7,216,633</u>
Capital assets being depreciated				
Operating system and building	20,066,772	403,346	-	20,470,118
Equipment and vehicles	419,482	15,832	-	435,314
Total capital assets being depreciated	<u>20,486,254</u>	<u>419,178</u>	<u>-</u>	<u>20,905,432</u>
Less accumulated depreciation for				
Operating system and building	10,960,662	707,649	-	11,668,311
Equipment and vehicles	393,620	15,263	-	408,883
Total accumulated depreciation	<u>11,354,282</u>	<u>722,912</u>	<u>-</u>	<u>12,077,194</u>
Total capital assets being depreciated, net	<u>9,131,972</u>	<u>(303,734)</u>	<u>-</u>	<u>8,828,238</u>
Capital assets, net	<u>\$ 11,014,593</u>	<u>\$ 5,030,278</u>	<u>\$ -</u>	<u>\$ 16,044,871</u>
<u>Sanitation</u>				
Capital assets being depreciated				
Operating system and building	12,446,807	17,268	-	12,464,075
Equipment and vehicles	445,933	15,832	-	461,765
Total capital assets being depreciated	<u>12,892,740</u>	<u>33,100</u>	<u>-</u>	<u>12,925,840</u>
Less accumulated depreciation for				
Operating system and building	8,354,818	356,347	-	8,711,165
Equipment and vehicles	411,921	13,043	-	424,964
Total accumulated depreciation	<u>8,766,739</u>	<u>369,390</u>	<u>-</u>	<u>9,136,129</u>
Total capital assets being depreciated, net	<u>4,126,001</u>	<u>(336,290)</u>	<u>-</u>	<u>3,789,711</u>
Capital assets, net	<u>\$ 4,126,001</u>	<u>\$ (336,290)</u>	<u>\$ -</u>	<u>\$ 3,789,711</u>

Genesee Water and Sanitation District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2016 and 2015

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

	Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015
<u>Water</u>				
Capital assets, not being depreciated				
Water rights	\$ 147,563	\$ -	\$ -	\$ 147,563
Construction in progress	-	1,735,058	-	1,735,058
Total capital assets not being depreciated	<u>147,563</u>	<u>1,735,058</u>	<u>-</u>	<u>1,882,621</u>
Capital assets being depreciated				
Operating system	19,841,029	225,743	-	20,066,772
Equipment and vehicles	<u>419,981</u>	<u>1,343</u>	<u>1,842</u>	<u>419,482</u>
Total capital assets being depreciated	<u>20,261,010</u>	<u>227,086</u>	<u>1,842</u>	<u>20,486,254</u>
Less accumulated depreciation for				
Operating system	10,272,624	688,038	-	10,960,662
Equipment and vehicles	<u>378,011</u>	<u>17,451</u>	<u>1,842</u>	<u>393,620</u>
Total accumulated depreciation	<u>10,650,635</u>	<u>705,489</u>	<u>1,842</u>	<u>11,354,282</u>
Total capital assets being depreciated, net	<u>9,610,375</u>	<u>(478,403)</u>	<u>-</u>	<u>9,131,972</u>
Capital assets, net	<u>\$ 9,757,938</u>	<u>\$ 1,256,655</u>	<u>\$ -</u>	<u>\$ 11,014,593</u>
<u>Sanitation</u>				
Capital assets being depreciated				
Operating system	\$ 12,446,807	\$ -	\$ -	\$ 12,446,807
Equipment and vehicles	<u>431,044</u>	<u>16,731</u>	<u>1,842</u>	<u>445,933</u>
Total capital assets being depreciated	<u>12,877,851</u>	<u>16,731</u>	<u>1,842</u>	<u>12,892,740</u>
Less accumulated depreciation for				
Operating system	7,999,441	355,377	-	8,354,818
Equipment and vehicles	<u>396,681</u>	<u>17,082</u>	<u>1,842</u>	<u>411,921</u>
Total accumulated depreciation	<u>8,396,122</u>	<u>372,459</u>	<u>1,842</u>	<u>8,766,739</u>
Total capital assets being depreciated, net	<u>4,481,729</u>	<u>(355,728)</u>	<u>-</u>	<u>4,126,001</u>
Capital assets, net	<u>\$ 4,481,729</u>	<u>\$ (355,728)</u>	<u>\$ -</u>	<u>\$ 4,126,001</u>

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Depreciation expense for the years ended December 31, 2016 and 2015 was charged to the following operations:

	<u>2016</u>	<u>2015</u>
Water fund	\$ 722,912	\$ 705,489
Sanitation fund	369,391	372,459
	<u>\$ 1,092,303</u>	<u>\$ 1,077,948</u>

Note 5 – Long-term obligations

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2016:

	<u>Balance at December 31, 2015 (restated)</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2016</u>	<u>Due Within One Year</u>
Series 2014 GO Loan	\$ 2,373,000	\$ -	\$ 241,000	\$ 2,132,000	\$ 246,000
2015 GO Loan - CWRPDA	9,648,862	-	307,614	9,341,248	313,813
2015 Revenue Loan - CWRPDA	2,500,000	-	125,000	2,375,000	125,000
Capital lease - sewer	168,613	-	83,063	85,550	85,550
Capital lease - water	143,636	-	55,954	87,682	57,730
Capital lease - building	1,028,934	-	47,266	981,668	48,466
Total long-term obligations	<u>\$ 15,863,045</u>	<u>\$ -</u>	<u>\$ 859,897</u>	<u>\$ 15,003,148</u>	<u>\$ 876,559</u>

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2015:

	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2015 (restated)</u>	<u>Due Within One Year</u>
Series 2014 GO Loan	\$ 2,988,000	\$ -	\$ 615,000	\$ 2,373,000	\$ 241,000
2015 GO Loan - CWRPDA	-	9,790,312	141,450	9,648,862	307,614
2015 Revenue Loan - CWRPDA	-	2,500,000	-	2,500,000	125,000
Capital lease - sewer	249,262	-	80,649	168,613	83,063
Capital lease - water	197,836	-	54,200	143,636	55,937
Capital lease - building	1,074,556	-	45,622	1,028,934	46,626
Total long-term obligations	<u>\$ 4,509,654</u>	<u>\$ 12,290,312</u>	<u>\$ 936,921</u>	<u>\$ 15,863,045</u>	<u>\$ 859,240</u>

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Loans payable

\$2,988,000 General Obligation Refunding and Improvement Loan, Series 2014

The loan with a major bank, in the original amount of \$2,988,000, has a fixed interest rate of 2.25%. Interest is payable each June 1 and December 1 each year beginning June 1, 2015. Principal payments are due each December 1, beginning December 31, 2015 and maturing December 1, 2024.

April 1, 2015 General Obligation Loan Agreement, \$9,790,312 – Colorado Water Resources and Power Development Authority

The loan agreement, for a total principal amount of \$9,790,312, between the District and Colorado Water Resources and Power Development Authority (CWRPDA) was entered into for the purpose of constructing and equipping a new water treatment plant (the Project), having a total estimated cost of \$12,800,000. The District must expend 85% of the total loan by April 1, 2018. The Project is estimated to be completed by December 31, 2017. The Trustee (Wells Fargo Bank, N.A), as the agent of the Authority, will disburse the amounts on deposit in the Project Loan Subaccount to the District upon receipt of a requisition executed by an authorized officer of the District and approved by the Authority. During 2016 and 2015, the District expended \$5,419,390 and \$1,178,964 respectively in eligible reimbursable amounts. Payments of principal and interest, in the amount of 2.17%, are due February 1 and August 1 each year through 2034. In addition to principal and interest, the District will pay administrative loan servicing fees totaling \$1,395,113 over the term of the loan. Annual payment amounts for principal, interest, and administrative fees vary from \$477,124 to \$776,640 over the term of the loan. Prepayments of amounts owing is allowable, subject to various conditions as set forth in the loan agreement.

Pursuant to the loan agreement, the District is required to maintain an Operation Maintenance Reserve (the reserve) in an amount equal to three months of operating expenses of the District's water system, excluding depreciation, as set forth in the District's annual budget for the current fiscal year, but not greater than \$1,250,000. If the reserve falls below the required amount, the shortfall is payable in 24 equal monthly installments. As of December 31, 2016 and 2015, the required operating reserve was \$264,700 and \$251,900, respectively.

December 11, 2015 Loan Agreement, \$2,500,000 – Colorado Water Resources and Power Development Authority

The loan agreement, for a total principal amount of \$2,500,000, between the District and Colorado Water Resources and Power Development Authority (CWRPDA) was entered into for the purpose of additional financing of the construction and equipping of the new water treatment plant (the Project). The Project is estimated to be completed by December 31, 2017. The Trustee (Wells Fargo Bank, N.A), as the agent of the Authority, will disburse the amounts on

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

deposit in the Project Loan Subaccount to the District upon receipt of a requisition executed by an authorized officer of the District and approved by the Authority. During 2016 and 2015, the District did not submit any requisitions for eligible reimbursable amounts. Payments of principal (0% interest), are due May 1 and November 1 each year through 2035. Annual payment amounts for principal are \$125,000 over the term of the loan. Prepayments of amounts owing is allowable, subject to various conditions as set forth in the loan agreement.

Pursuant to the loan agreement, the District is required to establish rates, fees, and charges that pay the sum of; (a) amounts required to pay operation and maintenance expenses, (b) 110 % of the debt service due on any obligations secured by a lien on pledged revenues and District water system capital improvements, (c) amounts paid during the year into any debt service reserve account, on parity or subordinate to the loan agreement, (d) amounts necessary to pay and discharge all charges and liens or other indebtedness that is payable out of gross revenues.

Debt maturities

Debt maturities for the next five years and to maturity, assuming full draws and payments on 2016 loans, are as follows:

Year Ended December 31,	Principal	Interest	Total
2017	876,559	255,214	1,131,773
2018	772,267	241,206	1,013,473
2019	752,497	230,688	983,185
2020	761,566	220,928	982,494
2021	771,775	211,216	982,991
thereafter	11,068,484	1,578,672	12,647,156
	<u>\$ 15,003,148</u>	<u>\$ 2,737,924</u>	<u>\$ 17,741,072</u>

Capital Leases

The District entered into a Municipal Lease Purchase Agreement with Bank of the West on October 15, 2010 for the purpose of financing the acquisition of certain sanitary sewer equipment. The lease is payable in semi-annual installments on each April and October 15th commencing on April 15, 2013 and ending on October 15, 2017. The lease bears interest at 2.972%. The District may draw up to \$550,000 under the terms of the lease. As of December 31, 2015 and 2016, the District had drawn \$477,411. The lease may be prepaid in full with the following prepayment premiums added to the lease balance:

Months 1-12	not allowed
Months 13-36	3%
Months 37-60	2%
Months 61-84	0%

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

The District entered into a Municipal Lease Purchase Agreement with Bank of the West on August 10, 2012 for the purpose of financing the acquisition of certain equipment for the water treatment plant and the replacement of a pressure reducing station. The lease is payable in semi-annual installments on each April and October 15th commencing on October 15, 2013 and ending on April 15, 2018. The lease bears interest at 3.18%. The District may draw up to \$380,000 under the terms of the lease. As of December 31, 2015 and 2016, the District had drawn \$350,301. The lease may be prepaid in full with the following prepayment premiums added to the lease balance:

Months 1-12	not allowed
Months 13-36	3%
Months 37-60	2%
Months 61-84	0%

The District entered into a Lease Purchase Agreement with Genesee Water and Sanitation Building Authority (the Authority) on April 1, 2012 for the purpose of financing the construction of a new garage, maintenance, and office facility. The District has issued a Direct Purchase Lease Revenue Bond to a bank, and from the proceeds made a construction loan to the Authority, to a maximum of \$1,200,000, as part of the lease agreement. The lease is payable in monthly installments of \$6,971, after all construction loan draws are executed, through December 1, 2027, at which time a final payment of \$391,882 is due to the bank. The lease bears interest at 3.61%. The Authority has agreed to use the proceeds from the lease to repay the bond principal and interest to the bank. As of December 31, 2015 and 2016, the District had drawn, and lent to the Authority, \$1,200,000. The lease may be prepaid in full with the following prepayment premiums added to the lease balance:

Months 1-12	3%
Months 13-24	2%
Months 25-36	1%
Month 37 to maturity	0%

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

The future minimum lease obligations and the net present value of the above minimum lease payments as of December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 231,176
2018	114,080
2019	83,651
2020	83,651
2021	83,651
Thereafter	<u>830,511</u>
Total minimum lease payments	1,426,720
Less: amount representing interest	<u>(271,823)</u>
Present value of minimum lease payments	<u>1,154,897</u>
Current portion	<u>(191,746)</u>
Long-term portion, including future draws	<u><u>\$ 963,151</u></u>

Debt authorization

At December 31, 2016, the District had no authorized but unissued indebtedness.

Note 6 – Net Position

The District has Net Position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, loans, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, the District had invested in capital assets, net of related debt as follows:

	<u>2016</u>	<u>2015</u>
Capital assets, net	\$ 19,834,582	\$ 15,140,594
Current portion of long-term obligations	(876,559)	(859,240)
Long-term obligations	(14,126,589)	(15,003,805)
Unspent portion of loan proceeds	<u>5,646,103</u>	<u>11,111,348</u>
Net investment in capital assets	<u><u>\$ 10,477,537</u></u>	<u><u>\$ 10,388,897</u></u>

Restricted assets include Net Position that is restricted for use either externally imposed by creditors, net grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The purposes for the restrictions

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

of Net Position are described in Note 3. As of December 31, 2016 and 2015, the District had restricted Net Position as follows:

	2016	2015
Capital reserve	\$ 681,445	\$ 237,970
General reserve	50,688	-
Loan reserve	264,700	251,900
Emergency reserve	33,003	35,380
Restricted net position	\$ 1,029,836	\$ 525,250

As of December 31, 2016 and 2015, the District had unrestricted Net Position (deficit) of \$(1,290,896) and \$(739,750), respectively.

Note 7 – District employees’ retirement plan

The District participates in the Colorado County Officials and Employees Retirement Association Defined Contribution Plan (CCOERA). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become participants immediately upon employment. Under this plan, ten percent of the employees’ compensation is withheld and remitted to the CCOERA along with a matching payment of ten percent from the District. The District’s contributions, plus earnings, related to employees of the District in place as of April 28, 2009, are 100% vested. As to employees hired after April 28, 2009, the District’s contributions, plus earnings, vest according to the following schedule:

By the end of the 1 st year:	0%
By the end of the 2 nd year:	25%
By the end of the 3 rd year:	50%
By the end of the 4 th year:	75%
By the end of the 5 th year:	100%

Plan provisions and contribution requirements are established and may be amended by CCOERA and would have to be approved by the District’s Board of Directors.

There is no liability for benefits under the plan beyond the District’s matching payments. Both the District and the participating employees made the required ten percent contributions for 2016 and 2015, amounting to \$75,808 and \$70,633, respectively.

Note 8 – Deferred compensation plan

The District has two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The District contributes 2% of eligible employees’ salaries to the plan of each employee’s choice. One plan is sponsored by CCOERA and the other is sponsored by

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Nationwide Retirement Solutions. Participation in the plans is optional for all employees. The plans allow the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergencies. The contributions totaled \$15,161 and \$14,488 for 2016 and 2015, respectively.

Note 9 – Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God. During 2016, The District maintained commercial insurance for all risks of loss.

During 2016, the District purchased an insurance policy with Plus Water Insurance Program. The District paid annual premiums for property, commercial crime, commercial general liability, public officials and management liability, business auto commercial excess liability and privacy 101. During 2016, the District was a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. The District paid annual premiums to the Pool for workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. Settled claims have not exceeded these coverages in any of the past three fiscal years.

Note 10 – Commitments and contingencies

Construction contract

As of December 31, 2016, the District has \$4,943,576 remaining on its construction contract for its new water treatment facility and pump station modification.

Note 11 - Tax, spending and debt limitations

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

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's Board of Directors has adopted a resolution establishing an enterprise to operate its water and sanitation activities. The District's management believes its water and sanitation operations qualify for this exclusion.

Genesee Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

TABOR requires local governments (not including enterprises) to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). The District established an emergency reserve of \$33,003 and \$35,380 as of December 31, 2016 and 2015, respectively.

The District's management believes, after consultation with legal counsel, it is in compliance with the provisions of TABOR. However, TABOR is complex and has been, and will continue to be, subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an enterprise will require further judicial interpretation.

Note 12 – Financial statement restatement – year ended December 31, 2015

The 2015 statement of net position has been restated to reflect the full availability of Series 2015 loan proceeds that were on deposit with the trustee. Amounts on deposit with the trustee at December 31, 2015 were previously not included as either “cash and investments held with trustee” or “long term obligations” at December 31, 2015. The amount deposited with the trustee that had not been drawn at December 31, 2015 was \$11,111,348. This amount is now included in the “Total” column for 2015 in the accompanying statements of net position as cash and investments held with trustee, and long term obligations.

SUPPLEMENTAL INFORMATION

Genesee Water and Sanitation District
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)

For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
ENTERPRISE:			
REVENUE			
Service fees	\$ 1,587,140	\$ 1,605,802	\$ 18,662
Tap, water resource fees, inspection	1,070	60,150	59,080
Miscellaneous	-	6,883	6,883
Total enterprise revenue	<u>1,588,210</u>	<u>1,672,835</u>	<u>84,625</u>
EXPENDITURES			
Auto and travel	34,000	25,408	8,592
Chemicals and supplies	89,350	82,519	6,831
Contingency and miscellaneous	52,500	1,264	51,236
Director's fees	7,102	5,500	1,602
Ditch assessments	4,558	4,559	(1)
Dues and publications	14,350	14,075	275
Election expense	2,800	104	2,696
Insurance	46,000	44,172	1,828
Permits	6,700	5,330	1,370
Office supplies and expense	47,100	33,415	13,685
Professional fees	47,000	21,988	25,012
Rent	83,652	83,652	-
Repairs and maintenance	161,020	122,544	38,476
Salaries and benefits	1,010,243	967,311	42,932
Small tools and equipment	23,870	20,098	3,772
Telephone and communication	25,980	25,412	568
Testing and analysis	23,100	20,926	2,174
Transfer from government for administrative	(84,000)	(74,722)	(9,278)
Utilities	309,714	240,244	69,470
Total enterprise expenditures	<u>1,905,039</u>	<u>1,643,799</u>	<u>261,240</u>
EXCESS (DEFICIT) OF ENTERPRISE REVENUE OVER (UNDER) ENTERPRISE EXPENDITURES	(316,829)	29,036	345,865
FUNDS AVAILABLE - BEGINNING OF YEAR - ENTERPRISE	<u>264,486</u>	<u>329,825</u>	<u>65,339</u>
FUNDS AVAILABLE - END OF YEAR - ENTERPRISE	<u>\$ (52,343)</u>	<u>\$ 358,861</u>	<u>\$ 411,204</u>

(continued)

Genesee Water and Sanitation District
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)

(continued)

For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
ENTERPRISE CAPITAL OUTLAY RESERVE:			
REVENUE			
Capital replacement fee	\$ 342,720	\$ 340,232	\$ (2,488)
Loan proceeds	1,348,500	533,085	(815,415)
Investment revenue	<u>60</u>	<u>46</u>	<u>(14)</u>
Total enterprise capital outlay reserve revenue	<u>1,691,280</u>	<u>873,363</u>	<u>(817,917)</u>
EXPENDITURES			
Capital outlay:			
Wastewater system	55,000	16,902	38,098
Water system	1,363,500	497,180	866,320
Vehicles and equipment	62,400	31,664	30,736
In house labor - capital projects	64,000	20,906	43,094
Treasurer's fees	3,349	3,320	29
Loan principal	<u>125,000</u>	<u>125,000</u>	<u>-</u>
Total enterprise capital outlay reserve expenditures	<u>1,673,249</u>	<u>694,972</u>	<u>978,277</u>
EXCESS (DEFICIT) OF ENTERPRISE CAPITAL OUTLAY RESERVE REVENUE OVER (UNDER) ENTERPRISE CAPITAL OUTLAY RESERVE EXPENDITURES	<u>18,031</u>	<u>178,391</u>	<u>160,360</u>
FUNDS AVAILABLE - BEGINNING OF YEAR ENTERPRISE CAPITAL OUTLAY RESERVE	<u>413,845</u>	<u>242,928</u>	<u>(170,917)</u>
FUNDS AVAILABLE - END OF YEAR - ENTERPRISE CAPITAL OUTLAY RESERVE	<u>\$ 431,876</u>	<u>\$ 421,319</u>	<u>\$ (10,557)</u>

(continued)

Genesee Water and Sanitation District
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
(continued)
For the Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
GENERAL GOVERNMENT:			
REVENUE			
Property Taxes Series 2015 State Revolving Fund Loan CWRPDA	\$ 493,218	\$ 493,218	\$ -
Property Taxes - Series 2014 GO Refunding and Improvement Loan	303,451	302,218	(1,233)
Property taxes - capital replacements	223,235	222,894	(341)
Series 2015 State Revolving Fund loan proceeds	6,000,000	5,899,199	(100,801)
Specific ownership taxes	84,000	74,722	(9,278)
Total general government revenue	7,103,904	6,992,251	(111,653)
EXPENDITURES			
Principal and interest on notes and capital leases	920,446	988,636	(68,190)
Capital construction	6,000,000	5,219,638	780,362
Loan servicing and fees	11,594	57,704	(46,110)
General administration	84,000	74,722	9,278
Total general government expenditures	7,016,040	6,340,700	675,340
EXCESS (DEFICIT) OF GENERAL GOVERNMENT REVENUE OVER (UNDER) GENERAL GOVERNMENT EXPENDITURES (1)			
	87,864	651,551	563,687
FUNDS AVAILABLE - BEGINNING OF YEAR - GENERAL GOVERNMENT			
	38,412	(572,969)	(611,381)
FUNDS AVAILABLE - END OF YEAR - GENERAL GOVERNMENT			
	\$ 126,276	\$ 78,582	\$ (47,694)
BUILDING AUTHORITY:			
REVENUE			
Rental income	\$ 83,652	\$ 83,652	\$ -
Total building authority revenue	83,652	83,652	-
EXPENDITURES			
Loan repayment to District	83,652	83,652	-
Total building authority expenditures	83,652	83,652	-
EXCESS (DEFICIT) OF BUILDING AUTHORITY REVENUE OVER (UNDER) BUILDING AUTHORITY EXPENDITURES			
	-	-	-
FUNDS AVAILABLE - BEGINNING OF YEAR - BUILDING AUTHORITY			
	-	-	-
FUNDS AVAILABLE - END OF YEAR - BUILDING AUTHORITY			
	\$ -	\$ -	\$ -
TOTAL DISTRICT REVENUE			
		9,622,101	
Less Interdistrict revenue		(83,652)	
District revenue	10,467,046	9,538,449	(928,597)
TOTAL DISTRICT EXPENDITURES			
		8,763,123	
Less Interdistrict expenses		(83,652)	
District expenses	10,677,980	8,679,471	1,998,509
FUNDS AVAILABLE - BEGINNING OF YEAR			
	716,743	(216)	(716,959)
FUNDS AVAILABLE - END OF YEAR			
	\$ 505,809	\$ 858,762	\$ 352,953

(1) The Excess of General Government revenue over expenditures resulted from tax collected for capital replacement projects and is carried over as a capital reserve.

Genesee Water and Sanitation District
RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

REVENUE (BUDGETARY BASIS)	\$ 9,538,449	
Less:		
Loan proceeds	(6,432,284)	
	<u>3,106,165</u>	
 EXPENDITURES (BUDGETARY BASIS)	 8,679,471	
Add:		
Depreciation	1,092,303	
General leave	22,150	
Less:		
Bond principal	(673,614)	
Capital lease principal	(186,283)	
Rent payment to Building Authority	(83,652)	
Capital outlay	<u>(5,786,290)</u>	
	<u>3,064,085</u>	
 CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	 <u>\$ 42,080</u>	

Genesee Water and Sanitation District
FIVE-YEAR SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2016

Year Ended December 31,	for Current Year Property Tax Levy	Mills Levied	Property Taxes		Percent Collected to Levied
			Levied	Collected	
2012	66,979,184	18.279	1,224,302	1,214,391	99.2%
2013	69,086,297	17.808	1,230,282	1,220,165	99.2%
2014	65,725,355	18.597	1,222,300	1,224,850	100.2%
2015	66,031,379	16.563	1,093,708	1,083,501	99.1%
2016	74,411,768	13.706	1,019,888	1,018,330	99.8%

Estimated for the
year ending
December 31, 2017 \$ 74,050,796 13.405 \$ 992,650

NOTE:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the County Treasurer does not permit identification of specific year of levy.