

Industrial Park Water & Sanitation District

Audit Report 2016

Brenda A. French, CPA, PC



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Industrial Park Water & Sanitation District
6625 East 49th Avenue
Commerce City, CO 80022

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of Industrial Park Water & Sanitation District, Commerce City, Colorado as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Industrial Park Water & Sanitation District, Commerce City, Colorado 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.

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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities of Industrial Park Water & Sanitation District, Commerce City, Colorado as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 19, 2017, on our consideration of Industrial Park's Water & Sanitation District, Commerce City, Colorado's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Industrial Park Water & Sanitation District, Commerce City, Colorado's internal control over financial reporting and compliance.



Brenda A French, CPA, PC
Broomfield, CO 80020
July 19, 2017

**PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016**

As management of Industrial Park Water and Sanitation District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended December 31, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the District's financial statements, which follow this narrative.

Financial Highlights

- The assets of Industrial Park Water and Sanitation District exceeded its liabilities at December 31, 2016 by \$835,311 (*net assets*).
- The District's total net position increased by \$23,739 from 2015 due to equipment purchases.
- At the close of the calendar year, the District's business-type activities cash balance of \$604,851 is available for spending at the District's discretion (*unrestricted cash*).

For the year ended December 31, 2016, the District had a positive operating budget variance totaling \$225,473 largely due to increased sewage connection revenue.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Industrial Park Water and Sanitation's basic financial statements. The District's basic financial statements consist of two components: 1.) government-wide financial statements of the business-type activities of the District, and 2.) notes to the financial statements. In addition to the basic financial statements, the report contains other supplemental information that will enhance the reader's understanding of the financial condition of Industrial Park Water & Sanitation District.

Basic Financial Statements

The three basic financial statements are the **Government-Wide Financial Statements** consisting of business-type activities. They provide both short and long-term information about the District's financial status. The second section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the date about the District's business-type activities. Budgetary information required by the General Statutes can be found in the **Supplementary Information** part of the statements.

**INDUSTRIAL PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended December 31, 2016**

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business. The government-wide financial statements provide short and long-term information about the District's financial status as a whole. The three government-wide statements report the District's net assets and how they have changed. Net assets are the difference between the District's total assets and total liabilities. Measuring net assets is one way to gauge the District's financial condition.

The government-wide statements consist only of business-type activities. The business-type activities are those the District charges customers to provide. This consists only of water and sewer treatment services.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements. The notes begin on page 7 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report contains certain required supplementary information concerning Industrial Park Water & Sanitation District's budget. The required supplementary information can be found on page 12 of this report.

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

| | Primary Government | |
|--------------------------------|---------------------------|--------------|
| | Business-type | Total |
| | Activities | |
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash in Bank | \$ 350,868 | \$ 350,868 |
| Cash in Investments | 253,983 | 253,983 |
| Accounts Receivable | 103,858 | 103,858 |
| Total Current Assets | 708,709 | 708,709 |
| Capital Assets: | | |
| Land | 22,495 | 22,495 |
| Sewer Collection System | 129,318 | 129,318 |
| Sewer Pumping Equipment | 95,831 | 95,831 |
| General Equipment & Furniture | 510,938 | 510,938 |
| Vehicles | 75,990 | 75,990 |
| Total Capital Assets | 834,572 | 834,572 |
| Less: Accumulated Depreciation | (703,665) | (703,665) |
| Net Capital Assets | 130,907 | 130,907 |
| Security Deposit | 765 | 765 |
| Total Assets | \$ 840,381 | \$ 840,381 |
| <u>LIABILITIES</u> | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 1,044 | \$ 1,044 |
| Payroll Taxes Payable | 3,584 | 3,584 |
| Total Current Liabilities | 4,628 | 4,628 |
| <u>NET ASSETS</u> | | |
| Unrestricted Retained Earnings | 835,753 | 835,753 |
| Restricted Retained Earnings | - | - |
| Total Net Assets | 835,753 | 835,753 |
| Total Liabilities & Net Assets | \$ 840,381 | \$ 840,381 |

See Accompanying Notes to Financial Statements

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2016

| | Primary Government | |
|---|-------------------------------------|-------------------|
| | Business-type Activities | Total |
| REVENUES | | |
| Sewage Treatment and Collection Fees | \$ 592,085 | \$ 592,085 |
| Tap Connection Fees | 11,840 | 11,840 |
| Miscellaneous Income-Finance Charge | 391 | 391 |
| Interest Income | 302 | 302 |
| Total Revenues | <u>\$ 604,618</u> | <u>\$ 604,618</u> |
| EXPENSES | | |
| Sewage Treatment and Processing Fees | 129,354 | 129,354 |
| Repairs & Maintenance-Lines and Equipment | 2,166 | 2,166 |
| Sewer Flushing | 20,513 | 20,513 |
| Depreciation | 33,129 | 33,129 |
| Insurance | 26,407 | 26,407 |
| Legal Expense | 7,240 | 7,240 |
| Telephone and Utilities | 2,197 | 2,197 |
| Directors' Fees | 5,200 | 5,200 |
| Miscellaneous Expense | 1,243 | 1,243 |
| Office Expense | 1,333 | 1,333 |
| Operation Fee | 12,000 | 12,000 |
| Engineering | 6,200 | 6,200 |
| Salaries | 65,040 | 65,040 |
| Payroll Tax Expense | 5,324 | 5,324 |
| Dues & Publication | 602 | 602 |
| Lease Expense | 2,002 | 2,002 |
| Audit Expense | 5,000 | 5,000 |
| Rent | 14,400 | 14,400 |
| Vehicle Expense | 3,169 | 3,169 |
| Manager's Fee | 2,500 | 2,500 |
| Total Expenses | <u>345,019</u> | <u>345,019</u> |
| Surplus of Revenues over Expenses | \$ 259,599 | \$ 259,599 |
| Net Assets, Beginning | 576,154 | 576,154 |
| Net Assets, Ending | <u>\$ 835,753</u> | <u>\$ 835,753</u> |

See Accompanying Notes to Financial Statements

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

| | <u>Primary Government</u> | |
|--|---------------------------|--------------|
| | <u>Business-type</u> | |
| | <u>Activities</u> | <u>Total</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating Income | \$ 259,599 | \$ 259,599 |
| Adjustments to reconcile income to net cash provided by operating activities: | | |
| Depreciation | 33,129 | 33,129 |
| Changes in assets and liabilities: | | |
| Decrease in Accounts Receivable | 5,076 | 5,076 |
| Increase in Current Liabilities | 2,082 | 2,082 |
| Net Cash Provided by Operating Activities | \$ 299,886 | \$ 299,886 |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u> | | |
| Net Purchase of Equipment | (56,869) | (56,869) |
| Net Increase in Cash and Cash Equivalents | \$ 243,017 | \$ 243,017 |
| Cash and Cash Equivalents, Beginning | 361,834 | 361,834 |
| Cash and Cash Equivalents, Ending | \$ 604,851 | \$ 604,851 |

Interest Expense for the Year Ended December 31, 2016 is \$0

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

1. ORGANIZATION

Industrial Park Water and Sanitation District was organized as a quasi-governmental entity under the laws of the State of Colorado on August 8, 1969. The District was created to provide for the effective distribution and collection of water and sewage within the boundaries of the District.

The District has a contract with, and is wholly dependent upon, Metropolitan Denver Sewage Disposal District No. 1 for disposal of sewage collected by the District.

The District's operating activities are governed by the Colorado Division of Local Governments administrative rules and regulations as they relate to special districts. The basic operations of the District are financed by charges to individuals and businesses located within the boundaries of the District who utilize the District's services.

B.) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the district relating to the funds and account groups included within these financial statements conform to generally accepted accounting principles applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements.

Reporting Entity

According to GASB Statement 14, a primary government is defined as an entity that has a separately elected governing body, is legally separate, and is fiscally independent. The District meets all of these requirements.

Industrial Park Water & Sanitation District (primary government) is a municipal corporation governed by an elected seven-member board. As required by generally accepted accounting principles, these financial statements present the District in its entirety. The District has no component units.

GASB Statement 14 defines a component unit as legally separate organizations for which the elected officials of the primary government (the District) are financially responsible.

Basis of Presentation

The District utilizes a single "proprietary – enterprise fund" to account for all of its operating activities. Proprietary fund accounting is used to account for activities that are financed and operated in a manner similar to private business enterprises. It assumes that the cost of providing services to the general public be recovered primarily through user charges.

**INDUSTRIAL PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The District's books of account and records are maintained on the accrual basis of accounting in conformity with generally accepted accounting principles. The accrual basis of accounting recognizes revenue when earned and expenses when the liability is incurred.

Available funds are expended annually based upon budgetary estimates that are open for public inspection. Budgetary estimates are prorated based upon an annual fiscal year from January 1st through of each year. The amounts are posted for public comment and inspection, and are submitted to the Division of Local Governments.

It is the District's policy to prepare the annual budget on a basis that does not include accounts receivable, accounts payable, or depreciation. Entries to record accounts receivable, accounts payable, and depreciation are booked to the District's accounting records to convert the "budget basis of accounting" to generally accepted accounting principles. After these adjustments are made, budget basis versus GAAP basis are the same.

Fixed Assets

The District records property, plant, and equipment at cost. The District capitalizes all fixed asset additions in accordance with the standards established by the State of Colorado, Division of Local Governments.

District assets are depreciated on the straight-line basis over their estimated useful lives. Estimated lives are forty years for the sewer collection system, ten years for pump, lift, and other equipment, and five years for certain office equipment. The following is a schedule of 2016 fixed asset activity:

| | 2015 Balance | 2016 Additions | 2016 Balance |
|-------------------------|-------------------|------------------|------------------|
| Land | \$ 22,495 | | \$ 22,495 |
| Sewer Collection System | 129,318 | | 129,318 |
| Sewer Pumping Equipment | 95,831 | | 95,831 |
| Equipment & Furniture | 473,939 | \$ 36,999 | 510,938 |
| Vehicles | 56,120 | 19,870 | 75,990 |
| | <u>\$ 777,703</u> | <u>\$ 56,869</u> | <u>\$834,572</u> |

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

B.) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Insured Deposits

Some of the District's cash and deposits as of December 31, 2016 are fully insured. The FDIC insures each checking account up to \$250,000 per account. At the balance sheet date, the checking account has a balance of \$350,868. The District has corrected this problem in 2017 by transferring an appropriate amount of funds to a CD. The cash in COLOTRUST, which is an investment account exclusively for municipalities, is insured 100% through the Municipal Bond Insurance Agency. At the balance sheet date, the COLOTRUST account has a balance of \$3,603. COLOTRUST has an AAA credit rating and is in full compliance with the Colorado PDPA. The remainder of \$250,380 is invested in certificates of deposits with various short-term maturities.

TABOR Amendment

Colorado voters passed an amendment of the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment. However, the District has made certain interpretations of the Amendment's language to determine its compliance.

Encumbrances

Encumbrances represent commitments to unperformed contracts for goods or services. The commitments are not treated as expenditures until a liability is incurred, but are merely used to facilitate effective budget control and cash planning and management. The District does not employ encumbrance accounting, whereby a portion of the applicable appropriation is reserved for open purchase orders.

Related Party Transactions

In 2016, the District entered into a month-to-month lease with the Manager of the District who owns the building. The monthly lease amount is \$1,200. There are no amounts due to or from this related party at December 31, 2016.

C.) COMMITMENTS AND CONTINGENCIES

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the year ended December 31, 1988, the District agreed to be included to be in a "Colorado Special District Liability Insurance Pool." The fund was organized by Colorado special districts in order to provide insurance coverage that may not otherwise be attainable by its members.

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016

C.) COMMITMENTS AND CONTINGENCIES (continued)

The fund provides self- insurance for 20% of all claims made, and had acquired “re-insurance” to cover the remaining 80% coverage. Additionally, the insurance pool has a stopgap claim limit of \$500,000.

In accordance with the terms for inclusion, the District was required to make contributions to the fund in amounts that exceeded the cost of the then annual insurance premium. The contribution requirements were levied on all fund members in order to provide working capital to the fund. The District’s financial commitment to the insurance pool is limited to its pro-rata ownership percentage based upon the ratio of the District’s excess contribution to all participating member’s excess contributions estimated at less than two percent. During 2016, the District contributed \$26,407 to the fund for insurance coverage. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

The insurance pool has no outstanding debt at December 31, 2016.

There is no assurance that the District will not be charged additional fees relating to fund working capital deficiencies in the future, although they are not expected.

The District has entered into a contract with Metro Denver Sewage Disposal District No. 1 (the special connector agreement). The agreement defines the services and charges applied to the District by Metro Denver Sewage Disposal District No. 1 (the special connector agreement). The agreement defines the services and charges applied to the District by Metro Denver Sewage Disposal.

In accordance with the terms of the agreement, each year the District is charged an “estimated annual fee” based upon anticipated flow and treatment levels originating from the District. An annual adjustment of each year’s fee is determined and must be completed by March 31 of the following year.

In this manner, the District may have a contingent liability for additional sewage treatment fees that may be billed to the District as a part of future billings. Annual deficiencies or rebates are billed quarterly to the District as a regular part of the current year billings.

**INDUSTRIAL PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016**

Lease Agreements

The District leases a copier and several vehicles for the benefit of certain personnel of the District. These operating leases are for terms ranging from three to five years. The future minimum lease payments on current lease obligations are as follows:

| | |
|------|----------|
| 2017 | \$ 3,370 |
| 2018 | 3,370 |
| 2019 | 3,370 |
| 2020 | 3,370 |
| 2021 | 1,404 |

D. BUDGETS

As described in Note B, the District prepares annual operating budgets and submits them to the Division of Local Governments in accordance with "Local Government Budget Law." Each operating budget covers the fiscal period beginning January 1st and ending December 31st of each year. Amounts expended in excess of amounts budgets are a possible violation of the local government budget law.

Each budget is open for public debate prior to adoption.

Colorado local government budget law generally requires that the District adopt revised budgets in accordance with accepted procedures, notices, and debate, and submit them to the Division of Local Governments is amounts expense are in excess of amounts budgeted.

During 2016, the District's revenues exceeded budgeted amounts by \$142,868 and operating expenditures were less than budgeted amounts by \$82,605 for a positive operating budget variance of \$225,473.

INDUSTRIAL PARK WATER AND SANITATION DISTRICT
COMPARISON OF REVENUES AND EXPENSES WITH BUDGETARY INFORMATION
For the Year Ended December 31, 2016

| | <u>BUDGET</u> | <u>ACTUAL</u> | <u>(NEG) POS VARIANCE</u> |
|---|---------------|---------------|-------------------------------|
| <u>REVENUE</u> | | | |
| Sewage Connection Revenue | \$ 450,000 | \$ 592,085 | 142,085 |
| Tap Connection Fees | 10,000 | 11,840 | 1,840 |
| Miscellaneous Income | 750 | 391 | (359) |
| Interest Income | 1,000 | 302 | (698) |
| Total Revenues | \$ 461,750 | \$ 604,618 | \$ 142,868 |
| <u>OPERATING EXPENSES</u> | | | |
| Sewage Treatment | \$ 129,354 | \$ 129,354 | \$ - |
| Repairs and Maintenance-Sewer | 102,500 | 22,679 | 79,821 |
| Auditing | 5,000 | 5,000 | - |
| Insurance | 26,000 | 26,407 | (407) |
| Engineering | 6,000 | 6,200 | (200) |
| Legal | 7,500 | 7,240 | 260 |
| Telephone and Utilities | 2,800 | 2,197 | 603 |
| Directors' Fees | 6,000 | 5,200 | 800 |
| Manager Fee | - | 2,500 | (2,500) |
| Office Expense | 1,500 | 1,333 | 167 |
| Miscellaneous Expense | 5,500 | 1,243 | 4,257 |
| Lease Payments | 2,328 | 2,002 | 326 |
| Repairs and Maintenance-General | 10,000 | 3,169 | 6,831 |
| Operation Fee | 12,000 | 12,000 | - |
| Dues and Publications | 35 | 602 | (567) |
| Rent | 14,400 | 14,400 | - |
| Salaries | 62,400 | 65,040 | (2,640) |
| Payroll Tax Expense | 5,000 | 5,324 | (324) |
| Total Operating Expenses | \$ 398,317 | \$ 311,890 | \$ 86,427 |
| <u>OTHER ITEMS</u> | | | |
| Asset Acquisition | 50,500 | 54,322 | (3,822) |
| Total Expenses | \$ 448,817 | \$ 366,212 | \$ 82,605 |
| <u>TOTAL CURRENT YEAR REVENUES IN EXCESS OF EXPENSES</u> | | | |
| | \$ 12,933 | \$ 238,406 | \$ 225,473 |
| Net Change in Cash Balances | 12,933 | 243,017 | 255,950 |
| Cash Balance, Beginning | 208,316 | 361,834 | (153,518) |
| Cash Balance, Ending | \$ 221,249 | \$ 604,851 | \$ 102,432 |

See Accompanying Notes to Financial Statements