TOWN OF PALISADE, COLORADO

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2016

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Chadwick, Steinkirchner, Davis & Co., P.C. Consultants and Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

June 6, 2017

Board of Trustees
Town of Palisade, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Palisade, Colorado, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

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

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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Palisade, 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, budgetary comparison information, and pension information on pages 4-11 and 43-48 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Palisade's basic financial statements. The non-major governmental fund combining statements, the Capital Improvement, Tourism, Conservation Trust, Palisade Rural Fire Protection District, Water and Utility Funds budgetary schedules, and the Local Highway Finance Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Board of Trustees
Town of Palisade, Colorado
June 6, 2017
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The combining statements and budgetary schedules for the aforementioned funds, the Local Highway Finance Report, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2017, on our consideration of the Town's internal control over financial reporting and on our test 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 the Town's internal control over financial reporting and compliance.

Chadwick, Steinkirchner, Davis & Co., P.C.

Management's Discussion and Analysis

As Town of Palisade Management, we offer readers of the Town of Palisade financial statements this narrative overview and analysis of the financial activities of the Town for the year ended December 31, 2016.

Financial Highlights

- The Town of Palisade's assets and deferred outflows of resources of $29.6 million exceeded Town liabilities and deferred inflows of resources of $6.2 million by $23.4 million as of December 31, 2016. Of this amount, $6.2 million is unrestricted, $17.1 million is invested in capital assets such as land and improvements, buildings, vehicles, furniture and equipment and $141,068 is held for emergencies in compliance with Article X of the Colorado State Constitution.

- Total revenue for the Town increased 4.2% in 2016 mainly from a capital grant for the purchase of land. Operating expenses increased by 68.8% mainly from an impairment loss of $3,603,033 (see Note D - Capital Assets) which resulted in a decrease in the Town's net position of $2,372,216.

- During 2016 the Town increased current assets by $134,512 and reduced long term liabilities by $222,793, both of which contributed positively to the Town's net position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Palisade's basic financial statements, which are comprised of government-wide financial statements, governmental funds financial statements, proprietary fund financial statements, fiduciary fund financial statements and notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Palisade finances in a manner similar to a private sector business.

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

The *statement of activities* presents information showing how the Town's net position changed over the past year. All changes in the Town's net position are reported when an "event" causing a change occurs, regardless of when related cash flows actually take place. As a result, some revenues and expenses, reported in this statement, will result in cash flows in future financial periods. Examples include grants, not yet reimbursed or vacation leave earned, but not used.

Both of the government-wide financial statements distinguish activities of the Town of Palisade that are primarily supported by taxes and state or federal monies (intergovernmental activities) from activities that are intended to be funded primarily from user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works and parks, culture and recreation and cemetery. The business-type activities of the Town include water, sewer, and refuse.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been set aside for specific activities or purposes. The Town of Palisade uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Town's funds can be categorized into two fund types: governmental and proprietary.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, governmental fund financial statements focus on near-term flows of spendable resources, as well as on balances of spendable resources available at the end of the year. This information is helpful in evaluating the Town's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements, as readers may better understand the impact of the Town's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison.

The Town of Palisade maintains five governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balance for the *General Fund* and the *Capital Improvement Fund* which are considered to be major funds.

Proprietary Funds. The Town of Palisade maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for water, sewer and refuse activities. The enterprise funds financial statements provide separate information for the water and sewer and refuse funds, which are considered to be major funds of the Town.

Budgetary Comparisons. The Town of Palisade adopts an annual appropriated budget for all of its funds. Budget to actual comparisons for each fund are provided elsewhere in this report.

Notes to the Financial Statements. These notes provide additional information that is necessary in gaining a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL ANALYSIS

Net Position. Net position may serve over time as a useful indicator of a government's financial position. As of December 31, 2016, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $23.4 million. The Town's net position as of December 31, 2015 was $25.7 million.

The following table provides a summary of the Town's governmental and business-type net position as of December 31, 2016 with comparison to December 31, 2015.

	Governmental Activities		Business-Type Activities		Total
	2015	2016	2015	2016	2016
Assets					
Current Assets	$2,623,455	$2,714,677	$3,828,654	$3,871,944	$6,586,621
Capital Assets	11,673,846	9,127,162	13,097,189	13,074,810	22,201,972
Net Pension Asset	635,090	507,433	-	-	507,433
Total Assets	14,932,391	12,349,272	16,925,843	16,946,754	29,296,026
Deferred Outflows of Resources	113,641	297,484	-	-	297,484
Total Assets and Deferred Outflows Of Resources	15,046,032	12,646,756	16,925,843	16,946,754	29,593,510
Liabilities					
Current Liabilities	284,794	363,389	319,445	456,455	819,844
Long-Term Liabilities	21,378	10,500	5,122,696	4,910,781	4,921,281
Total Liabilities	306,172	373,889	5,442,141	5,367,236	5,741,125
Deferred Inflows of Resources	496,912	497,951	-	-	497,951
Total Liabilities and Deferred Inflows of Resources	803,084	871,840	5,442,141	5,367,236	6,239,076
Net Position					
Net Investment in Capital Assets	11,642,160	9,105,784	7,770,532	7,954,576	17,060,360
Restricted for Emergencies	129,069	141,068	-	-	141,068
Unrestricted	2,471,719	2,528,065	3,713,170	3,624,942	6,153,007
Total Net Position	$14,242,948	$11,774,916	$11,483,702	$11,579,518	$23,354,434

The Town of Palisade's assets and deferred outflows of resources were 4.7 times the Town's total liabilities and deferred inflows of resources at December 31, 2016. Total current assets were 8.0 times total current liabilities. The total amount of the long-term liabilities is comprised of two water fund loans from the drinking water revolving fund disadvantaged community loan program with the Colorado Water Resources & Power Development Authority to re-build the water treatment plant. In addition, in 2012 the Town issued $995,000 in water revenue bonds with interest rates ranging from 2.63% and 3.00%. The bonds are special revenue obligations of the Town, payable from the net pledged water revenues derived from the Town's Water Activity Enterprise. These bonds were used to pay off two existing water fund loans with interest rates of 4.00%.

Approximately 73.0% of the Town's net position is invested in capital assets that are being used in the operation of the Town and infrastructure assets that are provided and maintained by the Town. Infrastructure assets completed before January 1, 2004, and still in place, are not included in net position. In prior years capital assets for non-proprietary funds were only shown on the combined balance sheet as the "general fixed assets" account group. These assets were not included with other assets in governmental fund type funds.

Changes in Net Position. Governmental and business-type activities decreased the Town's net position by $2,372,216 in 2016. The following table indicates the changes in net position for governmental and business-type activities for 2015 and 2016.

Changes in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2015	**2016**	**2015**	**2016**	**2015**	**2016**
Revenues						
Program Revenues						
Charges for Services	$882,884	$711,497	$1,693,354	$1,697,207	$2,576,238	$2,408,704
Operating Grants and Contributions	85,584	97,069	17,116	-	102,700	97,069
Capital Grants and Contributions	859,313	1,419,515	208,850	79,105	1,068,163	1,498,620
General Revenues						
Property Taxes	494,827	493,754	-	-	494,827	493,754
Other Taxes	1,977,373	1,974,513	-	-	1,977,373	1,974,513
Other Revenue	2,306	5,902	12,098	18,457	14,404	24,359
Total Revenues	4,302,287	4,702,250	1,931,418	1,794,769	6,233,705	6,497,019
Expenses						
General Government	1,101,564	4,706,983	-	-	1,101,564	4,706,983
Public Safety	1,536,674	1,389,718	-	-	1,536,674	1,389,718
Public Works	478,136	538,983	-	-	478,136	538,983
Culture & Recreation	546,344	493,163	-	-	546,344	493,163
Cemetery	46,284	41,435	-	-	46,284	41,435
Water	-	-	1,025,302	1,040,389	1,025,302	1,040,389
Sewer and Refuse	-	-	518,573	658,564	518,573	658,564
Total Expenses	3,709,002	7,170,282	1,543,875	1,698,953	5,252,877	8,869,235
Change in Net Position	593,285	(2,468,032)	387,543	95,816	980,828	(2,372,216)
Net Position						
Beginning of Year	12,684,253	14,242,948	11,096,159	11,483,702	23,780,412	25,726,650
Change in Accounting Principle	965,410	-	-	-	965,410	-
Beginning-Restated	13,649,663	14,242,948	11,096,159	11,483,702	24,745,822	25,726,650
End of Year	14,242,948	11,774,916	11,483,702	11,579,518	25,726,650	23,354,434

Total revenues for combined governmental and business-type activities increased 4.2% for 2016. Total combined revenues were made up of 61.6% direct program revenues and 38.4% general revenues.

- The major program revenues for governmental activities were as follows:

  - ❖ Charges for services were 31.9% of program revenues. The sources of this revenue were: general government charges for services, fees, fines, etc. $88,840, public safety $158,932, public works and parks $26,224, culture and recreation $382,626 and cemetery $54,875.
  - ❖ Capital contributions and grants were 68.1% of program revenues. These grants were received for general government $100,000; public safety $26,748; public works and parks $41,332; and culture and recreation; $1,348,504.

- The general revenues for governmental activities were 52.6% of total governmental revenues. The major governmental general revenue activities were as follows:

  - ❖ Property taxes were 10.5% of total revenues and, 20.0% of general revenues.
  - ❖ Sales taxes were 28.6% of total revenues and 54.4% of general revenues.
  - ❖ Other taxes were 13.3% of total revenues and 25.4% of general revenues.

- The major program revenues for business-type activities were:

  - ❖ Charges for services were 94.6% of total business-type activities revenues. Each business-type activity charges for the specific products and/or services for which the activity was established. The major revenues for 2016 were water service fees $1,002,779 and sewer and refuse collection fees $694,428.

The total expenses for combined governmental and business-type activities were made up of $7,170,282 of expenses for governmental activities and $1,698,953 of expenses for business-type activities. Of the total expenses, 80.8% were for governmental activities and 19.2% for business-type activities.

- The percentage of Town expenses for each type of governmental activity is:

  - ❖ 65.6% – General Government
  - ❖ 19.4% – Public Safety
  - ❖ 7.5% – Public Works
  - ❖ 6.9% – Culture and Recreation
  - ❖ 0.6% – Cemetery

- The percentage of total Town expenses for each business-type activity is:

  - ❖ 61.2% – Water
  - ❖ 38.8% – Sewer & Refuse Collection

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As mentioned earlier, The Town of Palisade uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of 2016, the combined ending fund balances of the Town of Palisade's governmental funds were $2,066,076. Of this amount 83.4% is unassigned fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. Of the remaining, $64,988 is non-spendable funds, $67,691 is restricted for park improvements, $141,068 is restricted for emergencies and not available for new spending, $13,950 is assigned for marketing and $56,154 is assigned for public safety.

The Town has two major governmental funds: The General Fund and the Capital Improvement Fund.

General Fund

The fund balance of the general fund was $1,928,910 at December 31, 2016. Of this balance, 89.3% is unassigned. Of the remaining, $64,988, is non-spendable funds and $141,068, is restricted for emergencies in compliance with Title-X of the Colorado constitution.

The unassigned fund balance is available for working capital and will be used for subsequent operations. Working capital is also available for immediate cash disbursements in the subsequent period.

Most of the ratios that are used in the financial analysis of business organizations provide only limited information in an analysis of a governmental type fund; however, governmental funds that are in severely bad liquidity condition can often be recognized by such an analysis. Therefore, the following items and relationships are presented for the Town of Palisade's general fund at December 31, 2016:

1. Working Capital (assets minus liabilities and deferred inflows of resources) was $1,928,910. The general fund balance on the fund balance sheet is the fund's "working capital." However, a portion of the fund balance is restricted or non-spendable and may not be available for use as working capital. Therefore, the unassigned fund balance of $1,722,855 is considered "working capital" as a measure of liquidity for the fund.
2. Current Ratio (current assets divided by current liabilities and deferred inflows of resources) 4.85:1
   Modified Current Ratio (current assets less property tax accrual divided by current liabilities): 15.3:1 the current ratio is used, by business organizations, to display the ability to meet currently maturing obligations.

While the analysis provided above must be combined with other information in order to develop a certain conclusion as to the liquidity and the probability of continuation of financial operations by the Town of Palisade general fund, it is also obvious that the Town's general fund level of liquidity is not deficient.

Capital Improvement Fund

This fund was established to account for the receipt of grant funds which were used to purchase land for the future development of a sport shooting complex.

Proprietary Funds. The Town's proprietary fund statement provides the same type of information found in the government-wide financial statements, but in greater detail.

As of the end of 2016, the combined ending net position of the Town of Palisade's enterprise funds was $11,579,518. Of this amount 31.3% is unrestricted net position, which is available as working capital and for current spending.

The Town has two major enterprise funds, *the Water Fund and the Utility Fund.* The Water Fund is used to account for water activities. The Utility Fund is used to account for sewer and solid refuse activities for the Town. At December 31, 2016, the *Water Fund and the Utility Fund* had total assets, which equaled 3.2 times the total liabilities. 68.7% of the funds' net position was invested in capital assets. 31.3% of the funds' net position is unrestricted and available as working capital and to be used for subsequent operations. The Utility Fund and the Water Fund are enterprise funds with a large ratio of capital assets. These funds will often require large amounts of capital outlay. This causes special cash flow needs for these funds.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's budget is prepared and approved according to Colorado statutes.

The Town of Palisade's Trustees budgeted $3,187,698 for 2016 general fund revenues.

The Town's General Fund Budget is shown below:

	Original Budget	Final Budget	Actual
Beginning Balance	$ -	$ 34,405	$1,897,084
Revenues and Other Financing Sources	3,221,342	3,310,098	3,226,646
Expenditures and Other Financing Uses	3,213,113	3,344,503	3,194,820
Ending Balance	$ 8,229	$ -	$1,928,910

CAPITAL ASSET AND DEBT ADMINISTRATION

The Town's capital assets at December 31, 2016 are presented in the following table. Also see Note D in the footnotes for further detail.

Capital Assets, Net of Depreciation
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
Land	$1,998,964	$226,126	$2,225,090
Water Rights	-	162,452	162,452
Construction in Progress	-	25,059	25,059
Swimming Pool/Community Center	159,465	-	159,465
Water/Sewer System	-	12,574,996	12,574,996
Building and Improvements	3,955,826	-	3,955,826
Equipment and Furniture	281,435	86,177	367,612
Infrastructure	2,731,472	-	2,731,472
Total	$9,127,162	$13,074,810	$22,201,972

Government activities include a capital lease for one police vehicle leased in 2015. The present value of the minimum lease payments for this lease at December 31, 2016 is $21,378. See Note F in the footnotes for further detail.

Business-type activities, specifically the Water Fund, currently have two notes payable and one outstanding bond issue as noted above. Debt was incurred for repair and replacement of a water line and reservoir expansion and to rebuild the water treatment plant. The total amount due at December 31, 2016 was $5,120,234, which includes unamortized debt premiums of $29,538. See Note E in the footnotes for further detail.

Items of Interest for 2016

- Reflecting the continued economic pressures on the western slope, sales tax revenues decreased 2.8% in 2016. Sales taxes are the largest single source of continuing governmental revenue for the Town. Property tax revenue for the Town, including the Palisade Rural Fire Protection District, decreased 0.2% due to property market values similar to 2015.

- Capital asset additions during 2016 in governmental activities were $1,547,177 due mainly to land purchased, using grant proceeds, for future development of a sport shooting complex; business-type activities additions were $446,539, including improvements to the water and utility systems and the on-going purchase of water rights. Capital grants and contribution revenue in governmental activities were $1,419,515 and $79,105 in business-type activities for a total of $1,498,620. An impairment loss of $3,603,033 was recorded in governmental activity depreciation expense in 2016 to adjust a building and land held for future development to estimated fair market value.

ECONOMIC FACTORS AND CONDITIONS

As noted above, the Town continues to pursue areas of capital expansion. With the continuation of a challenging economic environment on the western slope, revenue constraints on sales and property taxes and grant funding from State sources declining, the 2016 current operating budget focused on public safety and maintenance. The 2016 capital budget included capital projects for water and sewer system improvements. Our goal of taking care of facilities and systems, infrastructure maintenance, replacing needed equipment and developing programs for new services remains a priority. The Septic elimination capital project in the utility fund was on-going throughout 2016 and will continue into 2017. The Town has had some changes in staff, but the overall number of FTE's remained close to 2015 staff levels.

The Town responded to limited tax revenue increases in 2016 by continuing to monitor expenses and delaying discretionary capital projects.

Board Direction for 2017

The Palisade Board of Trustees continues to support the town mission statement that supports opportunities for agriculture, business, recreation and protecting our diverse community and our citizen's quality of life. We continue to actively seek economic development for the Town and have started to see some improvement in 2017.

The Town will also be studying new options for revenue to do more aggressive street maintenance, reduce our capital improvements plan to a sustainable list during this slower economy and yet continue to seek improvements in our ability to communicate with our citizens.

Conclusion

County sales tax revenues seem to have stabilized and have increased minimally beginning in 2017. Property tax revenues continue to experience pressure but have shown some increase in property values. The 2017 budget has been held close to the same expenditures of 2016 for these reasons. We believe sales tax and property tax revenues will show some growth in 2017 and moving forward.

The economy will be monitored carefully and the Town will stand ready to respond appropriately to deteriorating revenue scenarios or outside funding opportunities.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Town of Palisade's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Town of Palisade Trustees, P.O. Box 128, Palisade, CO 81526.

Basic Financial Statements