PENROSE WATER DISTRICT

Financial Statements
With
Independent Auditors' Report

For the Year Ended
December 31, 2017

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Penrose Water District

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PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

Management's Discussion and Analysis

The Management Discussion and Analysis (MD&A) is designed to provide an easy-to-read discussion of the District's financial condition and operating results and to disclose to the reader important financial activities and issues related to the District's basic operations and mission.

The District has one financial category referred to as a business type activity.

DESCRIPTION OF FINANCIAL STATEMENTS

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements (including the accompanying footnotes)*, and *supplementary information*. The *supplementary information* is not a required part of the financial statements under generally accepted accounting principles.

The basic financial statements consist of the statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. These statements report information about the District as a whole and include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The basic financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

These statements report the District's *Net Position* and changes in it. The District's Net Position is one way to measure the District's financial health, or *financial position*. Over time, increases or decreases in the District's Net Position is one indicator of whether its financial health is improving or deteriorating.

HIGHLIGHTS

- In 2017 total assets were $14,273,765, a decrease of $206,000 from 2016.
- In 2017 total liabilities were $8,182,334, a decrease of $184,200 from 2016.
- Operating income for 2017 was $1,246,600 compared to $1,283,300 in 2016.
- Net nonoperating income (expense) was $186,500 in 2017 compared to $192,200 in 2016. Details of the difference are shown on the statement of revenue, expenses, and changes in net position.

PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

STATEMENTS OF NET POSITION

The perspective of the statement of Net Position is of the District as a whole. Following is a summary of the District's Net Position for 2017 compared to 2016:

	12/31/2017	12/31/2016
ASSETS		
Current and Other Assets	$ 2,911,337	$ 2,458,393
Capital Assets	11,362,427	12,021,173
Total Assets	14,273,764	14,479,566
LIABILITIES		
Current Liabilities	85,636	93,728
Noncurrent Liabilities	8,096,698	8,272,826
Total Liabilities	8,182,334	8,366,554
DEFERRED INFOWS	163,457	157,475
NET POSITION		
Net Investment in Capital Assets	3,291,949	3,339,269
Restricted	593,607	588,335
Unrestricted	2,042,417	2,027,933
Total Net Position	**$ 5,927,973**	**$ 5,955,537**

STATEMENTS OF ACTIVITIES

The following table reflects the change in Net Position for fiscal year 2017 and 2016.

	12/31/2017	12/31/2016
OPERATING REVENUES		
Charges for Services	$ 1,232,631	$ 1,249,589
Tap Fees	14,000	33,671
Total Operating Revenues	1,246,631	1,283,260
OTHER INCOME		
Tax Revenue	165,612	156,852
Interest Income	19,397	31,857
Gain (Loss) on Capital Assets	1,500	3,500
Total Other Income	186,509	192,209
Total Revenues	1,433,140	1,475,469
PROGRAM EXPENSES		
Water Operations	1,259,307	1,185,719
Interest Expense	266,566	272,130
Total Program Expenses	1,525,873	1,457,849
CHANGE IN NET POSITION	(92,733)	17,620
Net Position, Beginning	5,955,537	5,937,917
Prior Period Restatement	65,169	-
Net Position, Beginning (as Restated)	6,020,706	5,937,917
NET POSITION, ENDING	**$ 5,927,973**	**$ 5,955,537**

PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table summarizes the changes in capital assets during the year.

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Water rights	$ 1,690,687	$ -	$ -	$ 1,690,687
Water storage rights	2,549,144	-	-	2,549,144
Land and rights of way	242,794	-	-	242,794
Total capital assets not being depreciatec	4,482,625	-	-	4,482,625
Capital assets being depreciated:				
Buildings and improvements	61,999		-	61,999
Water treatment plants	2,178,576		-	2,178,576
Distribution system	8,792,125	39,832	-	8,831,957
Other equipment	286,266	27,065	(16,064)	297,267
Total capital assets being depreciated	11,318,966	66,897	(16,064)	11,369,799
Less: Accumulated depreciation	(4,216,480)	(289,581)	16,064	(4,489,997)
Net capital assets being depreciated	7,102,486	(222,684)	-	6,879,802
Net capital assets	$ 11,585,111	$(222,684)	$ -	$11,362,427

DEBT OUTSTANDING

The following table summarizes the debt activity of the District during the year.

	Balance 1/1/17	Advances	Repayments	Balance 12/31/17	Current Portion	Interest Expense	Accrued Interest
2016 CWCB Loan	$8,245,841	$ -	$ 175,363	$8,070,478	$181,062	$266,565	$65,573
Compensated Absences	26,985	-	765	26,220	-	-	-
Total Obligations	**$8,272,826**	**$ -**	**$ 176,128**	**$8,096,698**	**$181,062**	**$266,565**	**$65,573**

PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

ECONOMIC AND OTHER FACTORS

Since 1993 the Penrose Water District has declared enterprise status for budget purposes. Notwithstanding that declaration, in 2000, in order to comply with requirements of various State and Federal lenders, the District created the Penrose Water District Water Activity Enterprise, specific for the purpose to receive grants and loans from said agencies. The District budget presents Enterprise activities as a budget separate from the main body of the District's budget.

Since its inception in 1968, the District's raw water supply has depended solely on a lease from a local irrigation company whose supply is from a single source. From 2005 - 2017, the most evident economic factor and budgetary influence has been the District's endeavor to acquire a more secure and diverse raw water supply.

Between 2005 and 2010, the District acquired and changed a water right under the Pleasant Valley Ditch on the Arkansas River from agricultural to municipal uses. The change, completed in 2010, yielded a decree for 330 consumptive acre feet of water. Property associated with the water right was subsequently sold to private parties between 2009 and 2014.

In 2010 the District took out a 30-year, 3.25%, loan for $8,844,570 from CWCB. That loan was issued to finance 90% of the purchase of the water rights, construction of a river diversion and raw water pipeline, and the purchase of storage. The District provided the remaining 10% cost of the Project. Additional funding for the project was by way of a $500,000.00 grant from the Department of Local Affairs awarded in 2007.

In 2011 the District purchased 500 acre feet of firm storage in Brush Hollow Reservoir from Beaver Park Water, Inc. In 2012, the District purchased 100 acres of property from Holcim US, Inc. south of Penrose, along the north side of the Arkansas River, for locating a well field to divert the Pleasant Valley Ditch water rights. In 2013, the District hired an engineering firm to design the Arkansas-Penrose Raw Water Pipeline to convey water to storage at B.H. Reservoir and the water treatment plant. The Project was awarded in 2014 and completed in December of 2015. Final payment for construction and engineering was made in early 2016.

Several budgetary and economic requirements set forth by CWCB in order to secure the loan are worthy of note and as follows:

- As required by CWCB, the District utilized the Enterprise to receive and expend the loan money to build the project. The project was completed and the loan closed in 2015, with first payment made in 2016. The Enterprise pays the annual debt service.
- To generate revenues necessary to meet the anticipated debt service on the CWCB loan, in 2006 the District Board set a 3-year successive rate increase for 2007 - 2009. Each year following the Board has reassessed projected O&M coupled with debt service and made rate adjustments accordingly. That cash flow monitoring has resulted in slight rate increases each year, as needed, to ensure fiscal integrity. The Board did not raise rates for 2018.
- The CWCB loan requires an annual debt payment of approximately $444,000.00/year. The required reserve for the loan is therefore $440,000. The reserve is fully funded.
- The first annual debt payment was made in 2016.

Tap fees are $12,000.00/eru. In 2017 the District did not sell any taps. However, 9 previously purchased taps were installed at the owners' request to accommodate new construction. The District had 1,742 taps on system at December 31, 2017.

The base monthly-minimum, which is charged to all accounts regardless of usage, is set in accordance with the District's debt service and other capital needs and is dedicated to those payments and activities. Water usage rates are primarily set in accordance with operational costs. The Board reviews the revenue-to-cost ratio on an annual basis to ensure rates are structured in such a manner as to maintain a balanced budget. The Board made no rate adjustments for calendar 2018.

In 2017 the District's constituents passed a ballot measure that increased the general operating and capital expenditure mill levy and removed the previously existing special revenue mill that was passed in 1998. The new mill levy is the equivalent of the combination of the two previous mills. The new mill is approved for the length of the CWCB loan.

As previously discussed, the primary source of supply for the Penrose Water District is via leased raw water from Beaver Park Water, Inc., a local irrigation company. Rates for the lease are negotiable every 5 years. In 2014 the parties reached a price agreement for raw water provided under the lease for calendar years 2015-2020. Under that agreement, the cost for water delivered to the District in 2018 is $385.00/Acre Foot and water held, but not delivered is $85.00/Acre Foot.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the general public with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact:

District Manager
PENROSE WATER DISTRICT
340 Grant
Penrose, Colorado 81240-0279
Tel: (719) 372-3289
Fax: (719) 372-9347

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FINANCIAL SECTION

Holscher, Mayberry & Company, LLC
Certified Public Accountants

Member of the American Institute of Certified Public Accountants
Governmental Audit Quality Center
and Private Company Practice Section

Board of Directors
Penrose Water District
Penrose, Colorado

Independent Auditors' Report

Report on the Financial Statements
We have audited the accompanying financial statements of the Penrose Water District, as of and for the year ended December 31, 2017, and the related notes to the financial statements which collectively comprise the basic financial statements of the District, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Penrose Water District, as of December 31, 2017, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Penrose Water District's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 8, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matters

As discussed in Note 11 to the financial statements, the 2016 financial statements have been restated to reflect the changes stated in Note 11. Our opinion Is not modified with respect to this matter.

Other Matters

Required Supplementary Information – Management Discussion and Analysis (Unaudited)

Accounting principles generally accepted in the United States of America require that the management, discussion and analysis on pages M1-M5 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.

Required Supplementary Information – Budgetary Comparison Schedules and Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison schedule on page 18 and listed as other supplementary information is presented for purposes of additional analysis and are not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Holscher, Mayberry & Company, LLC

Englewood, Colorado
May 3, 2018

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Basic Financial Statements

PENROSE WATER DISTRICT

STATEMENT OF NET POSITION
DECEMBER 31, 2017
With Comparative Totals for December 31, 2016

	Total	
	2017	**2016**
ASSETS AND DEFERRED OUTFLOWS		
ASSETS		
Current Assets		
Cash and Investments		
Cash	$ 1,885,582	$ 1,505,094
Restricted Cash and Investments	593,607	588,335
Receivables		
Property Tax Receivable	163,457	157,475
Utility Receivable	144,529	103,207
Cash with Fiscal Agent	1,434	-
Inventory	103,146	104,282
Prepaid Expenses	19,582	-
Total Current Assets	2,911,337	2,458,393
Noncurrent Assets		
Capital Assets not being depreciated	4,482,625	4,482,625
Capital Assets being depreciated	11,369,799	11,318,966
Accumulated Depreciation	(4,489,997)	(4,216,481)
Loans Receivable	-	436,063
Total Noncurrent Assets	11,362,427	12,021,173
TOTAL ASSETS	$ 14,273,764	$ 14,479,566
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 20,063	$ 26,731
Accrued Interest Payable	65,573	66,997
Total Current Liabilities	85,636	93,728
Noncurrent Liabilities		
Due within one year	181,062	175,363
Due in more than one year	7,915,636	8,097,463
Total Noncurrent Liabilities	8,096,698	8,272,826
TOTAL LIABILITIES	8,182,334	8,366,554
DEFERRED INFLOWS OF FINANCIAL RESOURCES		
Deferred Property Taxes	163,457	157,475
NET POSITION		
Net Investment in Capital Assets	3,291,949	3,339,269
Restricted Net Position	593,607	588,335
Unrestricted Net Position	2,042,417	2,027,933
TOTAL NET POSITION	5,927,973	5,955,537
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 14,273,764	$ 14,479,566

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

PENROSE WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Total	
	2017	**2016**
Operating Revenues		
Utility Charges	$ 1,221,855	$ 1,235,909
Other Charges for Services	10,776	13,680
Total Revenues	1,232,631	1,249,589
Operating Expenses		
Personnel Services	428,105	429,608
Commodity Charges	194,532	186,681
Administrative/Office Expenses	36,778	19,236
Insurance	19,212	18,818
Operating Supplies	943	803
Professional Fees	17,016	17,848
Repairs and Maintenance	33,450	46,821
Travel and Training	3,318	2,380
Treatment	86,059	46,256
Telephone and Utilities	33,887	38,878
Other Operating Expenses	13,914	14,828
Depreciation Expense	289,581	294,044
Other Capital Outlay	102,512	69,518
Total Expenditures	1,259,307	1,185,719
Operating Income (Loss)	(26,676)	63,870
Other Income (Expense)		
Tax Revenue	165,612	156,852
Investment Earnings	19,397	31,857
Interest Expense	(266,566)	(272,130)
Gain (Loss) on Sale of Assets	1,500	3,500
Total Other Income (Expense)	(80,057)	(79,921)
Net Income (Loss)	(106,733)	(16,051)
Contributed Capital		
Tap Fees	14,000	33,671
Change in Net Position	(92,733)	17,620
Net Position, Beginning	5,955,537	5,937,917
Prior Period Restatement	65,169	-
Net Position, Beginning (As Restated)	6,020,706	5,937,917
Net Position, Ending	$ 5,927,973	$ 5,955,537

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

PENROSE WATER DISTRICT

STATEMENT OF CASH FLOWS -
FOR THE YEAR ENDED DECEMBER 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	Total 2017	Total 2016
Cash Flows From Operating Activities:		
Cash Received from Customers	$ 1,237,936	$ 1,249,109
Cash Paid to Suppliers	(548,194)	(643,491)
Cash Paid to or on behalf of Employees	(428,870)	(429,747)
Net Cash Provided by Operating Activities	260,872	175,871
Cash Flows From Capital and Related Financing Activities:		
Tap Fees Received	14,000	33,671
Debt Principal Payments	(175,362)	(169,843)
Interest Payments	(267,991)	(273,510)
Proceeds of Capital Asset Sales	(14,564)	(16,122)
Acquisition of Capital Assets	(50,834)	(22,002)
Cash Flows Used by Capital and Related Financing Activities	(494,751)	(447,806)
Cash Flows (Uses) From Noncapital Financing Activities:		
Tax Revenue	164,179	156,852
Cash Flows (Uses) From Investing Activities:		
Principal Received on Loan	436,063	6,015
Interest Received	19,397	31,857
Net Increase (Decrease) in Cash	385,760	(77,211)
Cash - Beginning	2,093,429	2,170,640
Cash - Ending	$ 2,479,189	$ 2,093,429
Cash	$ 1,885,582	$ 1,505,094
Restricted Cash and Investments	593,607	588,335
Total	$ 2,479,189	$ 2,093,429
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:		
Operating Income (Loss)	$ (26,676)	$ 63,870
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation Expense	289,581	294,044
Changes in Assets and Liabilities Related to Operations:		
(Increase) Decrease in:		
Utility Receivable	5,305	(480)
Inventory	1,136	5,842
Prepaid Expenses	(1,041)	-
(Increase) Decrease in:		
Accounts Payable	(6,668)	(187,266)
Accrued Compensated Absences	(765)	(139)
Total Adjustments	287,548	112,001
Net Cash Used for Operating Activities	$ 260,872	$ 175,871

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Penrose Water District operates under the regulations pursuant to the Colorado Revised Statutes that designate a Board of Directors to act as the governing authority. The District provides potable water to the people within the boundaries of the District, which is located in Fremont County near Cañon City, Colorado. Because the District has been established for the sole purpose of providing water service, it has no general fund. For financial reporting purposes, the District shows its basic financial statements as one enterprise fund.

Reporting Entity
The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities and functions that comprise the District. Component units are legally separate entities for which the District is financially accountable.

The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit or burden on the District
- there is fiscal dependency by the organization on the District

Based on the above criteria, the District has no component units.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Enterprise (Proprietary) funds are used to account for operations financed and operated similar to businesses using the accrual basis of accounting. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Budgets

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In September the proposed budget is submitted to the District Board and a "Notice of Budget" is published stating that the proposed budget is on file for inspection.

2. In December the budget is approved and adopted fixing the rate of levy of taxation upon taxable property within the District and levies are certified to the county. A certified copy of the adopted budget is sent to the Division of Local Government within 30 days of adoption.

3. Prior to December 31, the District enacts an appropriation resolution for the ensuing fiscal year.

The District’s adopted annual budget is all prepared on the modified accrual basis of accounting, ie the District budgets for capital outlay and debt principal repayments but does not budget for depreciation. The District may authorize supplemental appropriations during the budget year. All budgetary appropriations lapse at year-end.

Encumbrances

The District does not utilize encumbrance accounting.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The District considers its investment in Colotrust as a cash equivalent.

Investments

Investments are stated at fair value based on quoted market values, with the exception of money market funds and external investment pools. These are stated at cost, which is equal to fair value.

Receivables

Under the accrual basis of accounting, receivables consist of all revenues earned at year-end and not yet received. Because the District has the right to lien property for unpaid water bills, no allowance for doubtful accounts is considered necessary. The District considers accounts receivable outstanding more than 30 days to be past due. At December 31, 2017, the District had $31,509 in past due accounts receivable.

Inventory

Inventories of materials and supplies are recorded on the balance sheet at the lower of cost or market using the first-in, first-out method of accounting.

Capital Assets

Capital assets, which include land, buildings, vehicles and equipment, are reported in the governmental activities column of the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and a useful life of more of at least three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated market value at the date of donation or annexation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on exhaustible assets is recorded as an expense for the Statement of Revenues, Expenses and Changes in Net Position with accumulated depreciation reflected on the Statement of Net Position. Depreciation on the remaining capital assets is provided on the straight-line basis over the following estimated useful lives:

Plant and Water Lines	30 - 40 years
Buildings and Improvements	10 - 30 years
Equipment	5 – 10 years

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accumulated Unpaid Leave (Compensated Absences)

The District permits an employee to carry over unused vacation pay based on anniversary date. Vacation is not carried over beyond the anniversary date. An employee hired prior to March 9, 1998 may receive compensation for unused sick leave up to 440 hours. Employees hired after that date will not receive compensation for unused sick leave. One employee had unused vacation and two employees were eligible to receive sick leave upon termination at year end.

Long-Term Obligations

Long-term debt is reported at face value, including all applicable premiums and discounts and deferred amounts from refunding. Costs related to the issuance of debt are expensed when incurred. Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

In the financial statements, net position is either shown as net investment in capital assets, with these assets essentially being nonexpendable; restricted when constraints placed on the net position are externally imposed; or unrestricted.

Amounts are reported as “restricted” when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The District’s has restricted net position for debt retirement.

Net Position Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted or unrestricted in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider available restricted net position to have been depleted before using unrestricted net position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied for the prior year and are due and payable to the County Treasurer in full by April 30 or in two equal installments due February 28 and June 15 of the ensuing year.

Property taxes to be collected in 2018 are accrued as a receivable and the related deferred inflow of revenue recorded. Property tax revenue is recognized as income as it becomes measurable and available.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, comparative (i.e., presentation of prior year totals by fund type) data has not been presented for all of the statements and footnotes since their inclusion would make the report unduly complex and difficult to read.

NOTE 2: CASH AND INVESTMENTS

The District's cash and investment balances as of the year ended December 31, 2017 are as follows:

Cash and Investments	$ 1,885,582
Restricted Cash and Investments	593,607
Total Cash and Investments	**$ 2,479,189**

This balance is comprised of:

Cash	$ 1,269,684
Investments	1,209,505
Total Cash and Investments	**$ 2,479,189**

NOTE 2: CASH AND INVESTMENTS (Continued)

DEPOSITS

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The District's deposit policy is in accordance with CRS 11-10.5-101, The Colorado Public Deposit Protection Act (PDPA), which governs the investment of public funds. PDPA requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels ($250,000) must be collateralized by eligible collateral as determined by the PDPA. The financial institution is allowed to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The institution's internal records identify collateral by depositor and as such, these deposits are considered uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and December 31, 2017, all of the District's deposits as shown below were either insured by federal depository insurance or collateralized under PDPA and are therefore not deemed to be exposed to custodial credit risk.

At December 31, 2017 the District's deposits are categorized as follows:

	Bank Balance	Book Balance
FDIC Insured	$ 298,008	$ 298,008
PDPA Secured (Not in Entity's Name)	982,334	971,550
Petty Cash	-	127
Total Cash	**$ 1,280,342**	**$ 1,269,684**

NOTE 2: CASH AND INVESTMENTS (Continued)

INVESTMENTS

The following is a summary of District policies related to investments.

Credit Risk
Colorado statutes specify which instruments units of local government 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 the U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The District's investment policy limits its investments to those allowed by Colorado Revised Statute 24-75-601.1 as described above.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk

Colorado Statutes require that no investment may have a maturity in excess of five years from the date of purchase unless authorized by the local board. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, other than those contained in state statutes.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2017, the District did not have any investments requiring safekeeping.

NOTE 2: CASH AND INVESTMENTS (Continued)

INVESTMENTS (Continued)

Investments Held

During the year ended December 31, 2017, the District invested funds in the Colotrust. As an investment pool, it operates under the Colorado Revised Statutes (24-75-701) and is overseen by the Colorado Securities Commissioner. It invests in securities that are specified by Colorado Revised Statutes (24-75-601). Authorized securities include U.S. Treasuries, U.S. Agencies, commercial paper (rated A1 or better) and bank deposits (collateralized through PDPA). The pool operates similar to a 2a-7-like money market fund with a share value equal to $1.00 and a maximum weighted average maturity of 60 days. This fund is rated AAAm by the Standard and Poor's Corporation.

The District's investments consist of the following:

	Fair Value	Weighted Maturity	Rating
Local Government Pool	$ 1,209,505	-	AAAm

RESTRICTED CASH AND INVESTMENTS

The District has restricted cash and investments for the following:

Future Capital Improvement Projects	$ 48,008
Colo Water Cons Board Debt Svc Res	446,081
Dedicated Revenues for Debt Service	99,518
Total Restricted Cash and Investments	**$ 593,607**

PENROSE WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3: CAPITAL ASSETS

Changes in capital assets for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Water rights	$ 1,690,687	$ -	$ -	$ 1,690,687
Water storage rights	2,549,144	-	-	2,549,144
Land and rights of way	242,794	-	-	242,794
Total capital assets not being depreciate	4,482,625	-	-	4,482,625
Capital assets being depreciated:				
Buildings and improvements	61,999		-	61,999
Water treatment plants	2,178,576		-	2,178,576
Distribution system	8,792,125	39,832	-	8,831,957
Other equipment	286,266	27,065	(16,064)	297,267
Total capital assets being depreciated	11,318,966	66,897	(16,064)	11,369,799
Less: Accumulated depreciation	(4,216,480)	(289,581)	16,064	(4,489,997)
Net capital assets being depreciated	7,102,486	(222,684)	-	6,879,802
Net capital assets	$ 11,585,111	$(222,684)	$ -	$11,362,427

NOTE 4: NOTES RECEIVABLE

The District has a note receivable in the amount of 436,063 to finance the sale of a portion of the District's land. The note has an interest rate of 6% and is due December 1, 2017. Beginning December 1, 2014 principal and interest payments of $2,698 are due monthly until the due date of the loan at which time all remaining principal and unpaid interest is due. This loan was repaid during the fiscal year.

NOTE 5: DEFINED CONTRIBUTION PENSION PLAN

The Penrose Water District has adopted a 401(k) pension plan known as the Penrose Water District Profit Sharing Plan administered by Mutual of Omaha for all full-time employees who, after one year of service, are eligible to participate. The District matches employee contributions up to 4% of employee compensation. The District has no liability for further pension benefits. Four full-time employees are all participating in the plan. Employee and employer contributions for each of the last 3 years were as follows:

Year	Total Payroll	Employee Contribution	Employer Contribution
2017	$ 299,651	$ 17,668	$ 9,885
2016	290,564	17,282	10,172
2015	281,155	14,683	10,188

NOTE 6: LONG-TERM OBLIGATIONS

The following is a schedule of changes in long-term obligations for the year ended December 31, 2017:

	Balance 1/1/17	Advances	Repayments	Balance 12/31/17	Current Portion	Interest Expense	Accrued Interest
2016 CWCB Loan	$8,245,841	$ -	$ 175,363	$8,070,478	$181,062	$266,565	$65,573
Compensated Absences	26,985	-	765	26,220	-	-	-
Total Obligations	**$8,272,826**	**$ -**	**$ 176,128**	**$8,096,698**	**$181,062**	**$266,565**	**$65,573**

Note Payable

On December 13, 2010, the District has entered in a promissory note agreement with the Colorado Water Conservation Board in the principal amount of $8,844,570, subsequently amended to a maximum loan of $9,763,670, with a final draw amount of $8,415,684, to pay for water rights, construction of a raw water pipeline and to enlarge Brush Hollow Reservoir. The net effective annual interest rate of this issue of bonds is 3.25%. Principal and interest of $443,353 are due annually commencing October 1, 2016 for a period of thirty years. This loan is secured by “base water use revenues” and a 3.00 mill special mill levy. The balance of this note at December 31, 2017 is $8,070,478.

Debt payments to maturity on this note is as follows:

Year	Principal	Interest	Total
2018	$ 181,062	$ 262,291	$ 443,353
2019	186,947	256,406	443,353
2020	193,022	250,330	443,352
2021	199,296	244,057	443,353
2022	205,773	237,580	443,353
2023-2027	1,133,632	363,528	1,497,160
2028-2032	1,330,217	886,546	2,216,763
2033-2037	1,560,892	655,872	2,216,764
2038-2042	1,831,568	385,195	2,216,763
2043-2045	1,248,069	81,989	1,330,058
Total	**$8,070,478**	**$3,623,794**	**$11,694,272**

NOTE 7: FUND BALANCE RESERVATIONS/APPROPRIATIONS

Emergency Reserve

On November 3, 1992, the voters of Colorado approved Amendment 1, commonly known as the TABOR Amendment, which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations, which apply to the State of Colorado, all local governments, and special districts.

The District's financial activity for the year ended December 31, 2017 will provide the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth. Subsequent to December 31, 2017, revenue in excess of the District's "spending limit" must be refunded unless voters approve the retention of such excess revenue. TABOR generally requires voter approval for any new tax, tax increases, and new debt.

TABOR is extremely complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

The District believes it is in compliance with the provisions of the TABOR Amendment.

NOTE 9: RISK MANAGEMENT

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 firemen; and natural disasters. The District purchases commercial insurance for all risks of loss. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Source of Supply

One of the District’s sources of water supply is provided by use of water from Beaver Park Water, Inc. (Beaver Park), a Colorado non-profit mutual ditch and reservoir company, under a water agreement dated March 6, 1990 and amended in 1997. The agreement runs to December 31, 2020 and provides for review and negotiations between the parties concerning the rates charged by Beaver Park every 5 years. Delivery is realized via the Brush Hollow Reservoir supply canal that is owned by Beaver Park. The reservoir, also owned by Beaver Park, has a dual purpose: Primarily to supply irrigation water for local area agriculture, and secondarily to serve as an alternate raw water supply for the District. The District gets most of its raw water from stream flow. The District owns 500 acre feet of storage space in the reservoir.

NOTE 10: COMMITMENTS AND CONTINGENCIES (Continued)

Related Party Transactions

Many of the residents of the District are also shareholders in Beaver Park. From time to time members of the Board of Directors of the District or their relatives may own shares in Beaver Park and may serve as officers or directors of Beaver Park. The District does not have a policy forbidding board members of the District from serving as board members of Beaver Park. Management of the District believes that the shares owned by members of its Board of Directors are an insignificant number of the total shares outstanding of Beaver Park. As of December 31, 2017 two directors of the District had close relatives serving on the 5 member board of Beaver Park. During 2017 and 2016 the District paid approximately $190,333 and $182,953 respectively to Beaver Park.

NOTE 11: PRIOR PERIOD RESTATEMENT

As part of the December 31, 2017 fiscal year audit, it was determined that certain prior year balances required restatement. These adjustments consisted of unbilled utility receivables related to utility revenue not billed but earned by the District in December, and prepaid expenses for 2017 that were not recorded in the 2016 fiscal year.

These restatements are as follows:

	Water
Beginning Equity	$ 5,955,537
Utility Unbilled Receivable	46,628
Prepaid Expenses	18,541
Net Restatements	65,169
Beginning Equity (As Restated)	$ 6,020,706

Other Supplementary Information

PENROSE WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
Water Fund
FOR THE YEAR ENDED DECEMBER 31, 2017
With Comparative Totals for the Year Ended December 31, 2016

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
Operating Revenues				
Utility Charges	$ 1,256,426	$ 1,221,855	$ (34,571)	$ 1,235,909
Other Charges for Services	16,000	10,776	(5,224)	13,680
Total Revenues	1,272,426	1,232,631	(39,795)	1,249,589
Operating Expenses				
Personnel Services	455,269	428,105	27,164	429,608
Commodity Charges	245,899	194,532	51,367	186,681
Administrative/Office Expenses	18,548	36,778	(18,230)	19,236
Insurance	19,500	19,212	288	18,818
Operating Supplies	2,500	943	1,557	803
Professional Fees	27,740	17,016	10,724	17,848
Repairs and Maintenance	42,000	33,450	8,550	46,821
Travel and Training	2,600	3,318	(718)	2,380
Treatment	75,879	86,059	(10,180)	46,256
Telephone and Utilities	39,869	33,887	5,982	38,878
Other Operating Expenses	15,219	13,914	1,305	14,828
Other Capital Outlay	153,647	169,410	(15,763)	111,142
Total Expenditures	1,098,670	1,036,624	62,046	933,299
Operating Income (Loss)	173,756	196,007	22,251	316,290
Other Income (Expense)				
Tax Revenue	163,246	165,612	2,366	156,852
Investment Earnings	26,400	19,397	(7,003)	31,857
Debt Service	(443,360)	(441,929)	1,431	(441,973)
Gain (Loss) on Sale of Assets	2,000	1,500	(500)	3,500
Total Other Income (Expense)	(251,714)	(255,420)	(3,706)	(249,764)
Net Income (Loss) before Transfers	(77,958)	(59,413)	18,545	66,526
Contributed Capital				
Tap Fees	37,800	14,000	(23,800)	33,671
Change in Net Position (Budget Basis)	$ (40,158)	(45,413)	$ (5,255)	100,197
Budget to GAAP Reconciliation				
Principal Paid		175,363		169,843
Depreciation Expense		(289,581)		(294,044)
Capital Outlay		66,898		41,624
Change in Net Position - GAAP Basis		(92,733)		17,620
Net Position, Beginning		5,955,537		5,937,917
Prior Period Restatement		65,169		-
Net Position, Beginning (As Restated)		6,020,706		5,937,917
Net Position, Ending		$ 5,927,973		$ 5,955,537

See accompanying Independent Auditors' Report.