PENROSE WATER DISTRICT
BASIC FINANCIAL STATEMENTS

December 31, 2020

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JOHN CUTLER & ASSOCIATES

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 business activities and each major fund of the Penrose Water District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business activities and each major fund of the Penrose Water District as of and for the year ended, as of December 31, 2020, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 Penrose Water District' basic financial statements. The individual fund financial statements listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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. The 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 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 individual fund financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

John Cutler & Associates, LLC

July 21, 2021

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 reports all activity 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 2020 total assets were $13,782,582, an increase of $24,122 from 2019.
- In 2020 total liabilities were $7,689,675, a decrease of $96,519 from 2019.
- Operating revenues for 2020 was $1,571,164 compared to $1,295,622 in 2019.
- Net nonoperating income (loss) was $15,637 in 2020 compared to ($95,279) in 2019. 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

STATEMENT 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 2020 compared to 2019:

CONDENSED STATEMENT OF NET POSITION

	Business-Type Activity	Business-Type Activity	2020 – 2019 Change	
	12/31/2020	12/31/2019	$ change	% change
ASSETS				
Current and Other Assets	$ 2,177,508	$ 2,072,081	$ 105,427	5.09%
Capital Assets	11,605,074	11,686,379	(81,305)	-0.70%
Total Assets	13,782,582	13,758,460	24,122	0.18%
LIABILITIES				
Current Liabilities	136,188	73,078	63,110	86.36%
Noncurrent Liabilities	7,553,487	7,713,116	(159,629)	-2.07%
Total Liabilities	7,689,675	7,786,194	(96,519)	-1.24%
DEFERRED INFLOWS	186,015	173,251	12,764	7.37%
NET POSITION				
Net Investment in Capital Assets	4,033,044	3,983,910	49,134	1.23%
Restricted	614,151	580,176	33,975	5.86%
Unrestricted	1,259,697	1,234,929	24,768	2.01%
Total Net Position	**$ 5,906,892**	**$ 5,799,015**	**$ 107,877**	**1.86%**

PENROSE WATER DISTRICT

340 Grant Street Penrose, CO 81240

STATEMENT OF ACTIVITIES

The following table reflects the change in Net Position for fiscal year 2020 and 2019.

CONDENSED STATEMENT OF ACTIVITIES

	Business-Type Activity	Business-Type Activity	2020 – 2019 Change	
	12/31/2020	12/31/2019	$ change	% change
OPERATING REVENUES				
Charges for Services	$ 1,409,895	$ 1,291,722	$ 118,173	9.15%
Tap Fees	161,269	3,900	157,369	4035.10%
Total Operating Revenues	1,571,164	1,295,622	275,542	21.27%
OTHER INCOME				
Tax Revenue	173,119	172,389	730	0.42%
Specific Ownership Taxes	26,856	29,275	(2,419)	-8.26%
Interest Income	11,981	39,731	(27,750)	-39.84%
Miscellaneous	1,503	5,700	(4,197)	-73.63%
Total Other Income	213,459	247,095	(33,636)	-13.61%
Total Revenues	1,784,623	1,542,717	241,906	5.68%
PROGRAM EXPENSES				
General and Administrative	644,465	721,919	(77,454)	-10.73%
Water Operations	749,793	665,082	84,711	12.74%
Interest Expense	250,330	257,887	(7,557)	-2.93%
Total Program Expenses	1,644,588	1,644,888	(300)	-0.02%
CHANGE IN NET POSITION	140,035	(102,171)	242,206	-237.06%
Net Position, Beginning	5,799,015	5,901,186	(102,171)	-1.73%
Prior Period Restatement	(32,158)	-	(32,158)	100.00%
Net Position, Beginning (as Restated)	5,766,857	5,901,186	(134,329)	-2.28%
NET POSITION, ENDING	**$ 5,906,892**	**$ 5,799,015**	**$ 107,877**	**1.86%**

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
Land and rights of way	12,953	60,915	12,953	60,915
Total capital assets not being depreciated	4,495,578	60,915	12,953	4,543,540
Capital assets being depreciated:				
Buildings and improvements	412,619	177,226	-	589,845
Water treatment plants	2,178,576	16,283	1,142	2,193,717
Distribution system	9,341,196	5,692	-	9,346,888
Other equipment	314,303	-	-	314,303
Total capital assets being depreciated	12,246,694	199,201	1,142	12,444,753
Less: Accumulated depreciation	(5,055,893)	(328,468)	(1,142)	(5,383,219)
Net capital assets being depreciated	7,190,801	(129,267)	-	7,061,534
Net capital assets	$ 11,686,379	$ (68,352)	$ 12,953	$ 11,605,074

DEBT OUTSTANDING

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

	Restated Balance 12/31/2020	Advances	Repayments	Balance 12/31/2020	Current Portion
Business-type Activities:					
Compensated Absences	$ 40,461	$ 3,579	$ -	$ 44,040	$ -
2016 CWCB Loan	7,702,469	-	193,022	7,509,447	199,296
Total Obligations	**$ 7,742,930**	**$ 3,579**	**$ 193,022**	**$ 7,553,487**	**$ 199,296**

ECONOMIC AND OTHER FACTORS

At its inception in 1968, and until 2015, the District's source of raw-water supply was solely dependent on a raw water lease from a local irrigation company whose supply is from a single source. From 2005 to present, the most evident economic factor and budgetary influence has been the District’s endeavor to acquire a more secure and diverse raw water supply. Projects included the acquisition of a water right on the Arkansas River, changing the right to needed uses, and the construction and operation of a pumping and piping system to convey the water in a manner for needed use. Those projects were completed in 2015, providing the District with an additional annual average 300 acre feet of water.

In 2010 the District took a 30-year, 3.25%, loan for $8,844,570 from the Colorado Water Conservation Board (CWCB) to pay for the projects. An additional $500,000.00 was provided through a grant from the Department of Local Affairs. Debt service for the loan is $444,000.00/year, a significant expenditure for the District. To generate revenues necessary to meet debt service and costs associated with operating and maintaining (O&M) the system, the Board projects O&M and debt service and makes rate adjustments accordingly.

Tap fees are $12,000.00/eru. Contracts to provide water for individual lots within a new subdivision are $2,400.00. In 2020 the District sold 32 taps and contracts. 14 taps were installed for new construction. The District had 1,749 taps on system at December 31, 2020.

The base monthly minimum fee, 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 use 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 did not increase the base to $39.50/month and use charges of $5.20/thousand gallons for calendar year 2021.

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. In 2019 the parties reached an agreement to extend the raw water through December 31, 2090.

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
210 Broadway
Penrose, Colorado 81240-0279
Tel: (719) 372-3289
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BASIC FINANCIAL STATEMENTS

PENROSE WATER DISTRICT

STATEMENT OF NET POSITION
WATER PROPRIETARY FUND
December 31, 2020

ASSETS	
Current Assets	
Cash and Investments	$ 1,137,166
Restricted Cash and Investments	607,651
Accounts Receivable	139,706
Property Taxes Receivable	188,495
Inventory	104,490
Total Current Assets	2,177,508
Noncurrent Assets	
Capital Assets, Not Depreciated	4,543,540
Capital Assets, Depreciated, Net of Accumulated Depreciation	7,061,534
Total Noncurrent Assets	11,605,074
TOTAL ASSETS	$ 13,782,582
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	
Current Liabilities	
Accounts Payable	$ 73,605
Accrued Interest Payable	62,583
Total Current Liabilities	136,188
Noncurrent Liabilities	
Due Within One Year	199,296
Due In More Than One Year	7,310,151
Accrued Compensated Absences	44,040
Total Noncurrent Liabilities	7,553,487
TOTAL LIABILITIES	7,689,675
DEFERRED INFLOWS OF RESOURCES	
Deferred Property Tax Revenue	186,015
NET POSITION	
Net Investment in Capital Assets	4,033,044
Restricted for Emergencies	6,500
Restricted	607,651
Unrestricted	1,259,697
TOTAL NET POSITION	5,906,892
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$ 13,782,582

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

PENROSE WATER DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
WATER PROPRIETARY FUND
Year Ended December 31, 2020

OPERATING REVENUE	
Utility Charges	$ 1,399,545
Other Charges for Services	10,350
TOTAL OPERATING REVENUE	1,409,895
OPERATING EXPENSES	
General and Administrative	644,465
Operating	421,325
Depreciation	328,468
TOTAL OPERATING EXPENSES	1,394,258
OPERATING INCOME	15,637
NON-OPERATING REVENUES (EXPENSES)	
Property Taxes	173,119
Specific Ownership Taxes	26,856
Interest Income	11,981
Miscellaneous	1,503
Interest Expense	(250,330)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(36,871)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(21,234)
CAPITAL CONTRIBUTIONS	
Tap Fees	161,269
CHANGE IN NET POSITION	140,035
NET POSITION, Beginning, as Previously Reported	5,809,662
Prior Period Adjustment	(42,805)
NET POSITION, Beginning	5,766,857
NET POSITION, Ending	$ 5,906,892

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

PENROSE WATER DISTRICT

STATEMENT OF CASH FLOWS
WATER PROPRIETARY FUND
Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	$ 1,419,033
Cash Paid for Goods and Services	(430,283)
Cash Paid to Employees	(563,163)
Net Cash Used by Operating Activities	425,587
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property Taxes	172,921
Specific Ownership Taxes	26,856
Other Revenue Received	1,503
Net Cash Provided by Noncapital Financing Activities	201,280
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(260,116)
Capital Contributions	161,269
Debt Principal Payments	(193,022)
Interest Payments	(250,330)
Net Cash Provided (Used) by Noncapital Financing Activities	(542,199)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	11,981
Net Cash Provided (Used) by Investing Activities	11,981
Net Increase (Decrease) in Cash and Cash Equivalents	96,649
CASH AND CASH EQUIVALENTS, Beginning	1,648,168
CASH AND CASH EQUIVALENTS, Ending	$ 1,744,817
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	$ 15,637
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	328,468
Loss on Disposal of Capital Assets	12,953
Changes in Assets and Liabilities	
Accounts Receivable	9,138
Inventory	(4,954)
Accounts Payable	63,110
Accrued Compensated Absences	1,235
Total Adjustments	409,950
Net Cash Provided by Operating Activities	$ 425,587

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

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The Penrose Water District (The "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.

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 Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following summary of significant accounting policies is presented to assist the reader in evaluating the District's financial statements.

Reporting Entity

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its basic financial statements.

The definition of the reporting entity is based primarily on financial accountability. The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the District.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District's fund is classified as an enterprise fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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 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 funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The District reports all activity in one major proprietary fund:

Water Fund - This fund accounts for the financial activities associated with the provision of water services.

Assets, Liabilities and Fund Balance/Net Position

Cash and Cash Equivalents – Cash and cash equivalents include amounts in deposit accounts and short-term investments with an original maturity of three months or less.

Receivables – Receivables consist of amounts owed to the District by its utility customers. It is the District's policy to file liens on any past due user fees; therefore, amounts are considered to be collectible and no allowance for bad debt has been recorded.

Prepaid Expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the statement of net position.

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.

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Capital Assets – Capital assets, which include property and equipment, are reported in the applicable business-type activities columns in the statement of net position. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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.

Property and equipment of the District is depreciated using the straight - line method over the following estimated useful lives:

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

Accrued Compensated Absences – Vacation time accumulates from the date of hire and is available to the employee after the annual anniversary of the date of hire. Vacation is not carried over from year to year, however an employee is offered compensation for up to 40 hours of unused vacation hours at year end. The District Manager is allowed to carry unused vacation at year end up to a maximum of 320 hours. Sick leave accumulates at the rate of eight hours per month. Upon termination, unused accumulated sick leave will be compensated at a rate of 0 – 50 percent based on the employee's years of service.

These compensated absences are recognized as current salary costs when earned in the proprietary fund type. A liability has been recorded for the business-type activities in the government-wide financial statements for the accrued compensated absences.

Long-Term Obligations - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the business-type activities or proprietary fund type statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Net Position – The business-type fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position are liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third-party limitations on their use.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property Taxes – Property taxes are levied in the current year and collected in the subsequent year have been accrued as a receivable at year-end and deferred until collected. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15.

The County in which the District is located collects taxes for the district and remits them by the 10th every month following the month of collection.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance for these risks of loss. Settled claims have not exceeded insurance coverage in the last three years.

NOTE 2: ***STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY***

Budgetary Information

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

- In September, the District staff submits to the District Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

- Public hearings are conducted to obtain taxpayer comments.

- Prior to December 31, the budget is legally enacted through passage of a resolution.

- Any revisions that alter the total expenditures of any fund must be approved by the District Board of Directors.

- Budgets are legally adopted for the enterprise fund of the District. The Budgetary comparison presented for the District is presented on a non-GAAP budgetary basis. Capital outlay and debt payments are budgeted as expenditures. Depreciation expense is not budgeted.

- Budgeted amounts in the financial statements are as originally adopted or as amended by the District Board of Directors. All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

Internally, the District monitors its operations via two main budget categories, the operating and administrative activities, and the "Enterprise" generally representing water capital outlay and debt service. While these categories are sufficient for internal monitoring, these divisions are not compatible with fund level budget and actual statements Accordingly, the external budget and actual presentations included represent a generally accepted accounting principle fund level presentation on the budget basis rather than one based on the internal monitoring mechanism.

The District has reported a budget to actual comparison for each of these budget categories, the "District Activity" and the "Enterprise Activity". The combined budget to actual statement reports the combined budget to actual as one fund.

State Compliance

At December 31, 2020 actual expenditures in the Water Fund exceeded budgeted amounts by $25,227. This may be a violation of State statute.

NOTE 3: ***DEPOSITS AND INVESTMENTS***

A summary of deposits and investments as of December 31, 2020 follows:

Petty Cash	$ 971
Cash Deposits	215,675
Investments	1,528,171
Total	**$ 1,744,817**

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2020, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution 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 District has no policy regarding custodial credit risk for deposits.

At December 31, 2020, the District had deposits with financial institutions with a carrying amount of $215,675. The bank balances with the financial institutions were $214,918 all of which were covered by federal depository insurance.

Investments

Interest Rate Risk

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. The District does follow the policies required by the State of Colorado regarding types of investments and maturity dates.

NOTE 3: ***DEPOSITS AND INVESTMENTS*** (Continued)

Investments (Continued)

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

- Obligations of the United States and certain U.S. Government Agency securities
- General obligation and revenue bonds of U.S. local government entities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

Local Government Investment Pools

The District had invested $1,528,171 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAm by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to $1.00.

Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables.

NOTE 3: ***DEPOSITS AND INVESTMENTS*** (Continued)

Investments (Continued)

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

Restricted Cash and Investments

Cash and Investments are restricted for the following purposes:

Future Capital Improvement Projects	$ 50,897
CWCB Debt Reserve	443,604
CWCB Debt Service Payments	113,150
Total Restricted Cash and Investments	$ 607,651

NOTE 4: ***CAPITAL ASSETS***

Capital Assets activity for the year ended December 31, 2020, is summarized below.

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
Business-Type Activities				
Capital Assets, not depreciated				
Land	$ 242,794	$ -	$ -	$ 242,794
Water Rights	1,690,687	-	-	1,690,687
Water Storage Rights	2,549,144	-	-	2,549,144
Construction in Progress	12,953	60,915	12,953	60,915
Total Capital Assets, not depreciated	4,495,578	60,915	12,953	4,543,540
Capital Assets, depreciated				
Building and Improvements	412,619	177,226	-	589,845
Water Treatment Plants	2,178,576	16,283	1,142	2,193,717
Distribution System	9,341,196	5,692	-	9,346,888
Machinery and Equipment	314,303	-	-	314,303
Total Capital Assets, depreciated	12,246,694	199,201	1,142	12,444,753

NOTE 4: ***CAPITAL ASSETS*** (Continued)

	Balance 12/31/2019	Additions	Deletions	Balance 12/31/2020
Business-Type Activities				
Less: Accumulated Depreciation				
Building and Improvements	62,958	13,648	-	76,606
Water Treatment Plants	2,031,747	54,357	1,142	2,084,962
Distribution System	2,712,392	235,466	-	2,947,858
Machinery and Equipment	248,796	24,997	-	273,793
Total Accumulated Depreciation	5,055,893	328,468	1,142	5,383,219
Total Capital Assets, depreciated, Net	7,190,801	(129,267)	-	7,061,534
Business-Type Activities, Capital Assets, Net	**$ 11,686,379**	**$ (68,352)**	**$ 12,953**	**$ 11,605,074**

NOTE 5: ***LONG-TERM DEBT***

Business-Type Activities

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2020.

	Balance (as Restated) 12/31/2019	Additions	Payments	Balance 12/31/2020	Due In One Year
Direct Borrowings:					
CWCB Loan	$ 7,702,469	$ -	$ 193,022	$ 7,509,447	$ 199,296
Other General Obligations:					
Compensated Absences	40,461	3,579	-	44,040	-
Total	**$ 7,742,930**	**$ 3,579**	**$ 193,022**	**$ 7,553,487**	**$ 199,296**

Debt from Direct Borrowings

CWCB Loan

On December 13, 2010, the District entered in a promissory note agreement with the Colorado Water Conservation Board (the "CWCB") in the principal amount of $8,844,570, subsequently amended to a maximum loan of $9,763,670, with a final loan amount of $8,415,684. Proceeds of the loan were used 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%.

NOTE 5: ***LONG-TERM DEBT*** (Continued)

CWCB Loan (Continued)

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 5.792 mill special mill levy.

The note may be prepaid in whole or in part at any time without premium or penalty. Any partial payments will not postpone the due date of any subsequent payments. In the event of default under the loan agreement, the CWCB may declare the entire outstanding principal balance of the note, all accrued interest, and any outstanding late charges immediately due and payable and any outstanding indebtedness shall bear interest at the rate of interest of 7% per annum from the date of default.

Annual debt service requirements for the direct borrowings and direct placements at December 31, 2020 are as follows:

Year Ended December 31,	Principal	Interest	Total
2021	$ 199,296	$ 244,057	$ 443,353
2022	205,773	237,580	443,353
2023	212,460	230,893	443,353
2024	219,365	223,987	443,353
2025	226,495	216,858	443,353
2026-2030	1,247,793	968,970	2,216,763
2031-2035	1,464,174	752,589	2,216,763
2036-2040	1,718,078	498,685	2,216,763
2041-2045	2,016,013	200,750	2,216,763
Total Debt Service Requirements	**$ 7,509,447**	**$ 3,574,369**	**$11,083,816**

Other Obligations

Compensated Absences

The beginning balance reported for accrued compensated absences has been restated to reflect the actual beginning liability for unpaid leave based on the vacation and sick leave policy in effect for the District as of December 31, 2020.

Compensated Absences are being paid from resources generated by the Enterprise Fund.

NOTE 6: ***BENEFITS 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. Seven full-time employees are all participating in the plan. The District contributed $13,802, 12,780 and $11,653 to the plan for the years ended December 31, 2018, 2019 and 2020, respectively, equal to the required contribution.

NOTE 7: ***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, amended in 1997 and renewed in 2019. The agreement runs through December 31, 2025 and provides for review and negotiations between the parties concerning the rates charged by Beaver Park every 5 years until 2090. 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.

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, 2020 two directors of the District had close relatives serving on the 5-member board of Beaver Park. During 2020 and 2019 the District paid approximately $158,133 and $165,009 respectively to Beaver Park.

NOTE 7: *COMMITMENTS AND CONTINGENCIES* (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. On November 5, 2002, voters approved a ballot referendum to exempt the District from limitations imposed by TABOR.

The District has established an emergency reserve, representing 3% of qualifying expenditures, as required by the Amendment. As of December 31, 2020, an emergency reserve of $6,500 was recorded in the Water Fund.

NOTE 8: *SUBSEQUENT EVENT*

Potential subsequent events were considered through July 21, 2021. It was determined that the following event is required to be disclosed through this date.

In October 2020, the District was approved for a direct loan through the Colorado Water Resources and Power Development Authority (the "CWRPDA") in the amount of $239,800, for 30 years at an interest rate of 0.5%. Proceeds will be used for improvements to the water treatment and storage facilities and are available to the District once project costs have been incurred and upon receipt of a request for reimbursement by the District. The project is expected to be completed during the year ended December 31, 2021, at which time proceeds will be reimbursed to the District.

NOTE 9: *PRIOR PERIOD ADJUSTMENT*

The beginning fund equity of the Water Fund was decreased by $42,805 to restate the beginning balances for accrued compensated absences based on the leave policy in effect as of December 31, 2019, and to restate funds previously reported in governmental activities government-wide statements.

INDIVIDUAL FUND FINANCIAL STATEMENTS

PENROSE WATER DISTRICT

WATER PROPRIETARY FUND
COMBINED BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2020

	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Utility Charges	$ 1,395,088	$ 1,399,545	$ 4,457
Other Charges for Services	10,153	10,350	197
Tap Fees	158,869	161,269	2,400
Property Taxes	173,251	173,119	(132)
Specific Ownership Taxes	24,545	26,856	2,311
Interest Income	12,318	11,981	(337)
Miscellaneous	174,220	1,503	(172,717)
Transfers In	52,020	52,020	-
TOTAL REVENUES	2,000,464	1,836,643	(163,821)
EXPENDITURES			
Personnel Services	558,119	563,163	(5,044)
Office Operating	50,248	42,456	7,792
Water Treatment and Plant Operations	172,186	146,902	25,284
Distribution System	32,471	14,858	17,613
General Operating Expenses	224,730	219,174	5,556
Storage and Treatment	23,160	23,160	-
Water Legal and Consulting	10,355	10,392	(37)
Water Engineering	6,435	6,839	(404)
Debt Service			
Principal	193,022	193,022	-
Interest and Fiscal Charges	250,331	250,330	1
Capital Outlay	210,020	286,008	(75,988)
Transfers Out	52,020	52,020	-
TOTAL EXPENDITURES	1,783,097	1,808,324	(25,227)
NET INCOME, Budget Basis	$ 217,367	28,319	$ (189,048)
GAAP BASIS ADJUSTMENTS			
Principal Payments on Long-Term Debt		193,022	
Capital Outlay		247,162	
Depreciation		(328,468)	
NET INCOME GAAP Basis		140,035	
NET POSITION, Beginning, as Previously Reported		5,809,662	
Prior Period Adjustment		(42,805)	
NET POSITION, Beginning		5,766,857	
NET POSITION, Ending		$ 5,906,892	

See the accompanying independent auditors' report.

PENROSE WATER DISTRICT

DISTRICT ACTIVITY
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2020

	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Utility Charges	$ 869,673	$ 873,492	$ 3,819
Other Charges for Services	10,153	10,350	197
Tap Fees	158,869	161,269	2,400
Property Taxes	173,251	173,119	(132)
Specific Ownership Taxes	24,545	26,856	2,311
Interest Income	12,318	11,981	(337)
Miscellaneous	174,220	1,503	(172,717)
TOTAL REVENUES	1,423,029	1,258,570	(164,459)
EXPENDITURES			
Personnel Services	558,119	563,163	(5,044)
Office Operating	50,248	42,456	7,792
Water Treatment and Plant Operations	172,186	146,902	25,284
Distribution System	32,471	14,858	17,613
General Operating Expenses	224,730	219,174	5,556
Capital Outlay	172,733	248,620	(75,887)
Transfers Out	52,020	52,020	-
TOTAL EXPENDITURES	1,262,507	1,287,193	(24,686)
NET INCOME, Budget Basis	$ 160,522	(28,623)	$ (189,145)

See the accompanying independent auditors' report.

PENROSE WATER DISTRICT

ENTERPRISE ACTIVITY
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2020

	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Utility Charges	$ 525,415	$ 526,053	$ 638
Transfers In	52,020	52,020	-
TOTAL REVENUES	577,435	578,073	638
EXPENDITURES			
Storage and Treatment	23,160	23,160	-
Water Legal and Consulting	10,355	10,392	(37)
Water Engineering	6,435	6,839	(404)
Debt Service			
Principal	193,022	193,022	-
Interest and Fiscal Charges	250,331	250,330	1
Capital Outlay	37,287	37,388	(101)
TOTAL EXPENDITURES	520,590	521,131	(541)
NET INCOME, Budget Basis	$ 56,845	$ 56,942	$ 97

See the accompanying independent auditors' report.