

**PERRY PARK
WATER AND SANITATION DISTRICT
Douglas County, Colorado**

**FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Perry Park Water and Sanitation District
Douglas County, Colorado

We have audited the accompanying financial statements of Perry Park Water and Sanitation District (the District), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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Barnes Griggs & Associates, PC

Other Matters

Required Supplementary Information

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

Darner Higgs & Associates, PC

Lakewood, Colorado
June 26, 2017

**PERRY PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

Our discussion and analysis of Perry Park Water and Sanitation District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2016 and 2015. Please read it in conjunction with the District's basic financial statements which begin on page 1.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Fund Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. This statement provides useful information regarding the financial position of the District. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall financial position of the District.

The *Statement of Revenues, Expenses and Changes in Fund Net Position* reports the changes that have occurred during the year to the District's net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

The *Statement of Cash Flows*, as its name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from capital financing activities, 3) cash flows from noncapital financing activities, and 4) cash flows from investing activities.

FINANCIAL SUMMARY AND ANALYSIS

Net Position

2016

As noted earlier, net position may serve as a useful indicator of the District's financial position. As noted in the table below, in 2016 the District's assets exceeded its liabilities and deferred inflows of resources by \$22,622,967. By far the largest component of net position is the District's investment in capital assets of \$18,385,390, which represents 81.3% of total net position. Current assets increased by \$791,061 or 20.2%, net capital assets decreased by \$662,764 or 3.5%, and overall assets increased by \$128,297 or .6%. The increase in current assets was primarily due to the District recognizing significant capital contributions during 2016 as the District recognized \$291,500 of water and sewer tap and development fees. Capital assets, net, decreased due to current depreciation exceeding current capital asset additions.

**PERRY PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

See the Capital Asset Administration section below for more information on capital assets. Current liabilities increased from 2015 to 2016 by \$42,138 or 66.4%, primarily due to capital asset purchases at the end of 2016 were more than at 2015 as well as higher activity at the end of 2016 in general. The net investment in capital assets decreased by \$662,764 due again to current year depreciation expense exceeding current year capital asset additions, resulting in an overall decrease in capital assets.

2015

As noted in the table below, in 2015 the District's assets exceeded its liabilities and deferred inflows of resources by \$22,541,258. By far the largest component of net position is the District's investment in capital assets of \$19,048,154, which represents 84.5% of total net position. Current assets increased by \$599,850 or 18.1%, net capital assets decreased by \$706,471 or 3.6%, and overall assets decreased by \$106,621 or .5%. The increase in current assets was primarily due to the District recognizing significant capital contributions during 2015 as the District recognized \$381,400 of water and sewer tap and development fees. Capital assets, net, decreased due to current depreciation exceeding current capital asset additions. See the Capital Asset Administration section below for more information on capital assets. Current liabilities decreased from 2014 to 2015 by \$139,774 or 68.8%, primarily due to capital projects resulting in higher accounts payable at the end of 2014 than at 2015 where there was significantly less capital asset activity and no accounts payable at December 31, 2015 related to capital assets. The net investment in capital assets decreased by \$706,471 due again to current year depreciation expense exceeding current year capital asset additions, resulting in an overall decrease in capital assets.

NET POSITION

	December 31,		
	2016	2015	2014
ASSETS			
Current assets	\$ 4,710,238	\$ 3,919,177	\$ 3,319,327
Capital assets, net	18,385,390	19,048,154	19,754,625
Total assets	<u>23,095,628</u>	<u>22,967,331</u>	<u>23,073,952</u>
LIABILITIES			
Current liabilities	105,578	63,440	203,214
Total liabilities	<u>105,578</u>	<u>63,440</u>	<u>203,214</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources	367,083	362,633	327,331
Total deferred inflows of resources	<u>367,083</u>	<u>362,633</u>	<u>327,331</u>
NET POSITION			
Net investment in capital assets	18,385,390	19,048,154	19,754,625
Restricted	12,500	11,300	11,200
Unrestricted	4,225,077	3,481,804	2,777,582
Total net position	<u>\$ 22,622,967</u>	<u>\$ 22,541,258</u>	<u>\$ 22,543,407</u>

**PERRY PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

Changes in Net Position

2016

As noted in the table below, the District's net position for 2016 increased by \$81,709. Overall revenue increased by \$128,269, or 6.2%. Charges for services increased by \$139,568, or 11.8%, due primarily to 2016 being the first full year of an increase in the water base rate by \$50 per bimonthly billing cycle for residential customers and \$50 per monthly billing cycle for commercial customers that went into effect on May 1, 2015. Capital grants and contributions decreased by \$55,401 or 11.3% from 2015 to 2016, however the amounts received in 2016 were still higher than the amounts anticipated in the 2016 budget. For 2016, water and sewer tap fees were \$145,700, water and sewer development fees were \$145,800, capital improvement fees were \$126,834 and contributed capital assets were \$15,602. Property taxes increased \$32,255 from 2015 to 2016 due to an increase in the District's assessed valuation upon which the property taxes are levied. Miscellaneous income increased slightly from 2015.

Direct water and sewer expenses increased by \$72,505, or 4.1%, from 2015 to 2016. Increases in unscheduled emergency repairs of \$32,312 and engineering/consultants of \$42,849 were offset by decreases in depreciation of \$56,953. General and administrative expenses decreased by \$21,754, or 8.2%, from 2015 to 2016. This increase was primarily due to the District incurring \$38,878 less for the development of a comprehensive master plan. However, this decrease was partially offset by higher public information expenses due to redesigning of the District's website and beginning to issue a District newsletter. Nonoperating expenses decreased by \$6,340 from 2015 to 2016, as a result of the District recognizing a loss on the abandonment of certain construction projects in process during 2015 and no such losses incurred in 2016.

2015

As noted in the table below, the District's net position for 2015 decreased by \$2,149, which was a significant improvement from 2014 where the net position decreased by \$352,275. Overall revenue increased by \$400,801, or 24.2%. Charges for services increased by \$153,685, or 14.9%, due primarily to an increase in the water base rate by \$50 per bimonthly billing cycle for residential customers and \$50 per monthly billing cycle for commercial customers. This rate increase went into effect on May 1, 2015. Capital grants and contributions increased by \$254,339 or 108.2% from 2014 to 2015. This increase was due to an overall increase in water and sewer tap and development fees and capital improvement fees. The largest portion of this increase was in the water and sewer tap and development fees which increased by \$228,800, or 149.9% due to more development/building within the District's boundaries. Property taxes increased slightly 2014 to 2015, and were consistent the amounts levied for collection in 2015. Miscellaneous income decreased by \$10,533 from 2014 as there were no capital assets sold in 2015 when there were in 2014, and the capital credit refund from IREA (the District's electricity provider) of \$8,397 for 2015 was only 76% of the \$11,050 capital credit refund received in 2014.

Direct water and sewer expenses increased by \$10,874, or .6%, from 2014 to 2015. Increases in unscheduled emergency repairs of \$87,881 and sewage treatment of \$19,741 were offset by decreases in engineering/consultants and water services of \$53,307 and \$64,745, respectively. General and administrative expenses increased by \$32,932, or 14.1%, from 2014 to 2015. This

**PERRY PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

increase was primarily due to the District incurring \$59,591 for the development of a comprehensive master plan. However, this increase was partially offset by lower legal fees by \$29,035. Nonoperating expenses increased by \$6,869 from 2014 to 2015, as a result of the District recognizing a loss on the abandonment of certain construction projects in process.

CHANGES IN NET POSITION

	Years Ended December 31,		
	2016	2015	2014
REVENUES			
Program revenues:			
Charges for services	\$ 1,327,881	\$ 1,188,313	\$ 1,034,628
Capital grants and contributions	433,936	489,337	234,998
General revenues:			
Property and specific ownership taxes	392,712	358,565	356,045
Net investment income	9,131	1,736	946
Miscellaneous	20,261	17,701	28,234
Total revenues	<u>2,183,921</u>	<u>2,055,652</u>	<u>1,654,851</u>
EXPENSES			
Direct water and sewer	1,851,559	1,779,054	1,768,180
General and administrative	245,218	266,972	234,040
Nonoperating	5,435	11,775	4,906
Total expenses	<u>2,102,212</u>	<u>2,057,801</u>	<u>2,007,126</u>
CHANGE IN NET POSITION	81,709	(2,149)	(352,275)
NET POSITION - BEGINNING OF YEAR	<u>22,541,258</u>	<u>22,543,407</u>	<u>22,895,682</u>
NET POSITION - END OF YEAR	<u>\$ 22,622,967</u>	<u>\$ 22,541,258</u>	<u>\$ 22,543,407</u>

BUDGETARY HIGHLIGHTS

During 2016 the District's budget was not amended. The appropriated expenditures were \$3,284,885 and actual expenditures were \$1,423,846, or \$1,861,069 under budget. This positive variance was primarily due to capital expenditures being budgeted at \$1,800,000 and actual capital expenditures were \$28,533. Budgeted revenue was \$1,802,244 and actual revenue was \$2,168,319, or \$366,075 more than budgeted. This positive variance was primarily due to water and sewer tap and development fees being higher than anticipated as there was more development within the District's boundaries than anticipated. Additional information regarding the revenue and expenditure variances are available on page 15 of the financial statements.

CAPITAL ASSET ADMINISTRATION

Capital Assets

The District's changes in capital assets for the years ended December 31, 2016 and 2015 are as follows:

**PERRY PARK WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2016 and 2015**

CAPITAL ASSETS (net of accumulated depreciation)

	<u>2014</u>	<u>Change</u>	<u>2015</u>	<u>Change</u>	<u>2016</u>
Land	\$ 832,867	\$ -	\$ 832,867	\$ -	\$ 832,867
Water rights	3,792,721	-	3,792,721	-	3,792,721
Water system	8,621,819	(415,014)	8,206,805	(379,577)	7,827,228
Sewer system	6,058,032	(267,173)	5,790,859	(281,996)	5,508,863
Buildings	286,625	(13,224)	273,401	(13,224)	260,177
Equipment and vehicles	-	-	-	-	-
Construction in progress	162,561	(11,060)	151,501	12,033	163,534
Total	<u>\$ 19,754,625</u>	<u>\$ (706,471)</u>	<u>\$ 19,048,154</u>	<u>\$ (662,764)</u>	<u>\$ 18,385,390</u>

2016

During 2016 the District spent \$28,533 on capital asset additions and received contributed water and sewer lines for \$15,602. The projects paid for by the District included \$16,500 for three VFD units, \$7,827 for the school house tank site, and \$4,206 Glen Grove wastewater treatment plant alternate site.

2015

During 2015 the District spent \$64,241 on capital asset additions. The projects included the Glen Grove Well rehabilitation and the Sageport 2014 LID water and sewer line extension project.

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

ECONOMIC FACTORS NEXT YEAR'S BUDGET AND RATES

For 2017 the District's water and sewer rates currently remain the same as 2016. The District levied property taxes at rate of 5.614 mills. Although the mill levy rate remained consistent with 2016, the property tax revenue is expected to increase by approximately \$7,735 as a result of an increase in the District's assessed valuation. The District has no outstanding bonds or debt. For 2017, revenues are budgeted at \$1,923,983, expenditures are budgeted at \$3,404,342, including \$1,820,000 of capital expenditures, with the net result being a budgeted decrease in funds available of \$1,480,359. Ending funds available is budgeted to be \$735,794 at December 31, 2017.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Perry Park Water and Sanitation District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District Manager, 5676 West Red Rock Drive, Larkspur, CO 80118.

BASIC FINANCIAL STATEMENTS

PERRY PARK WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents - Unrestricted	\$ 4,176,402	\$ 3,421,656
Cash and cash equivalents - Restricted	12,500	11,300
Accounts receivable, net	121,495	113,083
Receivable - County Treasurer	2,822	2,817
Property taxes receivable	367,083	362,633
Prepaid expenses	29,936	7,688
Total current assets	4,710,238	3,919,177
CAPITAL ASSETS		
Capital assets, not being depreciated	4,789,122	4,777,089
Capital assets, being depreciated	28,439,718	28,407,616
	33,228,840	33,184,705
Less accumulated depreciation	(14,843,450)	(14,136,551)
Total capital assets	18,385,390	19,048,154
TOTAL ASSETS	\$ 23,095,628	\$ 22,967,331
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 94,404	\$ 50,909
Accrued compensated absences	6,074	6,531
Deposits	5,100	6,000
Total current liabilities	105,578	63,440
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	367,083	362,633
Total deferred inflows of resources	367,083	362,633
NET POSITION		
Investment in capital assets	18,385,390	19,048,154
Restricted for emergencies	12,500	11,300
Unrestricted	4,225,077	3,481,804
Total net position	22,622,967	22,541,258
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 23,095,628	\$ 22,967,331

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PERRY PARK WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2016 and 2015**

	2016	2015
WATER AND SEWER OPERATIONS		
Water and sewer income	\$ 1,327,881	\$ 1,188,313
Direct water and sewer expenses	(1,851,559)	(1,779,054)
GROSS LOSS FROM OPERATIONS	(523,678)	(590,741)
GENERAL AND ADMINISTRATIVE EXPENSES	(245,218)	(266,972)
OPERATING LOSS	(768,896)	(857,713)
NONOPERATING REVENUES		
Property taxes	359,348	327,093
Specific ownership taxes	33,364	31,472
Net investment income	9,131	1,736
Miscellaneous	20,261	17,701
Total nonoperating revenues	422,104	378,002
NONOPERATING EXPENSES		
County Treasurer's fees	(5,435)	(4,915)
Loss on abandoned construction in progress	-	(6,860)
Total nonoperating expenses	(5,435)	(11,775)
INCOME BEFORE CAPITAL CONTRIBUTIONS	(352,227)	(491,486)
CAPITAL CONTRIBUTIONS		
Water and sewer tap and development fees	291,500	381,400
Capital improvement fees	126,834	107,937
Contributed water and sewer lines	15,602	-
Total capital contributions	433,936	489,337
CHANGE IN NET POSITION	81,709	(2,149)
NET POSITION - BEGINNING OF YEAR	22,541,258	22,543,407
NET POSITION - END OF YEAR	\$ 22,622,967	\$ 22,541,258

These financial statements should be read only in connection with
the accompanying notes to financial statements.

PERRY PARK WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,318,569	\$ 1,165,814
Payments to suppliers	(1,197,521)	(1,174,659)
Payments to employees and related expenses	(188,067)	(178,395)
Net cash required by operating activities	(67,019)	(187,240)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax collections	359,348	327,093
Specific ownership taxes	33,359	31,288
Reimbursed expenses	5,700	3,738
Miscellaneous income	14,561	13,963
County Treasurer's fees	(5,435)	(4,915)
Net cash provided by noncapital financing activities	407,533	371,167
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Water and sewer tap and development fees	291,500	381,400
Capital improvement fees	126,834	107,937
Acquisition of property, plant and equipment	(12,033)	(131,045)
Net cash provided by capital financing activities	406,301	358,292
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	9,131	1,736
Net cash provided by investing activities	9,131	1,736
NET INCREASE IN CASH AND CASH EQUIVALENTS	755,946	543,955
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,432,956	2,889,001
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,188,902	\$ 3,432,956
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (768,896)	\$ (857,713)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	706,899	763,852
Effects of changes in operating assets and liabilities:		
Accounts receivable	(8,412)	(19,549)
Prepaid expenses	(22,248)	(860)
Accounts payable and accrued expenses	26,995	(71,167)
Accrued compensated absences	(457)	1,147
Deposits	(900)	(2,950)
Net cash required by operating activities	\$ (67,019)	\$ (187,240)
NONCASH CAPITAL FINANCING ACTIVITIES		
Contributed water and sewer lines	\$ 15,602	\$ -

These financial statements should be read only in connection with
the accompanying notes to financial statements.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 1 – DEFINITION OF REPORTING ENTITY

Perry Park Water and Sanitation District (District), a quasi-municipal corporation, was organized in 1969, and is governed pursuant to provisions of the Colorado Special District Act. The District exists to provide water and sanitary sewer facilities and services to the Perry Park area of Douglas County, Colorado. A portion of the District is included in the Town of Larkspur.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

The District had no authorized but unissued debt and no service plan limitations regarding debt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets, and redemption of bonds and loans are recorded as a reduction in liabilities. Tap and expansion fees, capital improvement fees and contributed assets from developers are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Property Taxes

Property taxes are levied by the District Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Accounts Receivable

Accounts receivable are shown net of an allowance for uncollectible accounts. Accounts receivable are expensed as bad debts at the time they are determined to be uncollectible. Due to the District's powers of collection, no allowance for uncollectible accounts has been deemed necessary.

Capital Assets

Capital assets, which include land, water rights, buildings, distribution and collection systems and machinery and equipment, are reported by the District. Capital assets are defined by the District as capital assets with an initial, individual cost of more than \$5,000. Such assets are

**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation or at the developer's cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation and amortization expense has been computed using the straight-line method over the estimated economic useful lives:

Buildings	35 years
Distribution and collection systems	35 years
Machinery and equipment	3-10 years

Tap and Development Fees, Capital Improvement Fees and Capital Contributions

Tap and development fees and capital improvement fees are recorded as capital contributions when received. Water and sewer lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the developer's cost or at estimated fair value when received. The District records the contributions at the time the lines are conveyed to the District for preliminary acceptance.

Water Rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Compensated Absences

The District's employees are entitled to certain compensated absences based on their length of employment. Compensated absences are accrued when incurred in the financial statements. The District has accrued for future payment of this earned leave.

Restricted Resources

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

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2016 and 2015 are classified in the accompanying financial statements as follows:

**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

	2016	2015
Cash and Cash Equivalents - Unrestricted	\$ 4,176,402	\$ 3,421,656
Cash and Cash Equivalents - Restricted	12,500	11,300
Total cash and investments	\$ 4,188,902	\$ 3,432,956

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

	2016	2015
Deposits with financial institutions	\$ 1,191,788	\$ 834,452
Investments	2,997,114	2,598,504
Total cash and investments	\$ 4,188,902	\$ 3,432,956

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2016 and 2015, the District's cash deposits had a bank balance of \$1,277,316 and \$836,488, respectively, and a carrying balance of \$1,191,788 and \$834,452, respectively.

Investments

The District has not adopted a formal investment policy, however, the District follows Colorado State statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

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

**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

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

As of December 31, 2016 and 2015, the District had the following investments:

Investment	Maturity	<u>2016</u>	<u>2015</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 112,225	\$ 111,604
Colorado Liquid Asset Trust (COLOTRUST)	Less than one year	<u>2,884,889</u>	<u>2,486,900</u>
		<u><u>\$ 2,997,114</u></u>	<u><u>\$ 2,598,504</u></u>

COLOTRUST

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

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by State statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statute governing the Trust. The trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, highest rated commercial paper and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank

PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's.

Investment Valuation

The District has certain investments which are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair value: 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 unobservable inputs. The fair value of measurements of the District's investment in COLOTRUST are based on Level 2 inputs.

The District also has certain investments are not measured at fair value and are therefore not categorized within the fair value hierarchy. The District's investments include a 2a7-like external investment pool (CSAFE). CSAFE is recorded at amortized cost. The District is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

Restricted Cash and Investments

A portion of the District's cash and investments are restricted for Emergency Reserves as required by Article X, Section 20 of the Constitution of the State of Colorado. At December 31, 2016 and 2015, the restricted cash and investments amounted to \$12,500 and \$11,300, respectively (see Note 8).

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**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2016 follows:

	<u>Balance at December 31, 2015</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Balance at December 31, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Water rights	3,792,721	-	-	3,792,721
Construction in progress	151,501	12,033	-	163,534
Total capital assets, not being depreciated	<u>4,777,089</u>	<u>12,033</u>	<u>-</u>	<u>4,789,122</u>
Capital assets, being depreciated:				
Water system	15,876,317	25,922	-	15,902,239
Sewer system	11,841,440	6,180	-	11,847,620
Buildings	469,033	-	-	469,033
Equipment and vehicles	220,826	-	-	220,826
Total capital assets being depreciated	<u>28,407,616</u>	<u>32,102</u>	<u>-</u>	<u>28,439,718</u>
Less accumulated depreciation for:				
Water system	7,669,512	405,499	-	8,075,011
Sewer system	6,050,581	288,176	-	6,338,757
Buildings	195,632	13,224	-	208,856
Equipment and vehicles	220,826	-	-	220,826
Total accumulated depreciation	<u>14,136,551</u>	<u>706,899</u>	<u>-</u>	<u>14,843,450</u>
Total capital assets being depreciated, net	<u>14,271,065</u>	<u>(674,797)</u>	<u>-</u>	<u>13,596,268</u>
Total capital assets, net	<u>\$ 19,048,154</u>	<u>\$ (662,764)</u>	<u>\$ -</u>	<u>\$ 18,385,390</u>

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PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

An analysis of the changes in capital assets for the year ended December 31, 2015 follows:

	<u>Balance at December 31, 2014</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Balance at December 31, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 832,867	\$ -	\$ -	\$ 832,867
Water rights	3,792,721	-	-	3,792,721
Construction in progress	162,561	64,241	75,301	151,501
Total capital assets, not being depreciated	<u>4,788,149</u>	<u>64,241</u>	<u>75,301</u>	<u>4,777,089</u>
Capital assets, being depreciated:				
Water system	15,836,952	39,365	-	15,876,317
Sewer system	11,812,364	29,076	-	11,841,440
Buildings	469,033	-	-	469,033
Equipment and vehicles	220,826	-	-	220,826
Total capital assets being depreciated	<u>28,339,175</u>	<u>68,441</u>	<u>-</u>	<u>28,407,616</u>
Less accumulated depreciation for:				
Water system	7,215,133	454,379	-	7,669,512
Sewer system	5,754,332	296,249	-	6,050,581
Buildings	182,408	13,224	-	195,632
Equipment and vehicles	220,826	-	-	220,826
Total accumulated depreciation	<u>13,372,699</u>	<u>763,852</u>	<u>-</u>	<u>14,136,551</u>
Total capital assets being depreciated, net	<u>14,966,476</u>	<u>(695,411)</u>	<u>-</u>	<u>14,271,065</u>
Total capital assets, net	<u>\$ 19,754,625</u>	<u>\$ (631,170)</u>	<u>\$ 75,301</u>	<u>\$ 19,048,154</u>

Depreciation expense for the years ended December 31, 2016 and 2015 were charged as follows:

	<u>2016</u>	<u>2015</u>
Water	\$ 405,499	\$ 454,379
Sewer	288,176	296,249
General and administration	13,224	13,224
	<u>\$ 706,899</u>	<u>\$ 763,852</u>

NOTE 5 - NET POSITION

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

Net investment in capital assets, consists of capital assets, net of accumulated depreciation and if applicable reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

As of December 31, 2016 and 2015 the District had a net investment in capital assets of \$18,385,390 and \$19,048,154, respectively.

Restricted net position includes amounts that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had net position restricted for the Emergencies (see Note 8) of \$12,500 and \$11,300 as of December 31, 2016 and 2015, respectively.

NOTE 6 - PENSION AND BENEFIT PLANS

Deferred Compensation Plan - Assets in Trust

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by Lincoln National Life. Participation in the plan is optional for all employees. The plan allows the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement or death or unforeseen emergencies. The District matches the employee's contribution up to a percentage of compensation as follows: 0-2 years of employment 2%; 2 years of employment 3%; 3 years of employment 4%; and 5 or more years of employment 5%. The District's contributions for the years ended December 31, 2016 and 2015 were \$6,764 and \$6,457, respectively.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God. The District maintains commercial insurance for most risks of loss. There were no significant changes in insurance coverage from the prior year and the amount of claims have not exceeded coverage for the last three years.

NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the

**PERRY PARK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015**

interpretation of how to calculate Fiscal Year Spending limits and Enterprise qualification will require judicial interpretation.

On November 7, 2006, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all revenues it has received in the past and expects to receive thereafter without regard to any limitations under TABOR.

The November 7, 2006 election question reads as follows:

Shall Perry Park Water and Sanitation District (without increasing existing tax rates or imposing a new tax) be authorized to collect, retain and spend all revenues from whatever source beginning in 2000 and in each year thereafter as a voter approved revenue change and exception to the limits which would otherwise apply under Article X, Section 20 of the Colorado Constitution, the 5.5% property tax revenue limit of Section 29 1 301, C.R.S. or any other law?

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

PERRY PARK WATER AND SANITATION DISTRICT
SCHEDULES OF EXPENSES
Years Ended December 31, 2016 and 2015

	2016	2015
DIRECT WATER AND SEWER EXPENSES		
Salaries and payroll taxes	\$ 97,776	\$ 94,537
Engineering/consultants	82,308	39,459
Outside operations labor	364,996	354,204
Repairs and maintenance	127,704	95,392
Sewage treatment	155,262	146,921
Utilities	201,305	206,575
Water services	128,533	91,338
Depreciation	693,675	750,628
Total direct water and sewer expenses	\$ 1,851,559	\$ 1,779,054
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	\$ 7,787	\$ 8,265
Auto expenditures	1,563	2,941
Contract labor	3,335	3,963
Directors' fees	7,200	5,500
Dues and subscriptions	5,044	6,521
Election costs	992	-
Employee benefits	35,942	34,292
Insurance	22,409	22,265
Bank charges	2,571	3,001
Legal	18,187	15,956
Comprehensive master plan	20,713	59,591
Miscellaneous	829	3,055
Office expenses	23,491	19,314
Outside services	846	797
Public information	16,113	2,042
Repairs and maintenance	6,672	8,847
Salaries and payroll taxes	46,692	45,213
Travel, training and meetings	827	905
Utilities	10,781	11,280
Depreciation	13,224	13,224
Total general and administrative expenses	\$ 245,218	\$ 266,972
NONOPERATING EXPENSES		
County Treasurer's fees	\$ 5,435	\$ 4,915
Loss on abandoned construction in progress	-	6,860
Total nonoperating expenses	\$ 5,435	\$ 11,775

**PERRY PARK WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2016**

	<u>Original and Final Budgeted Amounts</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES			
Water service fees	\$ 658,000	\$ 820,886	\$ 162,886
Sewer service fees	400,000	467,480	67,480
Administrative fees	11,500	10,515	(985)
Connection and inspection charges	14,000	29,000	15,000
Miscellaneous income	25,000	14,561	(10,439)
Property taxes	362,633	359,348	(3,285)
Specific ownership taxes	25,384	33,364	7,980
Reimbursements	5,000	5,700	700
Net investment income	1,327	9,131	7,804
Water and sewer tap fees	104,400	145,700	41,300
Water and sewer development fees	100,000	145,800	45,800
Capital improvement fees	95,000	126,834	31,834
Total revenues	<u>1,802,244</u>	<u>2,168,319</u>	<u>366,075</u>
EXPENDITURES			
Direct water and sewer expenditures	1,162,446	1,157,884	4,562
General and administrative expenditures	317,000	231,994	85,006
County Treasurer's fees	5,439	5,435	4
Capital outlay	1,800,000	28,533	1,771,467
Total expenditures	<u>3,284,885</u>	<u>1,423,846</u>	<u>1,861,039</u>
REVENUES OVER (UNDER) EXPENDITURES	(1,482,641)	744,473	2,227,114
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>3,107,048</u>	<u>3,493,104</u>	<u>386,056</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 1,624,407</u>	<u>\$ 4,237,577</u>	<u>\$ 2,613,170</u>

Funds available at is computed as follows:

Current assets	\$ 4,710,238
Current liabilities	(105,578)
Deferred inflows of resources	(367,083)
	<u>\$ 4,237,577</u>

**PERRY PARK WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2016**

Revenue (budgetary basis)	\$ 2,168,319	
Contributed water and sewer lines	15,602	
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position		2,183,921
Expenditures (budgetary basis)	1,423,846	
Depreciation	706,899	
Capital outlay	(28,533)	
Loss on abandoned construction in progress	-	
Expenses per Statement of Revenues, Expenses and Changes in Fund Net Position		2,102,212
Change in net position per Statement of Revenues, Expenses and Changes in Fund Net Position		\$ 81,709

**PERRY PARK WATER AND SANITATION DISTRICT
SUMMARY OF ASSESSED VALUATION,
MILL LEVY AND PROPERTY TAXES COLLECTED
Year Ended December 31, 2016**

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy		Mills Levied		Total Property Taxes		Percent Collected to Levied
	Water and Sanitation Service Area	Water Service Area	Water and Sanitation Service Area	Water Service Area	Levied	Collected Currently	
	2005	\$ 53,391,430	\$ 257,720	11.654	5.605	\$ 623,668	
2006	\$ 61,592,870	\$ 486,210	10.368	4.754	\$ 640,906	\$ 631,931	98.60%
2007	\$ 62,947,177	\$ 46,700	10.368	4.754	\$ 652,858	\$ 648,370	99.31%
2008	\$ 71,086,422	\$ 49,090	8.614	3.000	\$ 612,486	\$ 617,311	100.79%
2009	\$ 73,233,890	\$ 72,370	5.614	0.275	\$ 431,294	\$ 428,167	99.27%
2010	\$ 75,049,000	\$ 268,690	5.614	-	\$ 421,325	\$ 420,958	99.91%
2011	\$ 75,646,980	\$ 363,580	5.614	-	\$ 424,682	\$ 420,516	99.02%
2012	\$ 62,809,860	\$ 389,580	5.614	-	\$ 352,615	\$ 352,195	99.88%
2013	\$ 63,139,770	\$ 361,230	5.614	-	\$ 354,467	\$ 352,742	99.51%
2014	\$ 58,441,420	\$ 370,760	5.614	-	\$ 328,090	\$ 326,653	99.56%
2015	\$ 58,306,220	\$ 349,830	5.614	-	\$ 327,331	\$ 327,093	99.93%
2016	\$ 64,594,490	\$ 356,280	5.614	-	\$ 362,633	\$ 359,348	99.09%
Estimated for the year ending December 31, 2017	\$ 65,387,040	\$ 348,260	5.614	-	\$ 367,083		

NOTES:

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