

***HIGHLAND LAKES WATER DISTRICT
FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTAL INFORMATION
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016***



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**OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Highland Lakes Water District
Divide, Colorado

We have audited the accompanying financial statements of the business-type activities of Highland Lakes Water District (District) as of and for the year ended December 31, 2016, 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 an opinion 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.

INDEPENDENT AUDITORS' REPORT - CONTINUED

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2016, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental 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 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Highland Lakes Water District's basic financial statements as a whole. The *schedule of revenues, expenses and changes in fund net position - proprietary fund, budget (non-GAAP basis) and actual*, and the *schedule of expenses - proprietary fund, budgetary (non-GAAP basis)* (supplemental information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Osborne, Parsons & Novack LLP

Colorado Springs, Colorado
August 22, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

This management's discussion and analysis (MD&A) of the Highland Lakes Water District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2016. The intent of the MD&A is to look at the District's financial performance as a whole. The MD&A should be read in conjunction with the District's financial statements to enhance understanding of the District's financial performance. The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The District is a special district organized under Colorado Statutes to provide water and related services to property owners and residents located within the District. The District is a primary governmental agency as defined in GASB Statement No. 14, *The Financial Reporting Entity*.

Background information

Highland Lakes Water District is an independent governmental entity organized under provision of the Colorado Revised Statutes. It operates within Teller County but is not part of the county government.

Overview of the Financial Statements

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District finances.

Fund structure

The District is composed of an enterprise fund, which primarily derives revenue from charges for service, as well as a general governmental fund, which levies and collects taxes. The District's only major fund is the proprietary fund, which records transactions based on the flow of economic resources. The District's financial statements report all financial activity through the proprietary fund.

Under GASB Statement No. 34, proprietary funds have the option to continue to utilize the balance sheet and statements of revenues, expenses and changes in retained earnings format or change to the statement of fund net position and statement of revenues, expenses and changes in fund net position format. The District has elected to use the statement of fund net position and the statement of revenues, expenses, and changes in fund net position format.

The *Statement of fund net position* presents information on the combined funds of the District's assets and liabilities. The difference between reported assets and liabilities is net position.

The *Statement of revenues, expenses, and changes in fund net position* presents information showing changes to the government's net position, by operating and non-operating changes during the past year.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

Current financial issues

The District's enterprise fund activities relate to providing water to the residents within the Highland Lakes subdivision.

The District's enterprise fund revenue consists primarily of water sales and tap fees. The general fund derives revenues through the levying and collection of property taxes as well as specific ownership taxes and federal grants. Water sales are approximately 24% of total revenues.

Teller County Treasurer's Office collects and disburses to the District the collections of property tax assessed in the prior year. The Board of County Commissioners certifies the levies to the Assessor and the Colorado Property Tax Administrator. The Board of County Commissioners authorizes the Assessor to extend the levies on property as assessed. The District general fund is a constituted taxing authority.

Components of the major disbursements relating to the District's detailed activities are in the supplemental schedules to the financial statements, starting on page 19.

Current projects

The District is continuing efforts with District Engineers to upgrade the collection, storage, treatment and distribution facilities. The proposed upgrades will address water supply by adding a single collection point and increase storage capacity at a single location as compared to the dispersed systems currently in use. The increased storage at a centrally located facility will address nitrate issues and chlorine contact time within the distribution system and improve overall customer service. The system upgrades are in progress with an estimated completion within one year.

During fiscal year 2015, the Department of Local Affairs awarded the District a cost reimbursement, matching grant in the approximate amount of \$1,437,000 for construction of capital buildings and equipment. The District is financing the matching capital requirement through a loan provided by the Colorado Water Resources & Power Development Authority (CWRPDA). The loan was executed on June 17, 2015, for \$2,000,000, at 2% interest, payable over a period of 20 years.

STATEMENT OF FUND NET POSITION

The statement of fund net position conveys the financial health of the District and includes all assets and liabilities, both financial and capital. The District uses the accrual basis of accounting.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

STATEMENT OF FUND NET POSITION - Continued

Comparative statements of fund net position and comments' relating to significant changes follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (decrease)</u>
Assets			
Current assets	\$ 2,551,402	\$ 2,849,830	\$ (298,428)
Capital assets - net	3,314,229	1,462,234	1,851,995
Total assets	<u>\$ 5,865,631</u>	<u>\$ 4,312,064</u>	<u>\$ 1,553,567</u>
 Liabilities			
Current liabilities	\$ 650,280	\$ 99,808	\$ 550,472
Noncurrent liabilities	1,865,798	\$ 1,951,138	\$ (85,340)
Total Liabilities	<u>\$ 2,516,078</u>	<u>2,050,946</u>	<u>465,132</u>
 Deferred inflow of resources			
Total deferred inflow of resources	<u>\$ 51,758</u>	<u>\$ 48,890</u>	<u>\$ 2,868</u>
 Fund net position			
Net investment in capital assets	2,493,585	1,462,234	1,031,351
Restricted for TABOR emergency	50,000	8,817	41,183
Unrestricted	754,210	741,177	13,033
Total fund net position	<u>\$ 3,297,795</u>	<u>\$ 2,212,228</u>	<u>\$ 1,085,567</u>

Current assets

Current assets decreased by approximately \$300,000. This decrease was largely due to the receipt of loan proceeds from the CWRPDA loan executed during 2015.

Capital assets

The District purchased approximately \$1,954,000 in capital equipment relating to improvements and the construction of a new water treatment system, and posted a period depreciation expense of approximately \$102,000, resulting in an increase in the book value of capital assets of approximately \$1,852,000.

Current liabilities

Current liabilities increased by approximately \$550,000, due to an increase in accounts payable for work performed on the construction of a new water treatment system.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

STATEMENT OF FUND NET POSITION - Continued

Noncurrent liabilities

Noncurrent liabilities consist of the outstanding balance associated with the CWRPDA loan.

Net position

Net position increased by approximately \$1,086,000, largely due to grant funds received for the construction of the new water treatment plant.

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION (Income Statement)

Comparative statements and comments relating to significant changes follow:

	<u>2016</u>	<u>2015</u>	Net Position increase (decrease)
Operating revenue	\$ 344,078	\$ 322,188	\$ 21,890
Operating expense	<u>279,650</u>	<u>227,606</u>	<u>(52,044)</u>
Operating income	64,428	94,582	(30,154)
Non-operating revenue (expense)	<u>1,021,139</u>	<u>26,012</u>	<u>995,127</u>
Change in net position	<u><u>\$ 1,085,567</u></u>	<u><u>\$ 120,594</u></u>	<u><u>\$ 964,973</u></u>

Operating revenue and expenses

Operating revenue increased from the prior year by approximately \$22,000 due to increased water usage.

Operating expenses increased by approximately \$52,000, primarily due to interest on the CWRPDA loan.

Operating income

Operating income decreased by approximately \$30,000.

Non-operating revenue (expense)

Non-operating revenues increased by approximately \$995,000, which included approximately \$979,000 of grant revenue for the construction of the new water treatment plant.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION (Income Statement) - Continued

Total expenses

2016	2015	Net Position increase (decrease)
\$ 302,695	\$ 252,147	\$ 50,548

Total expenses increased by approximately \$51,000.

BUDGETED AMOUNTS

An analysis of the original budget as compared to the final budget is as follows:

	Original	Final	Net Position increase (decrease)
Operating revenue	\$ 323,350	\$ 323,350	\$ -
Operating expense	1,202,749	1,202,749	-
Operating income	(879,399)	(879,399)	-
Non-operating revenue (expense)	25,890	25,890	-
Change in net position	\$ (853,509)	\$ (853,509)	\$ -

There were no amendments to the original budget.

SCHEDULE OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION – BUDGET (NON-GAAP BASIS) AND ACTUAL (Income Statement)

A comparison of the final budget and actual income statement, budgetary basis, follows:

	Final	Actual Budgetary Basis	Net Position increase (decrease)
Operating revenue	\$ 323,350	\$ 344,078	\$ 20,728
Operating expense	1,202,749	1,632,529	(429,780)
Operating income (loss)	(879,399)	(1,288,451)	(409,052)
Non-operating revenue (expense)	25,890	1,021,139	995,249
Change in net position	\$ (853,509)	\$ (267,312)	\$ 586,197

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

**SCHEDULE OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION –
BUDGET (NON-GAAP BASIS) AND ACTUAL (Income Statement) - Continued**

Operating expense

Operating expense was over budget by approximately \$430,000, primarily due to capital outlays for improvements and the construction of a new water treatment system,

Non-operating revenue (expense)

Non-operating revenue was over budget by approximately \$995,000, primarily due to grant funds received for the construction of the new water treatment plant.

Change in net position

Change in net position was over budget by approximately \$586,000, primarily due to grant funds received for the construction of the new water treatment plant offset by the capital outlays.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

An elected Board of Directors, who oversees the daily operations and financial management of the District, manages the District.

This financial report is designed to provide readers with a general overview of the District's finances, and to show the accountability for the money entrusted to it for the operation of the water delivery system. If you have questions about this report or need additional information, contact the District at:

Highland Lakes Water District
3136 Blue Mesa Drive
Divide, CO 80814

FINANCIAL STATEMENTS

**HIGHLAND LAKES WATER DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2016**

ASSETS

Current assets

Cash	\$ 980,330
Cash with County Treasurer	358
Receivables from:	
Customers	33,389
Contractor	3,455
Grant	351,614
Property taxes	51,758
Loan	1,130,498
Total current assets	2,551,402

Capital assets

Property, plant, and equipment	5,791,714
Accumulated depreciation	(2,477,485)
Total capital assets, net	3,314,229

Total assets

\$ 5,865,631

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	\$ 546,264
Unearned revenue	4,234
Accrued interest	14,438
Current portion of long-term debt	85,344
Total current liabilities	650,280

Noncurrent liabilities

Long-term debt	1,865,798
Total noncurrent liabilities	1,865,798

Deferred inflow of resources

Unearned tax revenue	51,758
Total deferred inflow of resources	51,758

Total liabilities and deferred inflow of resources

\$ 2,567,836

FUND NET POSITION

Net investment in capital assets	\$ 2,493,585
TABOR restricted reserves	50,000
Unrestricted	754,210
Total fund net position	\$ 3,297,795

See notes to financial statements

HIGHLAND LAKES WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES	
Water sales	\$ 333,733
Other resident charges	3,918
Interest income	5,731
Miscellaneous income	696
Total operating revenues	344,078
 OPERATING EXPENSES	
Source of supply	90,270
Water treatment	3,579
Transmission and distribution	15,053
Administrative and general	69,075
Depreciation	101,673
Total operating expenses	279,650
Total operating income	64,428
 NON-OPERATING REVENUES (EXPENSES)	
Grant	978,641
Property taxes	49,075
Specific ownership taxes	4,796
Water tap fees	10,126
Interest income	89
Miscellaneous income	1,457
Non-operating expenses	(23,045)
Total non-operating revenues (expenses)	1,021,139
Change in net position	1,085,567
 Net position	
Beginning of year	2,212,228
End of year	\$ 3,297,795

See notes to financial statements

**HIGHLAND LAKES WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 334,456
Other operating cash receipts	2,972
Cash paid to suppliers for goods or services	(136,358)
Cash paid to employees for services	(27,181)
Net cash provided by operations	173,889

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Grants received	627,027
Collection of taxes from Teller County	53,819
Collection of tap fees	10,126
Non-operating expenses	(21,588)
Net cash provided by non-capital financing activities	669,384

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(1,454,552)
Loan proceeds	774,447
Net cash used by capital and related financing activities	(680,105)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	89
Net cash provided by investing activities	89

Change in cash	163,257
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CASH AND CASH EQUIVALENTS

Beginning of year	817,073
End of year	\$ 980,330

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 64,428
Adjustments to reconcile operating income to net cash provided by operations	101,673
Depreciation	101,673
Change in	
Accounts receivable	(7,086)
Unearned revenue	436
Accrued interest	14,438
Total adjustments	109,461
Net cash provided by operating activities	\$ 173,889

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

HIGHLAND LAKES WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and organization - Highland Lakes Water District (District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates entirely within Teller County but is not part of the county government.

The District's annual financial statements include the accounts and funds of all District operations presented in accordance with GASB Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

Government-wide and fund financial statements

Government-wide financial statements - The government-wide financial statements (i.e., the statement of fund net position - proprietary fund, and the statement of revenue, expense and changes in fund net position), report information on all of the non-fiduciary activities of the government.

Fund accounting - The District uses funds to report on its financial position and results of its operations. The proprietary fund (enterprise) is used to account for activity similar to that found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided to outside parties.

Financial reporting entity - For financial reporting purposes, the District includes all funds for which it is financially accountable. Criteria for determining whether the District has the ability to impose its will on other organizations are the District's ability to: remove appointed members of the organization's governing board; modify or approve the budget; veto, overrule or modify the decisions of the organization's governing board; or hire/reassign, or dismiss those persons responsible for the day-to-day operations of the organization. In determining whether an organization has a financial benefit or burden relationship with the District, the following conditions are used: legal entitlement to or access to the organization's resources, legal obligation for assumption of the organization's debt obligation, to finance the deficits or provide financial support to the organization. The District does not exercise any power over any other entity and is considered the sole reporting entity.

Basis of accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are presented as a proprietary fund using the accrual method of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue includes activities that have the characteristics of exchange transactions, ordinarily water service fees. Operating expenses relate to the operation, maintenance, and management of the water systems. These expenses are intended to be funded by use charges. Non-operating revenue includes

**HIGHLAND LAKES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

earnings on investments and non-exchange transactions such as property taxes and tap fees. Non-operating expenses relate to debt services and tax collection. These expenses are funded by property taxes levied on residents of the District

Budget accounting - Budgets are prepared in accordance with the requirements of Colorado Revised Statute 29-1-103 and accordingly include anticipated income and other means of financing proposed expenditures. Expenditures also include, in addition to those shown in the operating statements, debt redemptions and capital expenditures.

Budgets - The District adheres to the following procedures in establishing the budgetary data reflected in the financial statement:

- A. Budgets are required by state law for all funds. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
- C. Prior to December 31, the budget is adopted and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the District nor included in the budget. The Board of Directors has the authority to make budget amendments.

Definition of cash – For the purpose of the statement of cash flows, the District defines cash as all cash on hand, demand deposits, and money market accounts held for three months or less.

Capital assets - Capital assets are reported in the proprietary fund financial statements. Capital assets are defined as assets having an estimated life in excess of one year. Such assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciable capital assets are depreciated using the straight-line method over estimated useful lives of 5 - 40 years.

Property taxes/deferred inflow of resources - Upon certification of the amount of levy by the District to Teller County (County), the County levies the property taxes in December of the year prior to the year of collection of the taxes. The County also acts as the billing and collecting agency for the District. Property taxes attach a lien on January 1 and may be paid in full by April 30 or in equal installments by

HIGHLAND LAKES WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

February 28 and June 15. The District records the taxes as a receivable when they are measurable and an enforceable legal claim attaches to the property. The taxes are recognized as revenue when the money is available in the following year.

Equity classifications

- *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, loans, notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- *Restricted Net Position* - Consists of net position with constraints placed on the use either by external groups, such as creditors, or laws or regulations of other governments.
- *Unrestricted Net Position* - Includes all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund equity - The governmental fund reports fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. The most significant estimate made in the accompanying financial statements is the useful lives of capital assets used to compute depreciation expense. Actual results could differ from those estimates.

Accounts receivable - customer - The District's accounts receivable consists of amounts due from customers for water usage and other related service fees. Management believes that all accounts receivable – customers are collectible and no allowance for doubtful accounts is deemed necessary.

Accounts receivable – contractor - The District's accounts receivable consists of amounts due from a contractor for equipment that was damaged during the construction of a Water Treatment Plant.

NOTE 1 – DEPOSITS AND INVESTMENTS

Deposits - 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. The PDPA allows eligible institutions to create single collateral pools for all public funds. Pools are to be maintained by separate institutions or held in trust for all the uninsured public funds. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The PDPA has the effect of perfecting a security interest in the name of the local government agency. Accordingly, all collateral held under the PDPA is considered to be held for, and in the name of, the local government agency.

**HIGHLAND LAKES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – DEPOSITS AND INVESTMENTS - Continued

Deposits are categorized as follows: Category a) Uncollateralized, b) Collateralized with securities held by the pledging financial institution, c) Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government name.

The District has \$940,668 invested with the Colorado Local Government Liquid Asset Trust (COLOTRUST PLUS+). The Trust is rated AAAM by Standard & Poor's.

Custodial credit risk deposits - Custodial credit risk is the risk that in the event of bank failure, the District's deposits will not be returned to it. The District does not have a policy related to custodial credit risk. At December 31, 2016, the District had no amounts exposed to custodial credit risk.

At December 31, 2016, the District's deposits and investments consisted of:

	<u>Bank balance</u>	<u>Book balance</u>
Insured (FDIC insured)	\$ 73,320	\$ 39,662
Category C	940,668	940,668
Total	<u>\$ 1,013,988</u>	<u>\$ 980,330</u>

NOTE 2 – CAPITAL ASSETS

Capital asset activity for 2016 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Proprietary fund				
Contributed property	\$ 1,095,020	\$ -	\$ -	\$ 1,095,020
Collection, transmission and distribution system	1,973,568	-	-	1,973,568
Utility building equipment	9,016	-	-	9,016
Equipment	174,104	-	-	174,104
Water rights and augmentation plan	442,901	-	-	442,901
Construction in progress	143,437	1,953,668	-	2,097,105
Total at historical cost	<u>3,838,046</u>	<u>1,953,668</u>	<u>-</u>	<u>5,791,714</u>
Less accumulated depreciation				
Contributed property	1,040,269	-	-	1,040,269
Collection, transmission and distribution system	994,892	78,758	-	1,073,650
Utility building equipment	9,016	-	-	9,016
Equipment	139,856	7,318	-	147,174
Water rights and augmentation plan	191,779	15,597	-	207,376
Total accumulated depreciation	<u>2,375,812</u>	<u>101,673</u>	<u>-</u>	<u>2,477,485</u>
Total capital assets, net	<u>\$ 1,462,234</u>	<u>\$ 1,851,995</u>	<u>\$ -</u>	<u>\$ 3,314,229</u>

Depreciation expense for 2016 was \$101,673.

**HIGHLAND LAKES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – TAX SPENDING AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved the Taxpayer’s Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance. The District believes it has complied with all aspects of the TABOR amendment.

The District voters approved and authorized the District to collect, retain and spend all revenue from tax levies and all other District revenue as a voter approved revenue change and an exception to the limits which otherwise apply. This vote effectively removed the District from some provisions of TABOR.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters on claims made basis. The District provides for these risks through the purchase of commercial insurance. Settled claims resulting from these risks have not exceeded the purchased commercial coverage in any of the past three fiscal years.

NOTE 5 – FAIR VALUE OF FINANCIAL STATEMENTS

The carrying amount of the District’s financial instruments approximates their fair value.

NOTE 6 – LONG TERM DEBT

Long-term debt consists of a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA). The District entered into the loan agreement with the CWRPDA in 2015. The loan was for a total of \$2,000,000 with interest at 2% and a term of twenty-years. The loan proceeds are being used to pay a portion of the costs for a specific water project of the District.

A summary of changes in long-term debt is:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Payments & reductions</u>	<u>Ending balance</u>	<u>Due within One Year</u>
Long-term term-debt Note payable	\$ 2,000,000	\$ -	\$ (48,858)	\$ 1,951,142	\$ 85,344

Interest expense for 2016 was \$37,703.

**HIGHLAND LAKES WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 – LONG TERM DEBT - Continued

Annual debt service requirements to maturity for the loan are as follows:

<u>Years ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2017	\$ 85,344	\$ 38,598	\$ 123,942
2018	87,060	36,883	123,943
2019	88,809	35,133	123,942
2020	90,595	33,348	123,943
2021	92,415	31,527	123,942
2022 to 2026	490,699	129,013	619,712
2027 to 2031	542,037	77,675	619,712
2032 to 2035	474,183	21,586	495,769
Total	<u>\$ 1,951,142</u>	<u>\$ 403,763</u>	<u>\$ 2,354,905</u>

NOTE 7 – COMMITMENTS

In 2016, the District entered into a contract for construction services totaling \$2,299,980, with approximately \$1,206,000 incurred and included in construction in progress as of December 31, 2016.

NOTE 8 – EXCESS EXPENDITURES

During the year ended December 31, 2016, the District had excess expenditures over appropriations of approximately \$415,000.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 22, 2017, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2016

	Budgeted amounts		Actual budgetary basis	Variance with final budget favorable (unfavorable)
	Original	Final		
Operating revenues				
Water sales	\$ 313,100	\$ 313,100	\$ 333,733	\$ 20,633
Other resident charges	6,950	6,950	3,918	(3,032)
Interest income	400	400	5,731	5,331
Miscellaneous income	2,900	2,900	696	(2,204)
Total operating revenues	323,350	323,350	344,078	20,728
Operating expenses				
Source of supply	47,500	47,500	90,270	(42,770)
Water treatment	6,300	6,300	3,579	2,721
Transmission and distribution	16,300	16,300	15,053	1,247
Administration and general	63,700	63,700	69,075	(5,375)
Capital outlay	20,000	20,000	1,454,552	(1,434,552)
Appropriation of surplus to budget	1,048,949	1,048,949	-	1,048,949
Total operating expenses	1,202,749	1,202,749	1,632,529	(429,780)
Operating income (loss)	(879,399)	(879,399)	(1,288,451)	(409,052)
Non-operating revenues (expenses)				
Grant	-	-	978,641	978,641
Property taxes	48,890	48,890	49,075	185
Specific ownership taxes	4,200	4,200	4,796	596
Water tap fees	9,900	9,900	10,126	226
Interest income	100	100	89	(11)
Miscellaneous income	-	-	1,457	1,457
Non-operating expenses	(37,200)	(37,200)	(23,045)	14,155
Total non-operating revenue (expense)	25,890	25,890	1,021,139	995,249
Change in net position - budgetary basis	\$ (853,509)	\$ (853,509)	(267,312)	\$ 586,197
GAAP adjustments				
Capital outlay			1,454,552	
Depreciation			(101,673)	
Change in net position GAAP basis			1,085,567	
Net position beginning of year			2,212,228	
Net position end of year			\$ 3,297,795	

See notes to financial statements

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2016**

Operating expenses	Final budget	Actual budgetary basis	Variance with final budget favorable (unfavorable)
Source of supply			
Water operator service	\$ 33,500	\$ 40,287	\$ (6,787)
Supplies	7,000	5,147	1,853
Purchased services	4,600	1,435	3,165
Water hauling	-	3,785	(3,785)
Lake maintenance	2,400	1,913	487
Interest	-	37,703	(37,703)
Total source of supply	<u>47,500</u>	<u>90,270</u>	<u>(42,770)</u>
Water treatment			
Testing	1,500	1,852	(352)
Chemicals	4,600	1,727	2,873
Supplies	200	-	200
Total water treatment	<u>6,300</u>	<u>3,579</u>	<u>2,721</u>
Transmission and distribution			
Purchased services	9,600	3,580	6,020
Supplies	6,700	11,473	(4,773)
Total transmission and distribution	<u>16,300</u>	<u>15,053</u>	<u>1,247</u>
Administration and general			
General supplies	3,900	4,023	(123)
Computer/printer	200	220	(20)
Postage	1,900	1,801	99
Office administration	28,400	27,181	1,219
Employment taxes	2,300	2,161	139
Electric	23,500	28,971	(5,471)
Telephone	2,300	3,114	(814)
Trash	700	647	53
Miscellaneous	500	957	(457)
Total administration and general	<u>63,700</u>	<u>69,075</u>	<u>(5,375)</u>
Capital projects			
Capital equipment and improvements	20,000	1,454,552	(1,434,552)
Total capital projects	<u>20,000</u>	<u>1,454,552</u>	<u>(1,434,552)</u>
Emergency and non-emergency reserves			
Appropriation of surplus to budget	1,048,949	-	1,048,949
Total emergency and non-emergency reserves	<u>1,048,949</u>	<u>-</u>	<u>1,048,949</u>
Total operating expenses	<u>\$ 1,202,749</u>	<u>\$ 1,632,529</u>	<u>\$ (429,780)</u>

Continued on page 20

See notes to financial statements

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2016**

Continued from page - 19

	Final budget	Actual budgetary basis	Variance with final budget favorable (unfavorable)
Non-operating expenses			
Director fees	7,000	5,700	1,300
Postage for publication	700	521	179
Audit	4,300	4,125	175
Public news required publication	1,100	664	436
Insurance	6,100	5,046	1,054
Legal - regular	7,600	148	7,452
Legal - augmentation	100	350	(250)
Legal - water rights	1,700	-	1,700
Bookkeeping services	3,900	3,919	(19)
Dues	700	413	287
Seminars and training	500	-	500
Meeting rental	500	390	110
State fees	300	220	80
County treasurer fees	1,700	1,419	281
Election	1,000	130	870
Total non-operating expenses	<u>37,200</u>	<u>23,045</u>	<u>14,155</u>
Total expenses	<u>\$ 1,239,949</u>	1,655,574	<u>\$ (415,625)</u>
GAAP adjustments:			
Capital outlay		(1,454,552)	
Depreciation		101,673	
Total expenses GAAP basis		<u>\$ 302,695</u>	
Reconciliation of total expenses			
Operating expenses		\$ 1,632,529	
Nonoperating expenses		23,045	
Depreciation		101,673	
Capital outlay		(1,454,552)	
		<u>\$ 302,695</u>	

See notes to financial statements