

**HI-LAND ACRES WATER
AND SANITATION DISTRICT**

BASIC FINANCIAL STATEMENTS

December 31, 2016



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**HI-LAND ACRES WATER AND SANITATION DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2016**

This section provides a summary of the District's financial performance. It contains an overview and analysis of the District's financial activities for the year ended December 31, 2016. The financial statements are an integral part of this analysis and are contained within this document.

FINANCIAL HIGHLIGHTS

1. In 2016, net position totaled \$2,522,930, which represents a decrease of \$20,422 (0.8%) when compared to 2015.
2. Total operating revenues were \$193,655 during 2016.
3. Total operating expenses were \$255,777 during 2016, which represents an increase of \$23,598 (10.2%) when compared to 2015.
4. Total non-operating revenues were \$45,670 during 2016.
5. Total non-operating expenses were \$3,970 during 2016, which represents a decrease of \$701 (15.0%) when compared to 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The basic financial statements are comprised of proprietary fund financial statements, notes to the financial statements, and supplemental information.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to private-sector businesses.

The statement of assets provides information regarding all of the District's assets, liabilities, and net position. Historically, changes (increases or decreases) in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The balance sheet is displayed on page two of the independent auditors report.

The statement of revenues, expenses and changes in net position provides information regarding the changes in net position during the course of the past year. Revenues are recorded as they are earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows.

Proprietary Fund Financial Statements

A fund is a group of accounts used to maintain control of resources that have been set aside for specific activities or objectives. The District uses general fund accounting to account for all financial activities and to ensure and demonstrate compliance with finance related legal requirements.

Notes to Financial Statements

The notes provide detailed clarifying additional information necessary for a complete understanding of the data contained in the government-wide and fund financial statements.

FINANCIAL ANALYSIS

The true picture of the financial health of the District must take into account the operational policies and financial control practiced by the District.

Financial Policy Priorities

The financial goal of the District is to operate in a cost efficient manner that is similar to the practices of private enterprises. The District annually reviews its policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Debt service is funded from user fees.
2. Administration and operations are funded from user fees.
3. User fees will fund a portion of capital improvement needs.

Day-to-Day Operational Control of the District

For operational control, the District has segmented its budget into two categories: the water fund and the wastewater fund. This has improved the District's ability to easily track operating and non-operating revenues and expenditures. The funds provide for the operational needs of the District. The major source of revenue is user fees and real estate taxes. Expenditures are broken down into two areas: general and administrative, and collection and treatment. This encourages a critical review of how the District allocates its monetary resources.

Expenditures are identified through long-term financial planning, which identifies items that will need major repair or replacement. Expenditures are also made to ensure that the District continues to conform to state and environmental mandates.

Currently, the primary funding source is water and wastewater fees. The District, operating under the “pay-as-you-go” philosophy, is consciously building reserves sufficient to handle all infrastructure expenses that are anticipated and those that arise unexpectedly.

The District’s day-to-day operational control involves many levels of planning, forecasting and budgeting. Revenues and expenses are allocated to specific functions of the District. Monthly financial reports are presented to the Board of Directors. The reports contain monthly revenues and expenditures compared to the adopted budget.

A summary of the statement of net position is included below.

| | <u>2016</u> | <u>2015</u> |
|----------------------------|---------------------|---------------------|
| Current assets | \$ 538,032 | \$ 539,043 |
| Non-current assets | <u>2,035,505</u> | <u>2,092,692</u> |
| Total assets | <u>2,573,537</u> | <u>2,631,735</u> |
| | | |
| Current liabilities | 15,866 | 19,603 |
| Non-current liabilities | 34,741 | 59,920 |
| Deferred property taxes | <u>-</u> | <u>8,860</u> |
| Total liabilities | <u>50,607</u> | <u>88,383</u> |
| | | |
| Net position: | | |
| Invested in capital assets | 1,979,425 | 2,004,718 |
| Temporarily restricted | - | 112,667 |
| Unrestricted | <u>543,505</u> | <u>425,967</u> |
| Total net position | <u>\$ 2,522,930</u> | <u>\$ 2,543,352</u> |

The above table shows the District to be in an overall healthy position, for a District of its size. It is also important to note that the District generally operates from year to year with a profit from operations.

The table below shows the revenues, expenses, and changes in net position for 2016 and 2015.

| | 2016 | 2015 |
|-----------------------------|---------------------|---------------------|
| Total operating revenue | \$ 193,655 | \$ 193,461 |
| Total operating expenses | (255,777) | (232,179) |
| Net operating income (loss) | <u>(62,122)</u> | <u>(38,718)</u> |
| Non-operating revenue | 45,670 | 12,207 |
| Non-operating expenses | (3,970) | (4,671) |
| Net non-operating revenue | <u>41,700</u> | <u>7,536</u> |
| Change in net position | (20,422) | (31,182) |
| Beginning net position | 2,543,352 | 2,574,534 |
| Ending net position | <u>\$ 2,522,930</u> | <u>\$ 2,543,352</u> |

It was anticipated that Metro Wastewater Reclamation District (MWRD) would bring their new facility on-line in July 2016. It was also expected that the Thornton Interceptor waste water line (to bring waste from the City of Thornton as well as Hiland Acres Water and Sanitation District) would be completed at the same time. Contract delays did not allow this timetable to be met. It is now expected that the completion of the project will be Q3 of 2017. At that time the District will cease operation of its own wastewater treatment and rely completely on the Metro facility. At this time the District is generating sufficient revenue to meet current operating expenses. See “Economic Factors and Next Year’s Budgets and Rates” for further discussion

BUDGETARY HIGHLIGHTS

The schedule of revenues and expenses, actual and budget is included in the supplementary information. The budget is prepared on a cash basis and thus excludes depreciation and includes payments made on long-term debt.

CAPITAL ASSETS AND DEBT ACTIVITES

During 2014, the District invested in sewer tap fees to connect with the Metro Wastewater Reclamation District, as mentioned above. The repayment of these fees was through an assessment of \$3,960 for each residence in the District. The majority of these assessed fees were collected in 2015 and 2016, with only one residence needing to pay via property tax assessment payable in 2018.

At the conclusion of 2015, the District had outstanding debt of \$40,729 for the loan issued by the Colorado Department of Local Affairs (DOLA). The State loan was incurred to defray plant expansion costs. Funding from user fees is sufficient to pay the currently scheduled debt service amounts. The general water bond obligation was paid in full during 2016.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Directors and the management consider many factors when they set the budget for 2017. Part of this consideration was discussion pertaining to the planned connection with the North Metro Reclamation system in 2017. It is generally recognized that current sewer income levels are insufficient to cover the project costs in 2016 and 2017 (including the engineering study and design of a new 8" sewer line from the headwork of the District's wastewater treatment plant (WWTP) to the Thornton's Todd Creek Interceptor, jointly building a new sewer interceptor with the City of Thornton to connect with MWRD's North Treatment Plant, decommissioning the existing WWTP, and lining the existing sewer collection lines). The District applied for and received \$654,500 Energy and Minerals Impact Assistance Fund funding to supplement current sewer income. In 2017, the District also plans to apply for a \$650,000 loan at 2% interest from Colorado Water Resources and Development Authority. With the above in mind, projected user fees, growth, and plant investment fees are all evaluated and considered before the final budget is adopted. User fees are sufficient to pay the scheduled debt service amounts.

CONTACTING THE DISTRICT'S MANAGER

This financial report is designed to provide our neighbors, customers, and creditors with a general overview of the District's finances and demonstrate the District's accountability for the money it receives. If you have any questions concerning this report or need additional information, please go to www.hilandacreswater.org or contact the manager at Hi-Land Acres Water and Sanitation District, PO Box 218, Brighton, CO 80601.

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ROBERT R. FEIS, CPA

Independent Auditors' Report

**Board of Directors
Hi-Land Acres Water and
Sanitation District
Brighton, Colorado**

We have audited the accompanying financial statements of the business-type activities of the Hi-Land Acres Water and Sanitation District (the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hi-Land Acres Water and Sanitation District as of December 31, 2016, and the changes in financial position, and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages i through v be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison and expense detail information presented on pages 15 and 16 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 not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Leis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
Brighton, CO

September 14, 2017

HI-LAND ACRES WATER AND SANITATION DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | <u>Water Fund</u> | <u>Wastewater Fund</u> | <u>Adjustments</u> | <u>Total 2016</u> | <u>(Memorandum Only) 2015</u> |
|--|---------------------|------------------------|---------------------|---------------------|-------------------------------|
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 514,155 | \$ - | \$ - | \$ 514,155 | \$ 476,446 |
| Restricted bond reserve account | - | - | - | - | 19,199 |
| Accounts receivable - | | | | | |
| Customers | 8,463 | 7,239 | - | 15,702 | 18,239 |
| Sewer tap fees | - | 3,485 | - | 3,485 | 11,608 |
| Property taxes | - | - | - | - | 8,860 |
| Prepaid insurance | 2,528 | 2,162 | - | 4,690 | 4,691 |
| Due from water fund | - | 264,285 | (264,285) | - | - |
| Total Current Assets | <u>525,146</u> | <u>277,171</u> | <u>(264,285)</u> | <u>538,032</u> | <u>539,043</u> |
| Non-Current Assets | | | | | |
| Land and water rights | 3,922 | 8,748 | - | 12,670 | 12,670 |
| Water distribution system, net of accumulated depreciation | 1,050,104 | - | - | 1,050,104 | 1,074,447 |
| Other capital assets, net of accumulated depreciation | 350,423 | 606,957 | - | 957,380 | 990,224 |
| Patronage capital | 9,211 | 6,140 | - | 15,351 | 15,351 |
| Total Non-Current Assets | <u>1,413,660</u> | <u>621,845</u> | <u>-</u> | <u>2,035,505</u> | <u>2,092,692</u> |
| Total Assets | <u>1,938,806</u> | <u>899,016</u> | <u>(264,285)</u> | <u>\$ 2,573,537</u> | <u>2,631,735</u> |
| Deferred Outflows of Resources | | | | | |
| Total Assets and Deferred Outflows of Resources | <u>\$ 1,938,806</u> | <u>\$ 899,016</u> | <u>\$ (264,285)</u> | <u>\$ 2,573,537</u> | <u>\$ 2,631,735</u> |

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | | | | | |
|---|---------------------|-------------------|---------------------|---------------------|---------------------|
| Current Liabilities | | | | | |
| Accounts payable | \$ 9,199 | \$ - | \$ - | \$ 9,199 | \$ 5,581 |
| Accrued interest payable | 679 | - | - | 679 | 1,319 |
| Due to wastewater fund | 264,285 | - | (264,285) | - | - |
| Current portion of long-term debt | 5,988 | - | - | 5,988 | 12,703 |
| Total Current Liabilities | <u>280,151</u> | <u>-</u> | <u>(264,285)</u> | <u>15,866</u> | <u>19,603</u> |
| Non-Current Liabilities | | | | | |
| Long-term debt | 34,741 | - | - | 34,741 | 59,920 |
| Total Liabilities | <u>314,892</u> | <u>-</u> | <u>(264,285)</u> | <u>50,607</u> | <u>79,523</u> |
| Deferred Inflows of Resources | | | | | |
| Deferred property taxes | - | - | - | - | 8,860 |
| Total Deferred Inflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>8,860</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>314,892</u> | <u>-</u> | <u>(264,285)</u> | <u>50,607</u> | <u>88,383</u> |
| Net Position | | | | | |
| Net Position | | | | | |
| Invested in capital assets, net of related debt | 1,363,720 | 615,705 | - | 1,979,425 | 2,004,718 |
| Temporarily restricted | | | | | |
| Loan and bond reserve | - | - | - | - | 19,199 |
| Other | - | - | - | - | 93,468 |
| Unrestricted | 260,194 | 283,311 | - | 543,505 | 425,967 |
| Total Net Position | <u>1,623,914</u> | <u>899,016</u> | <u>-</u> | <u>2,522,930</u> | <u>2,543,352</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 1,938,806</u> | <u>\$ 899,016</u> | <u>\$ (264,285)</u> | <u>\$ 2,573,537</u> | <u>\$ 2,631,735</u> |

See independent auditors' report.
 The accompanying notes are an integral
 part of the financial statements

**HI-LAND ACRES WATER AND SANITATION DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 DECEMBER 31, 2016**

| | <u>Water Fund</u> | <u>Wastewater Fund</u> | <u>Total 2016</u> | <u>(Memorandum Only) 2015</u> |
|--|-----------------------|----------------------------|-----------------------|-----------------------------------|
| Revenues: | | | | |
| Charges for Services | \$ 104,354 | \$ 89,301 | \$ 193,655 | \$ 193,461 |
| Total Revenue | <u>104,354</u> | <u>89,301</u> | <u>193,655</u> | <u>193,461</u> |
| Operating Expenses: | | | | |
| Collection and treatment expenses | 78,116 | 154,657 | 232,773 | 209,450 |
| General and administrative expenses | 12,801 | 10,203 | 23,004 | 22,729 |
| Total Operating Expenses | <u>90,917</u> | <u>164,860</u> | <u>255,777</u> | <u>232,179</u> |
| Income (Loss) from Operations | 13,437 | (75,559) | (62,122) | (38,718) |
| Other Income (Expenses) | | | | |
| Property taxes | 8,813 | - | 8,813 | 8,479 |
| Specific Ownership taxes | 857 | - | 857 | 711 |
| Interest income | 308 | - | 308 | 308 |
| State grant | - | 33,206 | 33,206 | - |
| Miscellaneous income | 2,024 | - | 2,024 | 1,419 |
| Oil royalties | 249 | 213 | 462 | 1,290 |
| Interest expense | (3,970) | - | (3,970) | (4,671) |
| Total Other Income (Expenses) | <u>8,281</u> | <u>33,419</u> | <u>41,700</u> | <u>7,536</u> |
| Change in net position | 21,718 | (42,140) | (20,422) | (31,182) |
| Net Position, Beginning of Year | <u>1,602,196</u> | <u>941,156</u> | <u>2,543,352</u> | <u>2,574,534</u> |
| Net Position, End of Year | <u>\$ 1,623,914</u> | <u>\$ 899,016</u> | <u>\$ 2,522,930</u> | <u>\$ 2,543,352</u> |

See independent auditors' report.
 The accompanying notes are an integral
 part of the financial statements

**STATEMENT
OF
CASH FLOWS**

HI-LAND ACRES WATER AND SANITATION DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 DECEMBER 31, 2016

DIRECT METHOD

| | Water Fund | Wastewater Fund | Total 2016 | (Memorandum Only) 2015 |
|--|---------------|--------------------|---------------|---------------------------|
| Cash flows from operating activities: | | | | |
| Receipts from customers | \$ 105,558 | \$ 98,757 | \$ 204,315 | \$ 221,418 |
| Payments to vendors | (40,952) | (134,003) | (174,955) | (153,485) |
| Net cash provided (used) by operating activities | 64,606 | (35,246) | 29,360 | 67,933 |
| Cash flows provided (used) for investing activities: | | | | |
| Interest income received | 308 | - | 308 | 308 |
| Purchases of equipment | (20,016) | - | (20,016) | - |
| Net cash provided (used) by investing activities | (19,708) | - | (19,708) | 308 |
| Cash flows provided (used) by capital and related financing activities: | | | | |
| Interest paid | (4,610) | - | (4,610) | (4,908) |
| Principal payments on long-term debt | (31,894) | - | (31,894) | (12,431) |
| Property and specific ownership taxes | 9,670 | - | 9,670 | 9,190 |
| Transfer to water bond account | 19,199 | - | 19,199 | (5) |
| Miscellaneous income | 2,273 | 213 | 2,486 | 2,709 |
| State grant proceeds | - | 33,206 | 33,206 | - |
| Transfers between funds | (1,827) | 1,827 | - | - |
| Net cash provided (used) by capital and related financing activities | (7,189) | 35,246 | 28,057 | (5,445) |
| Net increase (decrease) in cash | 37,709 | - | 37,709 | 62,796 |
| Cash, beginning of year | 476,446 | - | 476,446 | 413,650 |
| Cash, end of year | \$ 514,155 | \$ - | \$ 514,155 | \$ 476,446 |

**Reconciliation of Net Cash Provided (used) by
Operating Activities to Net Income (Loss) from Operations**

| | <u>Water Fund</u> | <u>Wastewater Fund</u> | <u>Total 2016</u> | <u>(Memorandum Only) 2015</u> |
|---|-----------------------|----------------------------|-----------------------|-----------------------------------|
| Net income (loss) from operations | \$ 13,437 | \$ (75,559) | \$ (62,122) | \$ (38,718) |
| Adjustment to Reconcile Net Income to Cash Provided by Operating Activities: | | | | |
| Depreciation Expense | 46,389 | 30,814 | 77,203 | 81,965 |
| Changes in Assets and Liabilities: | | | | |
| Accounts receivable - (increase) decrease | 1,204 | 9,456 | 10,660 | 27,957 |
| Prepaid expenses - (increase) decrease | (42) | 43 | 1 | - |
| Accounts payable - increase (decrease) | <u>3,618</u> | <u>-</u> | <u>3,618</u> | <u>(3,271)</u> |
| Net cash provided by operating activities | <u>\$ 64,606</u> | <u>\$ (35,246)</u> | <u>\$ 29,360</u> | <u>\$ 67,933</u> |

See independent auditors' report.
The accompanying notes are an integral
part of the financial statements

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hi-Land Acres Water and Sanitation District is organized under the provisions of Section 32-1-305(6) C.R.S. It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof which include the power to levy taxes against property within the District. The District grants credit to its customers, all of whom are located in Adams County, Colorado. The District was formed in 1967.

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), which are applicable to governmental entities.

The following is a summary of significant accounting policies:

A. Principles Determining Scope of Reporting Entity

The financial statements of the District consist only of the funds and account groups of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and election of the respective governing board. Therefore in accordance with Governmental Accounting Standards Board Statement #14, the District is considered a stand-alone entity for financial reporting purposes.

B. Government-Wide and Fund Financial Statements

The Government-Wide financial statements (i.e. the statement of activities) report information on all of the non-fiduciary activities of the government. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues.

The Government-Wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund Accounting

The accounts of the District are organized on the basis of funds and account groups. Each fund and account group is considered an independent fiscal and accounting entity with a self-balancing set of accounts recording assets together with all related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following funds were used by the District during 2016:

PROPRIETARY FUNDS

Water Fund – This fund is used to account for all activities related to providing fresh drinking water to residents of the District.

Wastewater Fund – This fund is used to account for all activities related to wastewater treatment and disposal for residents of the District.

C. Measurement Focus and Basis of Accounting

Measurement Focus

The accrual basis of accounting is used for reporting purposes of the proprietary funds of the District. Under the accrual method of accounting, revenues and the related assets are reported when they are earned, regardless of when they are received and expenses and the related liabilities are reported when they are incurred, regardless of when they are paid.

Encumbrance accounting is not used.

The proprietary funds of the District distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenues are charges to customers for water and waste disposal. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The District prepares its budget on a basis consistent with generally accepted accounting principles and Colorado Revised Budgetary Statutes. All annual appropriations are at the total District level and lapse at fiscal year-end.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$250 or more are stated at cost or fair market value, if donated. The cost of repairs and maintenance is charged against income as incurred. Significant renewals, betterments and improvements are capitalized.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Allowance for Bad Debts

No allowance for bad debts has been provided for customer receivables because, according to Colorado statute, the District's fees for providing services constitute a lien upon which the District may foreclose. In recent years, the District has not had significant collection problems.

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Property Taxes

All taxable property within the District on January 1st each year is listed, appraised and valued as of January 1st, the official assessment date. At that time, property taxes are levied against the property, constituting a perpetual lien with priority over all other liens. Taxes are due and payable on January 1st following the year of assessment; however, they may be paid in either one installment due April 30th or two installments due February 28th and June 15th without penalty or interest. Unpaid amounts and accrued interest thereon become delinquent on June 16th.

The Governmental Accounting Standards Board has determined that property taxes should be accrued in the year of levy. Because these taxes are not available for use until the year subsequent to accrual, revenue is recognized in the subsequent year. Effective December 31, 2016, the District is no longer levying taxes. However, collections will continue to be made on taxes levied in previous years.

I. Budgets

Colorado state law requires the adoption of a budget and appropriations. Appropriations lapse at the end of the year. The budgets are prepared on the budgetary basis, which differs from a basis consistent with generally accepted accounting principles. Therefore, comparison of actual operations on the accrual basis to the budgets is not appropriate. However, a schedule comparing the actual activity on a budgetary basis to the budget is provided in the Supplementary Information section. The adjustments necessary to convert the actual revenues and expenditures to the budgetary basis for 2016 are as follows:

| | |
|----------------------------|------------------|
| Changes in net position | \$ (20,422) |
| Add: Change in receivables | 10,660 |
| Change in prepaids | 1 |
| Change in accrued expenses | 3,618 |
| Depreciation | 77,203 |
| Less: Debt principal paid | (31,894) |
| Capital expenditures | <u>(20,016)</u> |
| Revenues over expenditures | \$ <u>19,150</u> |

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Budgets (Continued)

The District's Board of Directors adopts the budget by resolution, usually in December each year. At that time, notice is published in local newspapers and the proposed budget is open to inspection by taxpayers and public hearings are held. The level of budgetary responsibility is by total appropriations.

2. CASH AND 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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral determined by the PDPA. The institution is allowed to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of year-end the District's bank balance was insured, collateralized with securities of the financial institution's trust or collateralized with securities held by the pledging financial institution through PDPA.

At December 31, 2016, the District's cash deposits had a carrying balance of \$514,155 and corresponding bank balances as follows:

| | <u>2016</u> | Memorandum Only <u>2015</u> |
|--|-------------------|-----------------------------------|
| Insured deposits | \$ 425,499 | \$ 407,290 |
| Uninsured: Collateralized by financial institution | 88,656 | 88,355 |
| Bond reserve account (Note 6) | --- | <u>(19,199)</u> |
| Total cash and cash equivalents | \$ <u>514,155</u> | \$ <u>476,446</u> |

A summary of cash and cash equivalents, which are combined in the statement of net position, is as follows:

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

2. CASH AND DEPOSITS (Continued)

| | <u>2016</u> | Memorandum Only <u>2015</u> |
|--|-------------------|-----------------------------------|
| Cash on hand and in operating accounts | \$ 175,499 | \$ 157,290 |
| Savings accounts | <u>338,656</u> | <u>319,156</u> |
| Total cash and cash equivalents | \$ <u>514,155</u> | \$ <u>476,446</u> |

3. CAPITAL ASSETS

Depreciation has been computed using the straight-line method based on lives of 10 to 50 years. Depreciation expense totaled \$77,203 and \$81,965 for the years ended December 31, 2016 and 2015, respectively.

Capital asset activity for the year ended December 31, 2016 was as follows:

| | <u>Balance</u> <u>12/31/2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>12/31/2016</u> |
|--|-------------------------------------|--------------------|------------------|-------------------------------------|
| <u>Not depreciated</u> | | | | |
| Land and Water Rights | \$ <u>12,670</u> | \$ _____ - | \$ _____ - | \$ <u>12,670</u> |
| <u>Other capital assets</u> | | | | |
| Water Distribution System | 1,205,016 | - | - | 1,205,016 |
| Treatment Plants | 1,505,044 | - | - | 1,505,044 |
| Source of Supply | 181,198 | 20,016 | - | 201,214 |
| Collection, transmission and distribution systems | <u>123,849</u> | - | - | <u>123,849</u> |
| Total Capital Assets | <u>3,027,777</u> | <u>20,016</u> | - | <u>3,047,793</u> |
| <u>Accumulated Depreciation</u> | | | | |
| Water Distribution System | (130,569) | (24,342) | - | (154,911) |
| Treatment Plants | (592,737) | (44,494) | - | (637,231) |
| Source of Supply | (154,416) | (6,226) | - | (160,642) |
| Collection, transmission and distribution systems | <u>(72,714)</u> | <u>(2,141)</u> | - | <u>(74,855)</u> |
| Total Accumulated Depreciation | <u>(950,436)</u> | <u>(77,203)</u> | - | <u>(1,027,639)</u> |
| Net Capital Assets | <u>\$2,077,341</u> | \$ <u>(57,187)</u> | \$ _____ - | <u>\$2,020,154</u> |

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

4. PATRONAGE CAPITAL

Patronage capital represents funds held by United Power, Inc., in connection with utility services provided. The amount retained may be paid back by United Power, Inc. at its option or when utility services are terminated by the District.

5. RESTRICTED NET POSITION

Net position is reported as restricted when there are limitations imposed on their use whether through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. When expenses are incurred for which restricted and unrestricted funds are available, the District considers restricted funds to be expended first.

The water revenue bond (see Note 6) requires all income over expenses for water operations be maintained in a separate fund until the bonds are paid off. The bonds were paid off in 2016, thus the Bond Reserve fund has a balance of \$-0- as of December 31, 2016.

6. LONG-TERM DEBT

A. Water Revenue Bond

In July 1980, the District issued a revenue bond (Series 1980) in the amount of \$170,000 as security for a loan from the Farmers Home Administration (FmHA), to be used for improvements to the water system, including a new well. During 1987, the indebtedness was sold by FmHA to General Electric Capital. Subsequently, the indebtedness was sold to GMAC Commercial Mortgage, then to CAPMARK, and finally to Berkadia Commercial Mortgage. The water revenue bond securing the loan requires interest at 5% per annum, payable each February 1st and August 1st. The bonds were paid in full as of December 31, 2016.

The terms of the bond require establishment of a special bond fund to be known as the "Water Revenue Bond Fund" and the District agrees to maintain said fund so long as the bond remains outstanding and unpaid. Said bond fund shall be kept separate from all other funds of the District, and shall contain all net income derived by the District from the operation of its water system (see Note 5).

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

6. LONG-TERM DEBT (Continued)

A. Water Revenue Bond (Continued)

The District agreed that it will establish, maintain, and enforce rates and charges for services rendered by the system to create income each year sufficient to pay maintenance and operating expenses of the system and to cover 1.2 times the annual interest requirement of the water revenue bond. In 2016 and 2015, water revenues exceeded operating costs and maintenance costs, excluding depreciation, by \$13,437 and \$54,352, respectively.

The terms of the bond issue also require the establishment of a separate account to be designated as the "Bond Reserve Account." This account shall be used to prevent defaults in the payment of the bond principal and the interest thereon, to pay for emergency maintenance and for extensions to the water facilities, but if used for such purposes, it shall be restored to the account as soon as possible. The reserve account balance as of December 31, 2016 and 2015 was \$-0- and \$19,199, respectively.

B. Loan Payable

In 2003, the District applied for and received a loan from the Energy and Mineral Impact Assistance Program through the Colorado Department of Local Affairs (DOLA) in the amount of \$100,000 for a water system improvements project. The loan was funded from the State severance tax proceeds.

The loan is to be repaid from user rates and payments for services. The District agreed to establish rates and charges for these services in amounts sufficient to provide for the financial requirements of the project, including repayment of the loan. The loan requires 20 annual payments of \$8,024 beginning September 1, 2003, including interest at 5%.

Future debt principal and interest payments are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------|------------------|-----------------|------------------|
| December 31, 2017 | \$ 5,988 | \$ 2,036 | \$ 8,024 |
| 2018 | 6,287 | 1,737 | 8,024 |
| 2019 | 6,601 | 1,423 | 8,024 |
| 2020 | 6,932 | 1,093 | 8,025 |
| 2021 | 7,278 | 746 | 8,024 |
| 2022 | <u>7,643</u> | <u>381</u> | <u>8,024</u> |
| Total | \$ <u>40,729</u> | \$ <u>7,416</u> | \$ <u>48,145</u> |

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

6. LONG-TERM DEBT (Continued)

Changes in balances for long-term debt, including current portions are as follows:

| | <u>Balance</u> <u>12/31/2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance</u> <u>12/31/2016</u> | <u>Current</u> <u>Portion</u> |
|--------------------|-------------------------------------|------------------|--------------------|-------------------------------------|----------------------------------|
| Water Revenue Bond | \$ 26,190 | \$ - | \$ (26,190) | \$ - | \$ - |
| State Loan | <u>46,433</u> | <u>-</u> | <u>(5,704)</u> | <u>40,729</u> | <u>5,988</u> |
| Total | \$ <u>72,623</u> | \$ <u>-</u> | \$ <u>(31,894)</u> | \$ <u>40,729</u> | \$ <u>5,988</u> |

7. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settled claims have not exceeded commercial insurance coverage in the last several years.

8. MANAGEMENT FEES AND EXPENSES

ORC Water Professionals, Inc. services the District at a monthly flat rate of \$1,045. Additional fees are assessed for testing various water parameters.

9. TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District does not believe that it is directly subject to the "TABOR" limitations. However, the District has made certain interpretations of language in the amendment to make that determination.

10. GOVERNMENT REGULATION

Substantially all of the District's facilities are subject to federal, state and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the District expect such compliance to have, any material effect upon the capital expenditures, net income, and financial condition of the District. Management believes that its current practices and procedures for the control and disposition of such waste comply with applicable federal, state, and local requirements.

See independent auditors' report.

HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

11. INTER-FUND TRANSACTIONS

In 2016 the wastewater fund had an deficit of revenues over expenses. When the wastewater fund has a deficit of revenues over expenses, they are transferred from the water fund. These inter-fund accounts are eliminated on the financial statements. The cumulative amount owed between the funds was \$264,285 as of December 31, 2016.

12. METRO WASTEWATER RECLAMATION DISTRICT

During 2013, the District entered into an Inter-Government Agreement (IGA) with Metro Wastewater Reclamation District. The IGA provides for wastewater treatment to be provided by Metro Wastewater Reclamation District to the District. Each resident of the District is required to pay a connection fee of \$3,960. The connection fees paid by the District on residents' behalf were included in capital asset additions in 2013. As of December 31, 2016 and 2015, \$3,485 and \$11,608, respectively, was owed by residents to the District.

In connection with the IGA, the District has elected to decommission the District's existing wastewater treatment facility. This project spans multiple years and is expected to be completed in late 2017. The total anticipated costs for this project are \$630,000. Of that, \$92,936 has been incurred as of December 31, 2016.

13. SUBSEQUENT EVENTS

The District has adopted the provisions of Statement of Financial Accounting Standards Codification 855, *Subsequent Events*. This statement requires management to evaluate, through the date the financial statements are issued or are available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events were evaluated. The District's financial statements were available to be issued on September 14, 2017, and this is the date through which subsequent events were evaluated. The District did not identify any subsequent events requiring disclosure.

See independent auditors' report.

**OTHER
SUPPLEMENTARY
INFORMATION**

HI-LAND ACRES WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL (BUDGETARY BASIS)
DECEMBER 31, 2016

| | Budget | | Actual (Budgetary Basis) | Variance- Favorable (Unfavorable) |
|---|--------------|--------------|--------------------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Charges for Services | \$ 192,700 | \$ 192,700 | \$ 204,315 | \$ 11,615 |
| Property taxes | 8,860 | 8,860 | 8,813 | (47) |
| Specific Ownership taxes | 750 | 750 | 857 | 107 |
| Interest income | 300 | 300 | 308 | 8 |
| State grant | 500,000 | 500,000 | 33,206 | (466,794) |
| Miscellaneous income | 1,800 | 1,800 | 2,024 | 224 |
| Oil royalties | 1,300 | 1,300 | 462 | (838) |
| Total Revenues | 705,710 | 705,710 | 249,985 | (455,725) |
| Expenditures: | | | | |
| Collection and treatment | 423,000 | 423,000 | 171,968 | 251,032 |
| General and administrative | 377,650 | 377,650 | 23,003 | 354,647 |
| Non-Operating Expenses | | | | |
| Interest expense | 3,632 | 3,632 | 3,970 | (338) |
| Bond principal | 7,000 | 7,000 | 26,190 | (19,190) |
| Loan payments | 12,703 | 12,703 | 5,704 | 6,999 |
| Total Operating Expenses | 823,985 | 823,985 | 230,835 | 593,150 |
| Revenues Over (Under) Expenditures | \$ (118,275) | \$ (118,275) | \$ 19,150 | \$ 137,425 |

See independent auditors' report.
The accompanying notes are an integral
part of the financial statements

**HI-LAND ACRES WATER AND SANITATION DISTRICT
 PROPRIETARY FUNDS
 SCHEDULE OF COLLECTION AND TREATMENT EXPENSES
 AND GENERAL AND ADMINISTRATIVE EXPENSES
 DECEMBER 31, 2016**

| | Water Fund | Wastewater Fund | Total 2016 | (Memorandum Only) 2015 |
|---|------------------|--------------------|-------------------|---------------------------|
| Collection and Treatment: | | | | |
| Depreciation | \$ 46,389 | \$ 30,814 | \$ 77,203 | \$ 81,965 |
| Engineering | - | - | - | 22,200 |
| Utilities | 11,359 | 9,715 | 21,074 | 22,037 |
| Sewer plant decommissioning | - | 92,936 | 92,936 | - |
| Service fees | 10,001 | 8,554 | 18,555 | 22,896 |
| Repairs and maintenance | 6,134 | 5,504 | 11,638 | 53,200 |
| Sample analysis and testing | 4,233 | 7,134 | 11,367 | 7,152 |
| | | | | |
| Total Collection and Treatment | \$ 78,116 | \$ 154,657 | \$ 232,773 | \$ 209,450 |
| | | | | |
| General and Administrative | | | | |
| Accounting and auditing | \$ 4,240 | \$ 3,627 | \$ 7,867 | \$ 8,765 |
| Board compensation | 2,479 | 2,121 | 4,600 | - |
| Insurance expense | 3,226 | 2,759 | 5,985 | 5,908 |
| Legal expense | 968 | 81 | 1,049 | 5,385 |
| Office supplies and telephone | 325 | 278 | 603 | 441 |
| Taxes, licenses and fees | 643 | 550 | 1,193 | 1,511 |
| Miscellaneous | 920 | 787 | 1,707 | 719 |
| | | | | |
| Total General and Administrative | \$ 12,801 | \$ 10,203 | \$ 23,004 | \$ 22,729 |
| | | | | |

See independent auditors' report.
 The accompanying notes are an integral
 part of the financial statements