

***HIGHLAND LAKES WATER DISTRICT
FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTAL INFORMATION
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2017***

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Office of the State Auditor

July 25, 2018

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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, 2017, 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, 2017, 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

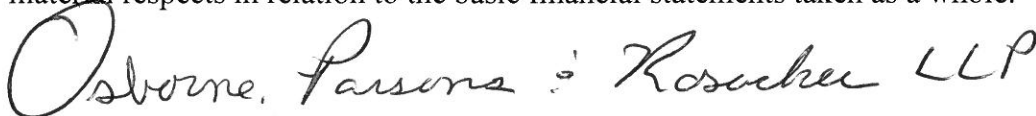
Required Supplemental Information

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, 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.



Colorado Springs, Colorado
July 17, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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, 2017. 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, 2017**

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 36% 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 18.

Current Projects

The District is concluded work efforts to upgrade the collection, storage, treatment, and distribution facilities. The upgrades address water supply by adding a single collection point and increase storage capacity at a single location as compared to the disbursed systems previously in use. The increased treatment and storage at a centrally located facility can focus on nitrite issues and chlorine contact time within the distribution system and improve overall customer service.

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, 2017**

STATEMENT OF FUND NET POSITION - Continued

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

Assets	2017	2016	Increase (Decrease)
Current assets	\$ 2,006,289	\$ 2,551,402	\$ (545,113)
Capital assets - net	4,180,533	3,314,229	866,304
Total assets	<u>\$ 6,186,822</u>	<u>\$ 5,865,631</u>	<u>\$ 321,191</u>
Liabilities			
Current liabilities	\$ 523,309	\$ 650,280	\$ (126,971)
Noncurrent liabilities	1,790,998	1,865,798	(74,800)
Total Liabilities	<u>\$ 2,314,307</u>	<u>\$ 2,516,078</u>	<u>(201,771)</u>
Deferred inflow of resources			
Total deferred inflow of resources	<u>\$ 51,066</u>	<u>\$ 51,758</u>	<u>\$ (692)</u>
Fund net position			
Net investment in capital assets	2,813,522	2,493,585	319,937
Restricted for TABOR emergency	40,000	50,000	(10,000)
Unrestricted	967,927	754,210	213,717
Total fund net position	<u>\$ 3,821,449</u>	<u>\$ 3,297,795</u>	<u>\$ 523,654</u>

Current Assets

Current assets decreased by approximately \$545,000. This decrease was largely due to the receipt of loan proceeds from the CWRPDA loan executed during 2015.

Capital Assets

The District purchased approximately \$960,000 in capital equipment relating to improvements and the construction of a new water treatment system, and posted a period depreciation expense of approximately \$97,000, resulting in an increase in the book value of capital assets of approximately \$866,000.

Current Liabilities

Current liabilities decreased by approximately \$127,000, due to an decrease 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, 2017**

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 \$523,000, 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>2017</u>	<u>2016</u>	<u>Net Position Increase (Decrease)</u>
Operating revenue	\$ 336,461	\$ 344,078	\$ (7,617)
Operating expense	332,699	279,650	(53,049)
Operating income	<u>3,762</u>	<u>64,428</u>	<u>(60,666)</u>
Non-operating revenue (expense)	519,892	1,021,139	(501,247)
Change in net position	<u><u>\$ 523,654</u></u>	<u><u>\$ 1,085,567</u></u>	<u><u>\$ (561,913)</u></u>

Operating Revenue and Expenses

Operating revenue decreased from the prior year by approximately \$7,000 due to decreased water usage.

Operating expenses increased by approximately \$53,000, primarily due to interest on the CWRPDA loan and additional work hours required to assist with the capital improvement project.

Operating Income

Operating income decreased by approximately \$60,000.

Non-operating Revenue (Expense)

Non-operating revenues decreased by approximately \$500,000, which included less grant activity in 2017 for the construction of the new water treatment plant.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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

Total Expenses

2017	2016	Net Position Increase (Decrease)
\$ 361,603	\$ 302,695	\$ 58,908

Total expenses increased by approximately \$59,000.

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	\$ 366,550	\$ 366,550	\$ -
Operating expense	1,534,887	1,534,887	-
Operating income	(1,168,337)	(1,168,337)	-
Non-operating revenue (expense)	31,016	31,016	-
Change in net position	\$ (1,137,321)	\$ (1,137,321)	\$ -

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	\$ 366,550	\$ 336,461	\$ (30,089)
Operating expense	1,534,887	1,316,700	218,187
Operating income (loss)	(1,168,337)	(980,239)	188,098
Non-operating revenue (expense)	31,016	519,892	488,876
Change in net position	\$ (1,137,321)	\$ (460,347)	\$ 676,974

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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

Operating Expense

Operating expense was under budget by approximately \$218,000, 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 \$489,000, 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 \$677,000, 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, 2017**

ASSETS

Current assets

Cash and cash equivalents	\$ 1,427,100
Cash with County Treasurer	416.00
Receivables from:	
Customers	28,920
Property taxes	51,066
Loan	498,787
Total current assets	2,006,289

Capital assets

Property, plant, and equipment	6,754,801
Accumulated depreciation	(2,574,268)
Total capital assets, net	4,180,533

Total assets	\$ 6,186,822
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LIABILITIES

Current liabilities

Accounts payable and accrued expenses	\$ 428,568
Unearned revenue	5,213
Accrued interest	14,728
Current portion of long-term debt	74,800
Total current liabilities	523,309

Noncurrent liabilities

Long-term debt	1,790,998
Total noncurrent liabilities	1,790,998

Deferred inflow of resources

Unearned tax revenue	51,066
Total deferred inflow of resources	51,066

Total liabilities and deferred inflow of resources	\$ 2,365,373
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FUND NET POSITION

Net investment in capital assets	\$ 2,813,522
TABOR restricted reserves	40,000
Unrestricted	967,927
Total fund net position	\$ 3,821,449

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, 2017**

OPERATING REVENUES		
Water sales		\$ 314,063
Other resident charges		4,063
Interest income		11,042
Miscellaneous income		7,293
Total operating revenues		<u>336,461</u>
OPERATING EXPENSES		
Source of supply		141,074
Water treatment		6,785
Transmission and distribution		15,513
Administrative and general		72,545
Depreciation		96,782
Total operating expenses		<u>332,699</u>
Total operating income		<u>3,762</u>
NON-OPERATING REVENUES (EXPENSES)		
Grant		458,859
Property taxes		51,816
Specific ownership taxes		6,329
Water tap fees		31,722
Interest income		70
Non-operating expenses		(28,904)
Total non-operating revenues (expenses)		<u>519,892</u>
Change in net position		523,654
Net position		
Beginning of year		<u>3,297,795</u>
End of year		<u><u>\$ 3,821,449</u></u>

See notes to financial statements

**HIGHLAND LAKES WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers and users	\$ 323,574
Other operating cash receipts	21,790
Cash paid to suppliers for goods or services	(207,378)
Cash paid to employees for services	(28,249)
Net cash provided by operations	<u>109,737</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Grants received	810,473
Collection of taxes from Teller County	58,087
Collection of tap fees	31,722
Non-operating expenses	(28,903)
Net cash provided by non-capital financing activities	<u>871,379</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(1,080,783)
Loan proceeds	546,367
Net cash used by capital and related financing activities	<u>(534,416)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>70</u>
Net cash provided by investing activities	<u>70</u>

Change in cash	446,770
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CASH AND CASH EQUIVALENTS

Beginning of year	980,330
End of year	<u>\$ 1,427,100</u>

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

Operating income	\$ 3,762
Adjustments to reconcile operating income to net cash provided by operations	
Depreciation	96,782
Change in	
Accounts receivable	7,924
Unearned revenue	979
Accrued interest	290
Total adjustments	<u>105,975</u>
Net cash provided by operating activities	<u>\$ 109,737</u>

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 defining whether the District has the ability to impose its will on other organizations, is determined by 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 earnings on

HIGHLAND LAKES WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 \$996,710 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, 2017, the District had approximately \$185,000 exposed to credit risk.

At December 31, 2017, the District's deposits and investments consisted of:

	<u>Bank Balance</u>	<u>Book Balance</u>
Insured (FDIC insured)	\$ 435,301	\$ 430,390
Category C	996,710	996,710
Total	<u>\$ 1,432,011</u>	<u>\$ 1,427,100</u>

NOTE 2 – CAPITAL ASSETS

Capital asset activity for 2017 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	2,097,105	963,087	-	3,060,192
Total at historical cost	<u>5,791,714</u>	<u>963,087</u>	<u>-</u>	<u>6,754,801</u>
Less accumulated depreciation				
Contributed property	1,040,269	-	-	1,040,269
Collection, transmission and distribution system	1,073,650	78,758	-	1,152,408
Utility building equipment	9,016	-	-	9,016
Equipment	147,174	7,318	-	154,492
Water rights and augmentation plan	207,377	10,706	-	218,083
Total accumulated depreciation	<u>2,477,486</u>	<u>96,782</u>	<u>-</u>	<u>2,574,268</u>
Total capital assets, net	<u>\$ 3,314,228</u>	<u>\$ 866,305</u>	<u>\$ -</u>	<u>\$ 4,180,533</u>

Depreciation expense for 2017 was \$96,782.

**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	\$ 1,951,142	\$ -	\$ (85,344)	\$ 1,865,798	\$ 74,800

Interest expense for 2017 was \$38,888.

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

NOTE 6 – LONG TERM DEBT - Continued

Annual debt service requirements to maturity for the loan at December 31, 2017 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
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	94,273	29,669	123,942
2023 to 2027	500,562	119,150	619,712
2028 to 2032	552,932	66,780	619,712
2033 to 2035	359,152	12,675	371,827
Total	<u>\$ 1,865,798</u>	<u>\$ 365,165</u>	<u>\$ 2,230,963</u>

Subsequent to the financial statement date, the principal amount of the debt was adjusted by unused project funds. The following is the adjusted annual debt service requirements:

Years Ending December 31,	Principal	Interest	Total Payments
2018	\$ 74,800	\$ 33,281	\$ 108,081
2019	66,131	26,161	92,292
2020	67,460	24,832	92,292
2021	68,816	23,476	92,292
2022	70,199	22,093	92,292
2023 to 2027	372,738	88,724	461,462
2028 to 2032	411,734	49,727	461,461
2033 to 2035	267,440	9,438	276,878
Total	<u>\$ 1,399,318</u>	<u>\$ 277,732</u>	<u>\$ 1,677,050</u>

NOTE 7 – COMMITMENTS

In 2016, the District entered into a contract for construction services totaling \$2,299,980, with approximately \$3,060,000 incurred and included in construction in progress as of December 31, 2017.

NOTE 8 – SUBSEQUENT EVENTS

In 2018, the District's long-term debt was adjusted by unused project funds. See Note 6 for details.

Management has evaluated subsequent events through July 17, 2018, 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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Budgetary	Final Budget
Operating revenues			Basis	Favorable
				(Unfavorable)
Water sales	\$ 354,500	\$ 354,500	\$ 314,063	\$ (40,437)
Other resident charges	7,150	7,150	4,063	(3,087)
Interest income	2,300	2,300	11,042	8,742
Miscellaneous income	2,600	2,600	7,293	4,693
Total operating revenues	366,550	366,550	336,461	(30,089)
Operating expenses				
Source of supply	93,399	93,399	141,074	(47,675)
Water treatment	5,700	5,700	6,785	(1,085)
Transmission and distribution	19,800	19,800	15,513	4,287
Administration and general	69,342	69,342	72,545	(3,203)
Capital outlay	20,000	20,000	1,080,783	(1,060,783)
Appropriation of surplus to budget	1,326,646	1,326,646	-	1,326,646
Total operating expenses	1,534,887	1,534,887	1,316,700	218,187
Operating income (loss)	(1,168,337)	(1,168,337)	(980,239)	188,098
Non-operating revenues (expenses)				
Grant	-	-	458,859	458,859
Property taxes	51,758	51,758	51,816	58
Specific ownership taxes	4,900	4,900	6,329	1,429
Water tap fees	10,046	10,046	31,722	21,676
Interest income	80	80	70	(10)
Non-operating expenses	(35,768)	(35,768)	(28,904)	6,864
Total non-operating revenue (expense)	31,016	31,016	519,892	488,876
Change in net position - budgetary basis	\$ (1,137,321)	\$ (1,137,321)	(460,347)	\$ 676,974
GAAP adjustments				
Capital outlay			1,080,783	
Depreciation			(96,782)	
Change in net position GAAP basis			523,654	
Net position beginning of year			3,297,795	
Net position end of year			\$ 3,821,449	

See notes to financial statements

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2017**

Operating expenses	Final	Actual	Variance with
Source of supply	Budget	Budgetary	Final Budget
		Basis	Favorable
			(Unfavorable)
Water operator service	\$ 42,500	\$ 47,484	\$ (4,984)
Supplies	6,000	4,830	1,170
Purchased services	3,800	4,570	(770)
Water hauling	-	43,125	(43,125)
Lake maintenance	2,500	2,177	323
Interest	38,599	38,888	(289)
Total source of supply	<u>93,399</u>	<u>141,074</u>	<u>(47,675)</u>
Water treatment			
Testing	3,000	5,284	(2,284)
Chemicals	2,500	1,501	999
Supplies	200	-	200
Total water treatment	<u>5,700</u>	<u>6,785</u>	<u>(1,085)</u>
Transmission and distribution			
Purchased services	9,800	10,030	(230)
Supplies	10,000	5,483	4,517
Total transmission and distribution	<u>19,800</u>	<u>15,513</u>	<u>4,287</u>
Administration and general			
General supplies	4,100	3,379	721
Computer/printer	300	581	(281)
Postage	2,200	1,880	320
Office administration	26,772	28,346	(1,574)
Employment taxes	2,070	2,417	(347)
Electric	27,500	27,823	(323)
Telephone	3,500	3,206	294
Gas	1,500	1,777	(277)
Trash	900	647	253
Miscellaneous	500	2,489	(1,989)
Total administration and general	<u>69,342</u>	<u>72,545</u>	<u>(3,203)</u>
Capital projects			
Capital equipment and improvements	20,000	1,080,783	(1,060,783)
Total capital projects	<u>20,000</u>	<u>1,080,783</u>	<u>(1,060,783)</u>
Emergency and non-emergency reserves			
Appropriation of surplus to budget	1,326,646	-	1,326,646
Total emergency and non-emergency reserves	<u>1,326,646</u>	<u>-</u>	<u>1,326,646</u>
Total operating expenses	<u>\$ 1,534,887</u>	<u>\$ 1,316,700</u>	<u>\$ 218,187</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, 2017**

Continued from page - 19

	Final Budget	Actual Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Non-operating expenses			
Director fees	\$ 7,000	\$ 5,800	\$ 1,200
Postage for publication	700	509	191
Audit	4,250	5,000	(750)
Public news required publication	800	660	140
Insurance	14,000	9,998	4,002
Legal - regular	600	-	600
Legal - augmentation	100	350	(250)
Legal - water rights	1,000	-	1,000
Bookkeeping services	3,998	4,018	(20)
Dues	700	463	237
Seminars and training	100	-	100
Meeting rental	500	390	110
State fees	220	220	-
County treasurer fees	1,800	1,496	304
Total non-operating expenses	<u>35,768</u>	<u>28,904</u>	<u>6,864</u>
Total expenses	<u>\$ 1,570,655</u>	<u>1,345,604</u>	<u>\$ 225,051</u>
GAAP adjustments:			
Capital outlay		(1,080,783)	
Depreciation		96,782	
Total expenses GAAP basis		<u>\$ 361,603</u>	
Reconciliation of total expenses			
Operating expenses		\$ 1,316,700	
Nonoperating expenses		28,904	
Depreciation		96,782	
Capital outlay		(1,080,783)	
		<u>\$ 361,603</u>	

See notes to financial statements