

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

BASIC FINANCIAL STATEMENTS

December 31, 2017

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Office of the State Auditor

September 14, 2018

**HI-LAND ACRES WATER AND SANITATION DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

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, 2017. The financial statements are an integral part of this analysis and are contained within this document.

FINANCIAL HIGHLIGHTS

1. In 2017, net position totaled \$2,153,385, which represents a decrease of \$369,545 (14.6%) when compared to 2016.
2. Total operating revenues were \$219,326 during 2017.
3. Total operating expenses were \$854,497 during 2017, which represents an increase of \$598,720 (234.1%) when compared to 2016.
4. Total non-operating revenues were \$267,563 during 2017.
5. Total non-operating expenses were \$1,937 during 2017, which represents a decrease of \$2,033 (51.2%) when compared to 2016.

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 net position 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 statement of net position 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.

	2017	2016
Current assets	\$ 750,117	\$ 538,032
Non-current assets	1,959,315	2,035,505
Total assets	<u>2,709,432</u>	<u>2,573,537</u>
Current liabilities	527,592	15,866
Non-current liabilities	28,455	34,741
Deferred property taxes	-	-
Total liabilities	<u>556,047</u>	<u>50,607</u>
Net position:		
Invested in capital assets	1,909,222	1,979,425
Temporarily restricted	-	-
Unrestricted	244,163	543,505
Total net position	<u>\$ 2,153,385</u>	<u>\$ 2,522,930</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 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Total operating revenue	\$ 219,326	\$ 193,655
Total operating expenses	<u>(854,497)</u>	<u>(255,777)</u>
Net operating income (loss)	<u>(635,171)</u>	<u>(62,122)</u>
Non-operating revenue	267,563	45,670
Non-operating expenses	<u>(1,937)</u>	<u>(3,970)</u>
Net non-operating revenue	<u>265,626</u>	<u>41,700</u>
Change in net position	(369,545)	(20,422)
Beginning net position	<u>2,522,930</u>	<u>2,543,352</u>
Ending net position	<u>\$ 2,153,385</u>	<u>\$ 2,522,930</u>

It was anticipated that Metro Wastewater Reclamation District (MWRD) would bring their new facility on-line on or before December 31, 2017. 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 Q1 of 2018. 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 ACTIVITIES

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 2017, the District had outstanding debt of \$34,742 for the loan issued by the Colorado Department of Local Affairs (DOLA). The State loan was incurred to defray well expansion costs at the north and south well sites. Funding from user fees is sufficient to pay the currently scheduled debt service amounts. The general water bond obligation was paid in full September 1, 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 2018. 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 2017 and 2018 (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 in Energy and Minerals Impact Assistance Fund funding to supplement current sewer income. In 2018, the District also plans to apply for a \$650,000 loan at 2% interest from Colorado Water Resources and Development Authority. The entirety of this loan amount will be used for slip-lining the current clay pipe sewer collection system. This system is now 40 years old and in need to upgrading. 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.

FEIS & COMPANY, P.C.

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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, 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 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 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, 2017, and the changes in financial position, and cash flows thereof for the year then ended, in accordance 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 comprise the District's basic financial statements. The budgetary comparison and expense detail information presented on pages 14 and 15 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.

Feio & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS
Brighton, CO

September 13, 2018

HI-LAND ACRES WATER AND SANITATION DISTRICT
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 DECEMBER 31, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	Water Fund	Wastewater Fund	Adjustments	Total 2017	(Memorandum Only) 2016
Current Assets					
Cash and cash equivalents	\$ 575,054	\$ -	\$ -	\$ 575,054	\$ 514,155
Restricted bond reserve account	-	-	-	-	-
Accounts receivable -					
Customers	9,383	8,123	-	17,506	15,702
Sewer tap fees	-	-	-	-	3,485
Other	-	152,634	-	152,634	-
Prepaid insurance	2,639	2,284	-	4,923	4,690
Due from water fund	-	257,424	(257,424)	-	-
Total Current Assets	587,076	420,465	(257,424)	750,117	538,032
Non-Current Assets					
Land and water rights	3,922	8,748	-	12,670	12,670
Water distribution system, net of accumulated depreciation	1,025,762	-	-	1,025,762	1,050,104
Other capital assets, net of accumulated depreciation	327,542	577,990	-	905,532	957,380
Patronage capital	9,211	6,140	-	15,351	15,351
Total Non-Current Assets	1,366,437	592,878	-	1,959,315	2,035,505
Total Assets	1,953,513	1,013,343	(257,424)	\$ 2,709,432	\$ 2,573,537
Deferred Outflows of Resources	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 1,953,513	\$ 1,013,343	\$ (257,424)	\$ 2,709,432	\$ 2,573,537

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities					
Accounts payable	\$ 14,153	\$ 506,573	\$ -	\$ 520,726	\$ 9,199
Accrued interest payable	579	-	-	579	679
Due to wastewater fund	257,424	-	(257,424)	-	-
Current portion of long-term debt	6,287	-	-	6,287	5,988
Total Current Liabilities	278,443	506,573	(257,424)	527,592	15,866
Non-Current Liabilities					
Long-term debt	28,455	-	-	28,455	34,741
Total Liabilities	306,898	506,573	(257,424)	556,047	50,607
Deferred Inflows of Resources					
Total Deferred Inflows of Resources	-	-	-	-	-
Total Liabilities and Deferred Inflows of Resources	306,898	506,573	(257,424)	556,047	50,607
Net Position					
Net Position					
Invested in capital assets, net of related debt	1,322,484	586,738	-	1,909,222	1,979,425
Temporarily restricted					
Other	-	-	-	-	-
Unrestricted	324,131	(79,968)	-	244,163	543,505
Total Net Position	1,646,615	506,770	-	2,153,385	2,522,930
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 1,953,513	\$ 1,013,343	\$ (257,424)	\$ 2,709,432	\$ 2,573,537

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, 2017

	Water Fund	Wastewater Fund	Total 2017	(Memorandum Only) 2016
Revenues:				
Charges for Services	\$ 104,068	\$ 115,258	\$ 219,326	\$ 193,655
Total Revenue	<u>104,068</u>	<u>115,258</u>	<u>219,326</u>	<u>193,655</u>
Operating Expenses:				
Collection and treatment expenses	79,524	740,688	820,212	232,773
General and administrative expenses	12,407	21,878	34,285	23,004
Total Operating Expenses	<u>91,931</u>	<u>762,566</u>	<u>854,497</u>	<u>255,777</u>
Income (Loss) from Operations	12,137	(647,308)	(635,171)	(62,122)
Other Income (Expenses)				
Property taxes	9,377	-	9,377	8,813
Specific Ownership taxes	1,169	-	1,169	857
Interest income	289	-	289	308
State grant	-	254,927	254,927	33,206
Miscellaneous income	1,511	-	1,511	2,024
Oil royalties	155	135	290	462
Interest expense	(1,937)	-	(1,937)	(3,970)
Total Other Income (Expenses)	<u>10,564</u>	<u>255,062</u>	<u>265,626</u>	<u>41,700</u>
Change in net position	22,701	(392,246)	(369,545)	(20,422)
Net Position, Beginning of Year	<u>1,623,914</u>	<u>899,016</u>	<u>2,522,930</u>	<u>2,543,352</u>
Net Position, End of Year	<u>\$ 1,646,615</u>	<u>\$ 506,770</u>	<u>\$ 2,153,385</u>	<u>\$ 2,522,930</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, 2017

DIRECT METHOD

	Water Fund	Wastewater Fund	Total 2017	(Memorandum Only) 2016
Cash flows from operating activities:				
Receipts from customers	\$ 103,148	\$ 117,859	\$ 221,007	\$ 204,315
Payments to vendors	(39,865)	(227,148)	(267,013)	(174,955)
Net cash provided (used) by operating activities	63,283	(109,289)	(46,006)	29,360
Cash flows provided (used) for investing activities:				
Interest income received	289	-	289	308
Purchases of equipment	-	-	-	(20,016)
Net cash provided (used) by investing activities	289	-	289	(19,708)
Cash flows provided (used) by capital and related financing activities:				
Interest paid	(2,037)	-	(2,037)	(4,610)
Principal payments on long-term debt	(5,987)	-	(5,987)	(31,894)
Property and specific ownership taxes	10,546	-	10,546	9,670
Transfer to water bond account	-	-	-	19,199
Miscellaneous income	1,666	135	1,801	2,486
State grant proceeds	-	102,293	102,293	33,206
Transfers between funds	(6,861)	6,861	-	-
Net cash provided (used) by capital and related financing activities	(2,673)	109,289	106,616	28,057
Net increase (decrease) in cash	60,899	-	60,899	37,709
Cash, beginning of year	514,155	-	514,155	476,446
Cash, end of year	\$ 575,054	\$ -	\$ 575,054	\$ 514,155

**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 2017</u>	<u>(Memorandum Only) 2016</u>
Net income (loss) from operations	\$ 12,137	\$ (647,308)	\$ (635,171)	\$ (62,122)
Adjustment to Reconcile Net Income to Cash Provided by Operating Activities:				
Depreciation Expense	47,223	28,967	76,190	77,203
Changes in Assets and Liabilities:				
Accounts receivable - (increase) decrease	(920)	2,601	1,681	10,660
Prepaid expenses - (increase) decrease	(111)	(122)	(233)	1
Accounts payable - increase (decrease)	4,954	506,573	511,527	3,618
Net cash provided by operating activities	<u>\$ 63,283</u>	<u>\$ (109,289)</u>	<u>\$ (46,006)</u>	<u>\$ 29,360</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, 2017**

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, 2017**

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 2017:

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, 2017**

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, 2017**

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 2017 are as follows:

Changes in net position	\$ (369,545)
Add: Change in receivables	1,681
Change in accrued expenses	511,527
Depreciation	76,190
Less: Debt principal paid	(5,987)
Change in prepaids	(233)
Capital expenditures	---
Revenues over expenditures	\$ <u>213,633</u>

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017, the District's cash deposits had a carrying balance of \$575,054 and corresponding bank balances as follows:

	<u>2017</u>	Memorandum Only <u>2016</u>
Insured deposits	\$ 486,114	\$ 425,499
Uninsured: Collateralized by financial institution	<u>88,940</u>	<u>88,656</u>
Total cash and cash equivalents	\$ <u>575,054</u>	\$ <u>514,155</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, 2017**

2. CASH AND DEPOSITS (Continued)

	<u>2017</u>	Memorandum Only <u>2016</u>
Cash on hand and in operating accounts	\$ 236,114	\$ 175,499
Savings accounts	<u>338,940</u>	<u>338,656</u>
Total cash and cash equivalents	<u>\$ 575,054</u>	<u>\$ 514,155</u>

3. CAPITAL ASSETS

Depreciation has been computed using the straight-line method based on lives of 10 to 50 years. Depreciation expense totaled \$76,190 and \$77,203 for the years ended December 31, 2017 and 2016, respectively.

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Balance</u> <u>12/31/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</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	201,214	-	-	201,214
Collection, transmission and distribution systems	<u>123,849</u>	_____ -	_____ -	<u>123,849</u>
Total Capital Assets	<u>3,047,793</u>	_____ -	_____ -	<u>3,047,793</u>
<u>Accumulated Depreciation</u>				
Water Distribution System	(154,911)	(24,342)	-	(179,253)
Treatment Plants	(637,231)	(42,647)	-	(679,878)
Source of Supply	(160,642)	(7,059)	-	(167,701)
Collection, transmission and distribution systems	<u>(74,855)</u>	<u>(2,142)</u>	_____ -	<u>(76,997)</u>
Total Accumulated Depreciation	<u>(1,027,639)</u>	<u>(76,190)</u>	_____ -	<u>(1,103,829)</u>
Net Capital Assets	<u>\$2,020,154</u>	\$ <u>(76,190)</u>	\$ _____ -	<u>\$1,943,964</u>

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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.

6. LONG-TERM DEBT

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, 2018	\$ 6,287	\$ 1,737	\$ 8,024
2019	6,602	1,422	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>34,742</u>	\$ <u>5,379</u>	\$ <u>40,121</u>

See independent auditors' report.

**HI-LAND ACRES WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. LONG-TERM DEBT (Continued)

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

	<u>Balance</u> <u>12/31/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/2017</u>	<u>Current</u> <u>Portion</u>
State Loan	\$ <u>40,729</u>	\$ <u>-</u>	\$ <u>(5,987)</u>	\$ <u>34,742</u>	\$ <u>6,287</u>
Total	\$ <u>40,729</u>	\$ <u>-</u>	\$ <u>(5,987)</u>	\$ <u>34,742</u>	\$ <u>6,287</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 \$1,097. 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, 2017**

11. INTER-FUND TRANSACTIONS

In 2017 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 \$257,424 as of December 31, 2017.

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, 2017 and 2016, \$-0- and \$3,485, 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 early 2018. The total anticipated costs for this project are \$630,000. Of that, \$428,550 has been incurred as of December 31, 2017.

13. SUBSEQUENT EVENTS

In accordance with the provisions of Statement of Financial Accounting Standards Codification 855, *Subsequent Events*, management must 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 disclose the date through which subsequent events were evaluated. The District's financial statements were available to be issued on the date of the Independent Auditor's Report, 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, 2017

	Budget		Actual (Budgetary Basis)	Variance- Favorable (Unfavorable)
	Original	Final		
Revenues:				
Charges for Services	\$ 192,700	\$ 192,700	\$ 221,007	\$ 28,307
Property taxes	-	-	9,377	9,377
Specific Ownership taxes	-	-	1,169	1,169
Interest income	300	300	289	(11)
State grant	564,500	564,500	254,927	(309,573)
Miscellaneous income	1,800	1,800	1,511	(289)
Oil royalties	1,300	1,300	290	(1,010)
Total Revenues	760,600	760,600	488,570	(272,030)
Expenditures:				
Collection and treatment	1,128,000	1,128,000	232,495	895,505
General and administrative	26,950	26,950	34,518	(7,568)
Non-Operating Expenses				
Interest expense	2,996	2,996	1,937	1,059
Bond principal	-	-	-	-
Loan payments	6,988	6,988	5,987	1,001
Total Operating Expenses	1,164,934	1,164,934	274,937	889,997
Revenues Over (Under) Expenditures	\$ (404,334)	\$ (404,334)	\$ 213,633	\$ 617,967

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, 2017**

	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total 2017</u>	<u>(Memorandum Only) 2016</u>
Collection and Treatment:				
Depreciation	\$ 47,223	\$ 28,967	\$ 76,190	\$ 77,203
Engineering	-	3,625	3,625	-
Utilities	9,134	7,907	17,041	21,074
Sewer plant decommissioning	-	335,614	335,614	92,936
Thornton tap fees	-	347,500	347,500	-
Service fees	12,337	10,680	23,017	18,555
Repairs and maintenance	2,414	237	2,651	11,638
Sample analysis and testing	<u>8,416</u>	<u>6,158</u>	<u>14,574</u>	<u>11,367</u>
Total Collection and Treatment	<u>\$ 79,524</u>	<u>\$ 740,688</u>	<u>\$ 820,212</u>	<u>\$ 232,773</u>
General and Administrative				
Accounting and auditing	\$ 4,197	\$ 3,633	\$ 7,830	\$ 7,867
Board compensation	2,787	2,413	5,200	4,600
Insurance expense	3,117	2,698	5,815	5,985
Legal expense	977	11,983	12,960	1,049
Office supplies and telephone	168	146	314	603
Taxes, licenses and fees	991	858	1,849	1,193
Miscellaneous	<u>170</u>	<u>147</u>	<u>317</u>	<u>1,707</u>
Total General and Administrative	<u>\$ 12,407</u>	<u>\$ 21,878</u>	<u>\$ 34,285</u>	<u>\$ 23,004</u>

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