

***HIGHLAND LAKES WATER DISTRICT***  
***FINANCIAL STATEMENTS***  
***AND***  
***REQUIRED SUPPLEMENTAL INFORMATION***  
***AND***  
***SUPPLEMENTAL INFORMATION***  
***WITH***  
***INDEPENDENT AUDITORS' REPORT***  
***DECEMBER 31, 2018***

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

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**INDEPENDENT AUDITORS' 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, 2018, 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.

**Auditors' 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, 2018, 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, budgetary (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.

*Osborne, Parsons & Mosacher LLP*

Colorado Springs, Colorado  
July 10, 2019

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**HIGHLAND LAKES WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018**

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, 2018. 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, 2018**

**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 93% of total operating revenues.

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

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

**Current Projects**

The District Board of Directors continues work efforts to upgrade the collection, storage, treatment, and distribution facility and infrastructure. A list of priorities has been established and a five-year strategic operations plan has been developed to make certain that the necessary infrastructure projects remain on track to completion. As board members change in the years to come, the strategies created in 2018 will be expanded and improved to set the course of the District for the future.

**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, 2018**

**STATEMENT OF FUND NET POSITION - Continued**

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

<b>Assets</b>	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>
Current Assets	\$ 962,302	\$ 2,006,289	\$ (1,043,987)
Capital Assets - Net	3,999,951	4,180,533	(180,582)
<b>Total Assets</b>	<b>\$ 4,962,253</b>	<b>\$ 6,186,822</b>	<b>\$ (1,224,569)</b>
<b>Liabilities</b>			
Current Liabilities	\$ 199,781	\$ 523,309	\$ (323,528)
Noncurrent Liabilities	1,258,387	1,790,998	(532,611)
<b>Total Liabilities</b>	<b>\$ 1,458,168</b>	<b>\$ 2,314,307</b>	<b>\$ (856,139)</b>
<b>Deferred Inflow of Resources</b>			
<b>Total Deferred Inflow of Resources</b>	<b>\$ 51,345</b>	<b>\$ 51,066</b>	<b>\$ 279</b>
<b>Fund Net Position</b>			
Net Investment in Capital Assets	\$ 2,675,433	\$ 2,813,522	\$ (138,089)
Restricted for TABOR Emergency	18,000	40,000	(22,000)
Unrestricted	759,307	967,927	(208,620)
<b>Total Fund Net Position</b>	<b>\$ 3,452,740</b>	<b>\$ 3,821,449</b>	<b>\$ (368,709)</b>

**Current Assets**

Current assets decreased by approximately \$1,044,000. The decrease was largely due to the repayment of debt and payment of 2017 accounts payable.

**Capital Assets**

The District purchased approximately \$128,000 in capital equipment relating to improvements and the construction of a new water treatment system, and posted a period depreciation expense of approximately \$308,000, resulting in a decrease in the book value of capital assets of approximately \$181,000.

**Current Liabilities**

Current liabilities decreased by approximately \$324,000, due to a 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, 2018**

**STATEMENT OF FUND NET POSITION - Continued**

**Noncurrent Liabilities**

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

**Net Position**

Net position decreased by approximately \$369,000, 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**

Comparative statements and comments relating to significant changes follow:

	<u>2018</u>	<u>2017</u>	<b>Net Position Increase (Decrease)</b>
Operating Revenue	\$ 345,420	\$ 336,461	\$ 8,959
Operating Expense	<u>762,300</u>	<u>332,699</u>	<u>(429,601)</u>
<b>Operating (Loss) Income</b>	<u>(416,880)</u>	<u>3,762</u>	<u>(420,642)</u>
Non-operating Revenue (Expense)	<u>48,171</u>	<u>519,892</u>	<u>(471,721)</u>
<b>Change in Net Position</b>	<u><u>\$ (368,709)</u></u>	<u><u>\$ 523,654</u></u>	<u><u>\$ (892,363)</u></u>

**Operating Revenue and Expenses**

Operating revenue increased from the prior year by approximately \$9,000 due to increased water usage. Operating expenses increased by approximately \$430,000, 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 \$421,000, due to additional water hauling, additional services and repairs, and increased depreciation from the new water plant.

**Non-operating Revenue (Expense)**

Non-operating revenues decreased by approximately \$472,000, due to no grant activity in 2018 for the construction of the new water treatment plant.

**HIGHLAND LAKES WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018**

**STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION -  
Continued**

**Total Expenses**

<b>2018</b>	<b>2017</b>	<b>Net Position Increase (Decrease)</b>
<u>\$ 792,989</u>	<u>\$ 361,603</u>	<u>\$ (431,386)</u>

Total expenses increased by approximately \$431,000.

**BUDGETED AMOUNTS**

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

	<b>Original</b>	<b>Final</b>	<b>Net Position Increase (Decrease)</b>
Operating Revenue	\$ 334,800	\$ 334,800	\$ -
Operating Expense	1,833,552	1,833,552	-
Operating Income	(1,498,752)	(1,498,752)	-
Non-operating Revenue (Expense)	43,766	43,766	-
<b>Change in Net Position</b>	<u>\$ (1,454,986)</u>	<u>\$ (1,454,986)</u>	<u>\$ -</u>

There were no amendments to the original budget.

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

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

	<b>Final</b>	<b>Actual Budgetary Basis</b>	<b>Net Position Increase</b>
Operating Revenue	\$ 334,800	\$ 345,420	\$ 10,620
Operating Expense	1,833,552	581,718	1,251,834
Operating Income (Loss)	(1,498,752)	(236,298)	1,262,454
Non-operating Revenue (Expense)	43,766	48,171	4,405
<b>Change in Net Position</b>	<u>\$ (1,454,986)</u>	<u>\$ (188,127)</u>	<u>\$ 1,266,859</u>

**HIGHLAND LAKES WATER DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2018**

**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 \$1,252,000, 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 \$4,000, 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 \$1,267,000, 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, 2018**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 881,523
Cash with County Treasurer	557
Receivables from:	
Customers	28,877
Property Taxes	51,345
	962,302
<b>Total Current Assets</b>	<b>962,302</b>

**Capital Assets**

Property, Plant, and Equipment	6,882,542
Accumulated Depreciation	(2,882,591)
	3,999,951
<b>Total Capital Assets, Net</b>	<b>3,999,951</b>
<b>Total Assets</b>	<b>\$ 4,962,253</b>

**LIABILITIES**

**Current Liabilities**

Accounts Payable and Accrued Expenses	\$ 122,463
Accrued Interest	11,187
Current Portion of Long-term Debt	66,131
	199,781
<b>Total Current Liabilities</b>	<b>199,781</b>

**Noncurrent Liabilities**

Long-term Debt	1,258,387
	1,258,387
<b>Total Noncurrent Liabilities</b>	<b>1,258,387</b>

**Deferred Inflow of Resources**

Unearned Tax Revenue	51,345
	51,345
<b>Total Deferred Inflow of Resources</b>	<b>51,345</b>
<b>Total Liabilities and Deferred Inflow of Resources</b>	<b>\$ 1,509,513</b>

**FUND NET POSITION**

Net Investment in Capital Assets	\$ 2,675,433
TABOR Restricted Reserves	18,000
Unrestricted	759,307
	3,452,740
<b>Total Fund Net Position</b>	<b>\$ 3,452,740</b>

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, 2018**

<b>OPERATING REVENUES</b>	
Water Sales	\$ 321,348
Other Resident Charges	3,095
Interest Income	19,853
Miscellaneous Income	1,123
<b>Total Operating Revenues</b>	<u>345,419</u>
<b>OPERATING EXPENSES</b>	
Source of Supply	360,665
Water Treatment	2,745
Transmission and Distribution	19,208
Administrative and General	71,359
Depreciation	308,323
<b>Total Operating Expenses</b>	<u>762,300</u>
<b>Total Operating Loss</b>	<u>(416,881)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Property Taxes	51,201
Specific Ownership Taxes	6,273
Water Tap Fees	21,306
Interest Income	80
Non-operating Expenses	(30,689)
<b>Total Non-operating Revenues (Expenses)</b>	<u>48,171</u>
<b>Change in Net Position</b>	(368,710)
<b>Net Position</b>	
<b>Beginning of Year</b>	<u>3,821,449</u>
<b>End of Year</b>	<u><u>\$ 3,452,739</u></u>

See Notes to Financial Statements

**HIGHLAND LAKES WATER DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Customers and Users	\$ 13,168
Other Operating Cash Receipts	20,976
Cash Paid to Suppliers for Goods or Services	(428,846)
Cash Paid to Employees for Services	(28,672)
	(423,374)
<b>Net Cash Used by Operating Activities</b>	<b>(423,374)</b>

**CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

Collection of Taxes from Teller County	57,333
Collection of Tap Fees	21,306
Non-operating Expenses	(30,689)
	47,950
<b>Net Cash Provided by Non-capital Financing Activities</b>	<b>47,950</b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of Capital Assets	(127,741)
Loan Proceeds	32,307
Loan Repayment	(74,800)
	(170,234)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(170,234)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest Received	80
	80
<b>Net Cash Provided by Investing Activities</b>	<b>80</b>

**Change in Cash and Cash Equivalents** (545,578)

**CASH AND CASH EQUIVALENTS**

<b>Beginning of Year</b>	1,427,100
<b>End of Year</b>	<b>\$ 881,522</b>

**RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (416,881)
Adjustments to Reconcile Operating Loss to Net Cash used by Operating Activities	
Depreciation	308,323
Change in	
Accounts Receivable from Customers	43
Accounts Payable and Accrued Expenses	(306,105)
Unearned Revenue	(5,213)
Accrued Interest	(3,541)
<b>Total Adjustments</b>	<b>(6,493)</b>
<b>Net Cash Used by Operating Activities</b>	<b>\$ (423,374)</b>

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.

**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 \$856,564 invested with the Colorado Local Government Liquid Asset Trust (COLOTRUST PLUS+) being reported at fair value. However, these investments are not subject to the fair value hierarchy. The Trust is rated AAAM by Standard & Poor’s.

ColoTrust is not a 2a7-like external investment pool. ColoTrust operates similarly to a money market fund and each share is equal in value to \$1. The unit of account is each share held, and the value of the position would be the fair value of the pool’s share price multiplied by the number of shares held. The government-investor does not “look through” the pool to report a pro rata share of the pool’s investments, receivables, and payables. ColoTrust may invest in securities with a maximum maturity of 365 days and an average weighted maturity not in excess of 60 days. ColoTrust is rated AAAM by Standard and Poor’s. The investment pool financial statements can be obtained at [www.colotruster.com](http://www.colotruster.com).

**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, 2018, the District did not have any funds exposed to credit risk.

At December 31, 2018, the District’s deposits and investments consisted of:

	<b>Bank Balance</b>	<b>Book Balance</b>
Insured (FDIC insured)	\$ 107,566	\$ 24,959
Category C	856,564	856,564
Total	\$ 964,130	\$ 881,523

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

**NOTE 2 – CAPITAL ASSETS**

Capital asset activity for 2018 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Proprietary fund</b>				
Contributed property	\$ 1,095,020	\$ -	\$ -	\$ 1,095,020
Collection, transmission and distribution system	1,973,568	5,166	-	1,978,734
Utility building equipment	9,016	-	-	9,016
Equipment	174,104	-	-	174,104
Plant equipment	-	24,922	-	24,922
Water rights and augmentation plan	442,901	-	-	442,901
Construction in progress	3,060,192	97,653	-	3,157,845
<b>Total at historical cost</b>	<u>6,754,801</u>	<u>127,741</u>	<u>-</u>	<u>6,882,542</u>
<b>Less accumulated depreciation</b>				
Contributed property	1,040,269	-	-	1,040,269
Collection, transmission and distribution system	1,152,408	79,361	-	1,231,769
Utility building equipment	9,016	-	-	9,016
Equipment	154,492	7,319	-	161,811
Plant equipment	-	415	-	415
Water improvement system	-	210,522	-	210,522
Water rights and augmentation plan	218,083	10,706	-	228,789
<b>Total accumulated depreciation</b>	<u>2,574,268</u>	<u>308,323</u>	<u>-</u>	<u>2,882,591</u>
<b>Total capital assets, net</b>	<u>\$ 4,180,533</u>	<u>\$ (180,582)</u>	<u>\$ -</u>	<u>\$ 3,999,951</u>

Depreciation expense for 2018 was \$308,323.

**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.

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

**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 &amp; Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-term term-debt					
Note payable	\$ 1,865,798	\$ -	\$ (541,280)	\$ 1,324,518	\$ 66,131

Interest expense for 2018 was \$29,740.

Annual debt service requirements to maturity for the loan at December 31, 2018 are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
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	71,610	20,682	92,292
2024 to 2028	380,230	81,232	461,462
2029 to 2033	420,011	41,451	461,462
2034 to 2035	180,061	4,524	184,585
Total	<u>\$ 1,324,518</u>	<u>\$ 244,451</u>	<u>\$ 1,568,969</u>

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

**NOTE 7 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 10, 2019, 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, 2018**

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Budgetary	Final Budget
			Basis	Favorable
				(Unfavorable)
<b>Operating Revenues</b>				
Water Sales	\$ 321,400	\$ 321,400	\$ 321,348	\$ (52)
Other Resident Charges	7,100	7,100	3,095	(4,005)
Interest Income	4,300	4,300	19,853	15,553
Miscellaneous Income	2,000	2,000	1,123	(877)
<b>Total Operating Revenues</b>	<u>334,800</u>	<u>334,800</u>	<u>345,419</u>	<u>10,619</u>
<b>Operating Expenses</b>				
Source of Supply	105,183	105,183	360,665	(255,482)
Water Treatment	7,300	7,300	2,745	4,555
Transmission and Distribution	28,000	28,000	19,208	8,792
Administration and General	75,318	75,318	71,359	3,959
Capital Outlay	79,000	79,000	127,741	(48,741)
Appropriation of Surplus to Budget	1,538,751	1,538,751	-	1,538,751
<b>Total Operating Expenses</b>	<u>1,833,552</u>	<u>1,833,552</u>	<u>581,718</u>	<u>1,251,834</u>
<b>Operating Income (Loss)</b>	<u>(1,498,752)</u>	<u>(1,498,752)</u>	<u>(236,299)</u>	<u>1,262,453</u>
<b>Non-operating Revenues (Expenses)</b>				
Property Taxes	51,066	51,066	51,201	135
Specific Ownership Taxes	4,400	4,400	6,273	1,873
Water Tap Fees	20,826	20,826	21,306	480
Interest Income	100	100	80	(20)
Non-operating Expenses	(32,626)	(32,626)	(30,689)	1,937
<b>Total Non-operating Revenue (Expense)</b>	<u>43,766</u>	<u>43,766</u>	<u>48,171</u>	<u>4,405</u>
<b>Change in Net Position - Budgetary Basis</b>	<u>\$ (1,454,986)</u>	<u>\$ (1,454,986)</u>	(188,128)	<u>\$ 1,266,858</u>
<b>GAAP Adjustments</b>				
Capital Outlay			127,741	
Depreciation			(308,323)	
<b>Change in Net Position GAAP Basis</b>			(368,710)	
<b>Net Position Beginning of Year</b>			<u>3,821,449</u>	
<b>Net Position End of Year</b>			<u>\$ 3,452,739</u>	

**HIGHLAND LAKES WATER DISTRICT  
SCHEDULE OF EXPENSES - PROPRIETARY FUND  
BUDGETARY (NON-GAAP BASIS)  
YEAR ENDED DECEMBER 31, 2018**

<b>Operating Expenses</b>	<b>Final</b>	<b>Actual</b>	<b>Variance with</b>
<b>Source of Supply</b>	<b>Budget</b>	<b>Budgetary</b>	<b>Final Budget</b>
		<b>Basis</b>	<b>Favorable</b>
			<b>(Unfavorable)</b>
Water Operator Service	\$ 40,000	\$ 57,084	\$ (17,084)
Supplies	6,000	13,676	(7,676)
Purchased Services	3,800	16,620	(12,820)
Water Hauling	12,000	238,665	(226,665)
Lake Maintenance	2,500	2,422	78
Interest	36,883	29,740	7,143
Water Employee Wages	4,000	2,458	1,542
<b>Total Source of Supply</b>	<b>105,183</b>	<b>360,665</b>	<b>(257,024)</b>
 <b>Water Treatment</b>			
Testing	4,600	1,612	2,988
Chemicals	2,500	1,133	1,367
Supplies	200	-	200
<b>Total Water Treatment</b>	<b>7,300</b>	<b>2,745</b>	<b>4,555</b>
 <b>Transmission and Distribution</b>			
Purchased Services	18,000	13,038	4,962
Supplies	10,000	6,170	3,830
<b>Total Transmission and Distribution</b>	<b>28,000</b>	<b>19,208</b>	<b>8,792</b>
 <b>Administration and General</b>			
General Supplies	4,100	2,528	1,572
Computer/Printer	300	420	(120)
Postage	2,200	2,200	-
Office Administration	28,600	28,819	(219)
Employment Taxes	2,568	2,525	43
Electric	30,000	27,716	2,284
Telephone	3,600	3,578	22
Gas	2,700	2,181	519
Trash	650	672	(22)
Miscellaneous	600	720	(120)
<b>Total Administration and General</b>	<b>75,318</b>	<b>71,359</b>	<b>3,959</b>
 <b>Capital Projects</b>			
Capital Equipment and Improvements	79,000	127,741	(48,741)
<b>Total Capital Projects</b>	<b>79,000</b>	<b>127,741</b>	<b>(48,741)</b>
 <b>Emergency and Non-emergency Reserves</b>			
Appropriation of Surplus to Budget	1,538,751	-	1,538,751
<b>Total Emergency and Non-emergency Reserves</b>	<b>1,538,751</b>	<b>-</b>	<b>1,538,751</b>
<b>Total Operating Expenses</b>	<b>\$ 1,833,552</b>	<b>\$ 581,718</b>	<b>\$ 1,250,292</b>

Continued on Page 21

**HIGHLAND LAKES WATER DISTRICT  
SCHEDULE OF EXPENSES - PROPRIETARY FUND  
BUDGETARY (NON-GAAP BASIS)  
YEAR ENDED DECEMBER 31, 2018**

Continued from Page - 20

	<b>Final Budget</b>	<b>Actual Budgetary Basis</b>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
<b>Non-operating Expenses</b>			
Director Fees	\$ 7,000	\$ 6,100	\$ 900
Postage for Publication	600	508	92
Audit	5,000	4,250	750
Public News Required Publication	700	745	(45)
Insurance	10,000	11,843	(1,843)
Legal - Regular	400	125	275
Legal - Augmentation	100	130	(30)
Legal - Water Rights	1,000	-	1,000
Bookkeeping Services	4,106	4,116	(10)
Dues	600	466	134
Seminars and Training	100	-	100
Meeting Rental	400	390	10
State Fees	220	220	-
County Treasurer Fees	1,700	1,471	229
Election	700	325	375
<b>Total Non-operating Expenses</b>	<u>32,626</u>	<u>30,689</u>	<u>1,937</u>
 <b>Total Expenses</b>	 <u>\$ 1,866,178</u>	 612,407	 <u>\$ 1,252,229</u>
 <b>GAAP Adjustments:</b>			
Capital Outlay		(127,741)	
Depreciation		308,323	
<b>Total Expenses GAAP Basis</b>		<u>\$ 792,989</u>	
 <b>Reconciliation of Total Expenses</b>			
Operating Expenses		\$ 581,718	
Nonoperating Expenses		30,689	
Depreciation		308,323	
Capital Outlay		(127,741)	
		<u>\$ 792,989</u>	