

**HEADWATER AUTHORITY OF THE SOUTH
PLATTE**

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2018 and 2017

HEADWATER AUTHORITY OF THE SOUTH PLATTE
TABLE OF CONTENTS
DECEMBER 31, 2018 AND 2017

	Page
Independent Auditors' Report	
Management Discussion and Analysis	<i>i</i>
Basic Financial Statements:	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	4
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Net Position, Budget and Actual (Non-GAAP)	12


Hoelting & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Headwater Authority of the South Platte

We have audited the accompanying financial statements of Headwater Authority of the South Platte, which comprise the statements of net position as of December 31, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 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 Headwater Authority of the South Platte, as of December 31, 2018, 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.

Prior Period Financial Statements

The 2017 financial statements were compiled by other accountants, and their report thereon, dated March 13, 2018, stated they did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the Table of Contents 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise Headwater Authority of the South Platte's financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Hoelting & Company, Inc.

Colorado Springs, Colorado
May 14, 2019

HEADWATER AUTHORITY OF THE SOUTH PLATTE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2018

As management of Head Water Authority of the South Platte (the Authority) we offer readers of the Authority's annual financial report this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2018. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The Authority's total assets of \$869,784 exceeded its liabilities at the close of the most recent fiscal year by \$847,279 (*net position*). Of this amount, \$663,119 represents unrestricted net position, which may be used to meet the Authority's ongoing obligations.
- The Authority's total net position increased during the year by \$593,656.
- Capital assets of \$184,160 consisted entirely of water rights and was unchanged from the prior year.
- Operating revenues increased by \$707,077 from the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the Authority's basic financial statements. The Authority's basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenue, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets) and obligations (liabilities) and deferred inflows and outflows. The difference between assets and liabilities and deferred inflows and outflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Net Position - All revenue and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the Authority's rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the Authority's financial position. For the year ended December 31, 2018, the Authority's assets exceeded liabilities by \$847,279 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 685,624	\$ 89,783
Capital assets, net	<u>184,160</u>	<u>184,160</u>
Total assets	<u>869,784</u>	<u>273,943</u>
Liabilities:		
Other liabilities	<u>22,505</u>	<u>20,320</u>
Total liabilities	<u>22,505</u>	<u>20,320</u>
Net position:		
Investment in capital assets	184,160	184,160
Unrestricted	<u>663,119</u>	<u>69,463</u>
Total net position	<u>\$ 847,279</u>	<u>\$ 253,623</u>

Unrestricted net position of the Authority at the end of the year was \$663,119, an increase of \$593,656 from the prior year.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 941,622	\$ 234,545
Operating expenses	<u>(353,679)</u>	<u>(247,695)</u>
Operating income (loss)	587,943	(13,150)
Non-operating revenue and expenses, net	<u>5,713</u>	<u>3</u>
Income before capital contributions	<u>593,656</u>	<u>(13,147)</u>
Capital contributions	<u>-</u>	<u>125,034</u>
Change in net position	593,656	111,887
Net position, beginning, as restated	<u>253,623</u>	<u>141,736</u>
Net position, ending	<u>\$ 847,279</u>	<u>\$ 253,623</u>

BUDGETARY HIGHLIGHTS

The Authority's budget is prepared in accordance with state law. An analysis of budget results in the following observations:

- Water lease revenue came in \$589,977 more than anticipated in 2018.
- Operating expenses were \$167,219 more than anticipated in 2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority's investment in capital assets as of December 31, 2018 and 2017 was \$184,160 and consisted entirely of water rights.

Long-Term Debt

The Authority has no long-term debt at December 31, 2018.

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – The increase in revenue over budget is primarily due to the augmentation of three new customers for a total of \$698,079. New customers are difficult to forecast both in the number of customers and in the amount of augmentation water required. One of the new customers is the Indian Mountain Water Service Program, which currently provides water to 409 individual users.

Economic and Environmental Factors – The overall positive economic situation in the state has contributed to growth in the Authority's service area, both commercial and residential. We expect this to continue this year, which should create additional customers for augmentation water. The Authority is continuing work this year on creating storage vessels, which will allow us to better use the resources available in our augmentation plan 12CW50. The engineering and construction costs could approach \$200,000 in 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, creditors and other financial users with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, please contact the Authority's operations manager, John Matteson, at 719-466-3908 or John.Matteson@HaspWater.com.

BASIC FINANCIAL STATEMENTS

HEADWATER AUTHORITY OF THE SOUTH PLATTE
STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 637,937	\$ 61,950
Receivables	47,687	27,433
Deposits	<u>-</u>	<u>400</u>
Total current assets	<u>685,624</u>	<u>89,783</u>
Noncurrent assets:		
Capital assets:		
Water rights	<u>184,160</u>	<u>184,160</u>
Net capital assets	<u>184,160</u>	<u>184,160</u>
Total assets	<u>869,784</u>	<u>273,943</u>
LIABILITIES		
Current liabilities:		
Accounts payable	<u>22,505</u>	<u>20,320</u>
Total current liabilities	<u>22,505</u>	<u>20,320</u>
NET POSITION		
Investment in capital assets	184,160	184,160
Unrestricted	<u>663,119</u>	<u>69,463</u>
Total net position	<u><u>\$ 847,279</u></u>	<u><u>\$ 253,623</u></u>

The accompanying notes are an integral part of these financial statements.

HEADWATER AUTHORITY OF THE SOUTH PLATTE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Water leases	\$ 941,622	\$ 234,545
Total operating revenues	<u>941,622</u>	<u>234,545</u>
Operating expenses:		
Management	43,267	37,907
Legal	197,753	157,645
Engineering services	90,434	41,852
Other services and charges	22,225	10,291
Total operating expenses	<u>353,679</u>	<u>247,695</u>
Operating income (loss)	<u>587,943</u>	<u>(13,150)</u>
Nonoperating revenues (expenses):		
Interest income	5,713	3
Total non-operating revenue (expenses)	<u>5,713</u>	<u>3</u>
Income before capital contributions	<u>593,656</u>	<u>(13,147)</u>
Capital contributions	<u>-</u>	<u>125,034</u>
Change in net position	593,656	111,887
Net position - beginning, as restated	<u>253,623</u>	<u>141,736</u>
Net position - ending	<u>\$ 847,279</u>	<u>\$ 253,623</u>

The accompanying notes are an integral part of these financial statements.

**HEADWATER AUTHORITY OF THE SOUTH PLATTE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Proceeds from water service contracts	\$ 921,768	\$ 210,764
Cash payments to vendors	(351,494)	(240,829)
Net cash used by operating activities	570,274	(30,065)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	5,713	3
Net cash provided by investing activities	5,713	3
Increase (decrease) in cash and cash equivalents	575,987	(30,062)
Cash and cash equivalents, beginning of year	61,950	92,012
Cash and cash equivalents, end of year	\$ 637,937	\$ 61,950
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	\$ 587,943	\$ (13,150)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables	(20,254)	(23,381)
Deposits	400	(400)
Increase (decrease) in liabilities:		
Accounts payable	2,185	6,866
Total adjustments	(17,669)	(16,915)
Net Cash Used by Operating Activities	\$ 570,274	\$ (30,065)
Schedule of non-cash investing, capital and financing activities:		
None	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

Headwater Authority of the South Platte (the Authority) is a statutory water authority created by agreement between the Upper South Platte Water Conservancy District (USPWCD) and the Center of Colorado Water Conservancy District (CCWCD) pursuant to Section 29-1-204.2, C.R.S. on March 21, 2007. The Authority operates a water rights enterprise through which it will make augmentation water available for sale to customers throughout the Districts' service areas. The Authority manages three Blanket Augmentation Plans (02CW389, 12CW50, and 03CW19).

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The Authority has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the Authority.

The accounts of the Authority are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The Authority accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the Authority rely significantly upon water leases.

HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The Authority's 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 related cash flows.

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital assets

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an economic useful life equal to or greater than one year. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

The Authority currently has no depreciable property.

The Authority's capital assets consist of water rights. The cost of water rights includes acquisition, legal and engineering costs related to the development and augmentation of these rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of these rights, are expensed.

HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The Authority may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and other contract services. Operating expenses include all expenses incurred to provide contract services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

In accordance with the State Budget Law, the Authority's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The Authority's Board of Directors can modify the budget by line item within the total appropriation with notification. The appropriation can only be modified upon completion of notification and publication requirements.

Excess of expenditures over appropriations

For the year ended December 31, 2018, expenditures exceeded appropriations in the proprietary fund by \$167,219. These excess expenditures were covered by greater than anticipated revenues received during the year.

NOTE 3 - DEPOSITS AND INVESTMENTS

DEPOSITS

Custodial credit risk-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 as determined by the PDPA. PDPA allows the financial institution 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.

As of December 31, 2018 and 2017, the carrying amounts of the Authority's deposits were \$106,277 and \$51,903, respectively and the bank balances were \$108,127 and \$51,903, respectively. All of the bank balances were covered by FDIC insurance.

INVESTMENTS

The Authority is authorized by Colorado Statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- Notes or bonds issued to the "National Housing Act".
- Repurchase agreements.
- Local government investment pools.

**HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Credit Risk. State law limits investments to those described above. The Authority does not have an investment policy that would further limit its investment choices. As of December 31, 2018 all of the Authority's investments were rated AAAM by Standard & Poor's.

Interest Rate Risk. State law limits investments with a maximum maturity date of no more than five years from the date of purchase. The Authority does not have an investment policy that would further limit its investment choices.

At December 31, 2018 the Authority's investment balances were as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Money Market	Less than 60 days	\$ 10,050
COLOTRUST	Less than 60 days	<u>521,610</u>
Total		<u>\$ 531,660</u>

COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

The designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, THE AUTHORITY does not categorize investments and COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

Reconciliation of total deposits and investments to the Statement of Net Position at December 31, 2018:

	<u>Unrestricted</u>
Deposits	\$ 106,277
Investments	<u>531,660</u>
Total	<u>\$ 637,937</u>

**HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 184,160	\$ -	\$ -	\$ 184,160
Total capital assets, not being depreciated	<u>\$ 184,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 184,160</u>

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 59,126	\$ 125,034	\$ -	\$ 184,160
Total capital assets, not being depreciated	<u>\$ 59,126</u>	<u>\$ 125,034</u>	<u>\$ -</u>	<u>\$ 184,160</u>

NOTE 5 – RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority carries commercial insurance for these risks of loss, including worker’s compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during any of the last three fiscal years.

**HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 6 – INTERGOVERNMENTAL AGREEMENTS

Intergovernmental agreement with Center of Colorado Water Conservancy District and Upper South Platte Water Conservancy District

On August 6, 2015, the Authority entered into a reimbursement agreement with Center of Colorado Water Conservancy District (CCWCD) and Upper South Platte Water Conservancy District (USPWCD). Under the agreement, the Authority is able to develop water resources and facilities. The duties of the Authority include the operation of augmentation plans pursued and obtained by CCWCD and USPWCD. To properly operate such augmentation plans utilizing CCWCD's and USPWCD's facilities, the Authority must use CCWCD's and USPWCD's employees or agents. Such use results in expenses incurred by CCWCD and USPWCD. The agreement provides that the Authority will compensate CCWCD and USPWCD for reasonable expenses for such efforts.

Intergovernmental agreement with the Indian Mountain Metropolitan District

On April 20, 2018, the Authority amended and restated the intergovernmental agreement for lease and purchase of augmentation water and for the operation of the Indian Mountain Water Service Program. The Authority operates the Member District's plans for augmentation adjudicated by the Colorado District Court, Water Division 1, Case No. 02CW389, entered on April 28, 2008, and Case No. 12CW50, entered on July 7, 2015 (HASP Augmentation Plans).

NOTE 7 - AMENDMENT TO COLORADO CONSTITUTION

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. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10.0% of the annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The Authority is of the opinion that it qualifies for this exclusion.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

HEADWATER AUTHORITY OF THE SOUTH PLATTE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 8 – PRIOR PERIOD ADJUSTMENT

During the year, it was determined that certain water rights had not been recorded in 2017. A prior period adjustment was required to record that addition.

The above restatement had the following impact on previously reported balances:

<u>Statement of Revenues, Expenses and Changes in Net Position</u>	<u>Governmental Activities</u>
Net position, December 31, 2017, as previously stated	\$ 128,589
Restatement to record Deer Creek water rights	<u>125,034</u>
Net position, December 31, 2017, as restated	<u>\$ 253,623</u>

SUPPLEMENTAL INFORMATION

HEADWATER AUTHORITY OF THE SOUTH PLATTE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 69,463	\$ 82,075	\$ (12,612)
Water leases	941,622	351,645	589,977
Interest income	5,713	4	5,709
	<u>1,016,798</u>	<u>433,724</u>	<u>583,074</u>
EXPENDITURES			
Management	43,267	36,000	(7,267)
Legal	197,753	112,500	(85,253)
Engineering services	90,434	30,000	(60,434)
Other services and charges	22,225	7,960	(14,265)
	<u>353,679</u>	<u>186,460</u>	<u>(167,219)</u>
EXCESS OF REVENUE OVER EXPENDITURES	663,119	<u><u>\$ 247,264</u></u>	<u><u>\$ 415,855</u></u>
Less:			
Beginning fund balance	<u>(69,463)</u>		
CHANGE IN NET POSITION	<u><u>\$ 593,656</u></u>		
Ending fund balance is calculated as follows:			
Current assets	\$ 685,624		
Current liabilities	<u>(22,505)</u>		
	<u><u>\$ 663,119</u></u>		

See the accompanying independent auditors' report.