

HIDDEN VALLEY WATER DISTRICT
Jefferson County, Colorado

FINANCIAL STATEMENTS
DECEMBER 31, 2019

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Independent Auditor's Report

Board of Directors
Hidden Valley Water District
Jefferson County, Colorado

Report for the Financial Statements

We have audited the accompanying financial statements of Hidden Valley Water District (District) as of and for the year ended December 31, 2019, and the related notes to the 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 audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hidden Valley Water District, as of December 31, 2019, and the changes in its financial position and its 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

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and legal compliance 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

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
September 25, 2020

BASIC FINANCIAL STATEMENTS

HIDDEN VALLEY WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2019

	2019
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents - unrestricted	\$ 7,771
Cash and cash equivalents - restricted	14,885
Accounts receivable:	
Customers	9,023
County treasurer	580
Grants	129,350
Loan draws - Colorado Water Conservation Board	63,931
Property taxes receivable	87,000
Total current assets	312,540
CAPITAL ASSETS	
Capital assets, not being depreciated	286,877
Capital assets, being depreciated	405,473
	692,350
Less accumulated depreciation and amortization	(7,311)
Total capital assets	685,039
TOTAL ASSETS	\$ 997,579
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	\$ 192,585
Retainage payable	1,162
Interest payable	662
Total current liabilities	194,409
NONCURRENT LIABILITIES	
Loans payable	
Due within one year	5,875
Due in more than one year	425,746
Total noncurrent liabilities	431,621
Total liabilities	626,030
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	87,000
Total deferred inflows of resources	87,000
NET POSITION	
Net investment in capital assets	253,418
Restricted for emergencies	2,100
Restricted for debt service	14,885
Unrestricted	14,146
Total net position	284,549
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 997,579

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HIDDEN VALLEY WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2019**

	2019
OPERATING REVENUE	
Water service fees	\$ 19,385
Total operating revenue	19,385
OPERATING EXPENSES	
Administration	
Insurance	2,732
Miscellaneous	172
Administrative/office expenses	1,503
Legal	477
Management	20,473
Additional management services	1,037
Other professional services	400
Water Operations	
Treatment and testing	2,608
Accounting	430
Utilities	303
Water Company transition costs	25,190
EMD Water Agreement costs	111,843
Depreciation	7,311
Total operating expenses	174,479
OPERATING LOSS	(155,094)
NONOPERATING REVENUE AND (EXPENSES)	
Property taxes	78,733
Specific ownership taxes	6,704
Net investment income	3
Grant funding - CDPHE	129,350
County treasurer's fees	(1,181)
Loan interest expense	(3,101)
Loan issuance costs	(23,467)
Total nonoperating revenue (expense)	187,041
INCOME BEFORE CAPITAL CONTRIBUTIONS	31,947
CAPITAL CONTRIBUTIONS	
Capital contributions - capital assets	415,423
Capital contributions - loan assumption	(342,921)
Capital contributions - cash contributions	180,100
Total capital contributions	252,602
CHANGE IN NET POSITION	284,549
NET POSITION - BEGINNING OF YEAR	-
NET POSITION - END OF YEAR	\$ 284,549

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HIDDEN VALLEY WATER DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019**

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 10,362
Payments to vendors	(42,830)
Net cash required by operating activities	(32,468)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital asset purchases	(207,518)
Loan proceeds - CWCB	26,721
Loan interest paid	(2,439)
Loan principal paid	(1,952)
Loan issuance costs	(23,467)
Capital contributions - cash contributions	180,100
Net cash required by capital financing activities	(28,555)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property and specific ownership taxes received	84,857
County treasurer's fees paid	(1,181)
Net cash provided by noncapital financing activities	83,676
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	3
Net cash provided by investing activities	3
NET INCREASE IN CASH AND CASH EQUIVALENTS	22,656
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	-
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 22,656
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS REQUIRED BY OPERATING ACTIVITIES	
Operating loss	\$ (155,094)
Adjustments to reconcile operating loss to net cash required by operating activities:	
Depreciation	7,311
Effects of changes in operating assets and liabilities:	
Accounts receivable	(9,023)
Accounts payable	124,338
Net cash required by operating activities	\$ (32,468)
NONCASH CAPITAL FINANCING ACTIVITIES:	
Capital contributions - capital assets	\$ 415,423
Capital contributions - loan assumption	(342,921)
	\$ 72,502

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

NOTE 1 – DEFINITION OF REPORTING ENTITY

Hidden Valley Water District (District), was organized on December 14, 2017 as a quasi-municipal corporation and political subdivision of the State of Colorado, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado. The purpose of the District is to assume ownership and operations of an existing public water supply system previously owned and operated by the Hidden Valley Mutual Water Company (Water Company), a Colorado non-profit corporation. It is anticipated that the District will also construct, own, and operate additional public improvements for the Hidden Valley residential community, and that the District's boundaries will encompass the entirety of the community. The District is governed by an elected Board of Directors.

On October 1, 2019, the District acquired the Water Company's water supply system consisting of certain parcels of land, easement interests, two water storage tanks, a water treatment building, an existing water distribution system, and the Water Company's water rights, including but not limited to, the water rights associated with three decreed water wells and a decreed plan for augmentation. In addition, on October 1, 2019, the Water Company transferred its existing U.S. Department of Agriculture (USDA) loan to the District. See NOTE 5 LONG-TERM OBLIGATIONS. The Water Company also assigned its grant award from the Colorado Department of Public Health and Environment to the District. See NOTE 11- GRANT AGREEMENT.

The District has no employees and all operations and administration functions are contracted.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemptions of bonds and loans are recorded as reductions in liabilities. System development fees and contributed assets from developers are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the Local Government Budget Law of Colorado, the District'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 District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Accounts Receivable

Accounts receivable consist of uncollected water service revenue. Due to the District's broad powers of collection, no allowance for uncollectible water service revenue receivables has been reported.

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation and amortization expense has been computed using the straight-line method over the estimated remaining economic useful lives:

Water distribution system	10 years
Water storage tanks	23-26 years
Water treatment facility	9-24 years
Wells	5-18 years

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Loan Issue Costs

Loan issuance costs are treated as a period cost and expensed in the year incurred.

Deferred Inflows/Outflows 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. The District has no items that qualify for reporting in this category.

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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the Statements of Net Position. Deferred inflows of resources reported are property taxes levied for the ensuing year.

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

NOTE 3 - CASH AND INVESTMENTS

Cash deposits as of December 31, 2019 are classified in the accompanying financial statements as follows:

	<u>2019</u>
Cash and cash equivalents - unrestricted	\$ 7,771
Cash and cash equivalents - restricted	<u>14,885</u>
	<u>\$ 22,656</u>

Cash 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. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2019, the District had cash deposits with a bank balance of \$33,263 and a carrying balance of \$22,656.

Investments

The District has not adopted a formal investment policy, however, the District follows Colorado State Statutes which specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

Interest Rate Risk

Colorado Revised Statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirement.

As of December 31, 2019, the District had no investments:

RESTRICTED CASH AND INVESTMENTS

At December 31, 2019, cash and cash equivalents in the amount of \$14,885 is restricted for debt service which includes the \$1,441 reserve required by the USDA Loan (See Note 5).

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2019 follows:

	Balance at December 31, 2018	Additions	Disposals/ Retirements	Balance at December 31, 2019
Capital assets, not being depreciated:				
Land	\$ -	\$ 9,950	\$ -	\$ 9,950
Water rights	-	180,000	-	180,000
Construction in progress	-	96,927	-	96,927
Total capital assets, not being depreciated	-	286,877	-	286,877
Capital assets, being depreciated:				
Water distribution system	-	97,013	-	97,013
Water storage tanks	-	180,000	-	180,000
Water treatment facility	-	43,460	-	43,460
Wells	-	85,000	-	85,000
Total capital assets being depreciated	-	405,473	-	405,473
Less accumulated depreciation for:				
Water distribution system	-	(2,425)	-	(2,425)
Water storage tanks	-	(1,831)	-	(1,831)
Water treatment facility	-	(811)	-	(811)
Wells	-	(2,244)	-	(2,244)
Total accumulated depreciation	-	(7,311)	-	(7,311)
Total capital assets being depreciated, net	-	398,162	-	398,162
Total capital assets, net	<u>\$ -</u>	<u>\$ 685,039</u>	<u>\$ -</u>	<u>\$ 685,039</u>

The District recorded the capital assets conveyed by the Water Company at estimated fair value. The assets are being depreciated over the estimated remaining useful lives.

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

NOTE 5 – LONG-TERM OBLIGATIONS

The following is an analysis of the changes in the District’s long-term obligations for the year ended December 31, 2019:

	Balance at January 1, 2019	Additions	Reductions	Balance at December 31, 2019	Due Within One Year
Direct placement loans:					
USDA Loan	\$ -	\$ 342,921	\$ 1,952	\$ 340,969	\$ 5,875
Colorado Water Conservation Board - Loan	-	90,652	-	90,652	-
Total long-term obligations	<u>\$ -</u>	<u>\$ 433,573</u>	<u>\$ 1,952</u>	<u>\$ 431,621</u>	<u>\$ 5,875</u>

U.S. Department of Agriculture Loan

On October 1, 2019, the District accepted the transfer of the 2012 U.S. Department of Agriculture Loan (USDA Loan) in the principal amount of \$342,921. The USDA Loan bears interest at 3.375%. The District is to make monthly payments in the amount of \$1,441 by the 10th of each month. The USDA Loan matures in 2052.

The Districts’ revenue (excluding ad valorem taxes) is pledged towards the repayment of the USDA Loan. The District is required to maintain a reserve of \$1,441 in accordance with the USDA Loan documents. At December 31, 2019, the District was in compliance with the reserve requirement.

Colorado Water Conservation Board Loan

On August 6, 2019, the District entered into an Intergovernmental Loan Contract (Loan Contract) with Colorado Water Conservation Board (CWCB) in the principal amount of \$1,737,200 for the purpose of funding the Master Water Meter Connection Project (Master Meter). In the event that the District does not use the full amount authorized by the Loan Contract, the total principal loan amount may be decreased. The total loan amount will be determined upon the earlier of the substantial completion date of the project or five years. Principal and interest is payable in annual equal payments with the first payment due and payable one year from the substantial completion of the project and annually thereafter for a period of thirty years. Interest on the loan is to accrue at a rate of 3.0% per year.

The Loan is a general obligation loan. The full faith and credit of the District is pledged for repayment of the Loan Contract. Per the Loan Contract, the required mill levy is stipulated as an amount sufficient to pay the principal and interest on the Loan as they become due and payable without limitation of rate.

The District is to establish and maintain a debt service reserve. The District is to deposit an amount equal to one-tenth of the annual payment into its debt service reserve on the due date of its first annual loan payment and annually thereafter for the first ten years of repayment of the Loan Contract. The debt service reserve requirement is in effect until the Loan Contract is paid in full. The debt service reserve requirement is not required until the project is complete and the

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

loan repayment schedule is finalized therefore, no debt service reserve has been established as of December 31, 2019.

If any annual payment is not paid when due or any default under the Loan Contract occurs, the CWCB may declare the entire outstanding principal balance of the Loan Contract, all accrued interest, and any outstanding late charges immediately due and payable, and the indebtedness shall bear interest at the rate of 7% per annum from the date of default.

The District's long-term obligations will mature as follows:

<u>Year Ending December 31,</u>	<u>Principal *</u>	<u>Interest *</u>	<u>Total</u>
2020	\$ 5,875	\$ 11,417	\$ 17,292
2021	6,076	11,216	17,292
2022	6,284	11,008	17,292
2023	6,500	10,792	17,292
2024	6,722	10,570	17,292
2025-2029	37,231	49,229	86,460
2030-2034	44,064	42,396	86,460
2035-2039	52,152	34,308	86,460
2040-2044	61,724	24,736	86,460
2045-2049	73,052	13,407	86,459
2050-2052	41,289	1,820	43,109
	<u>\$ 340,969</u>	<u>\$ 220,899</u>	<u>\$ 561,868</u>

* Principal and interest allocation will vary depending on payment date.

Authorized Debt

At December 31, 2019, the District had the following authorized but unissued debt:

	<u>Authorized November 7, 2017 Election</u>	<u>Authorization Used</u>	<u>Remaining at December 31, 2019</u>
Water	\$3,000,000	\$1,737,200 *	\$1,262,800
Refunding Debt	3,000,000	0	3,000,000
Intergovernmental Agreements	3,000,000	0	3,000,000
	<u>\$9,000,000</u>	<u>\$1,737,200</u>	<u>\$7,262,800</u>

* The District has entered into a Loan Contract in the amount of \$1,737,200. However, amount will be reduced if full Loan Amount is not needed for construction.

NOTE 6 – WATER DELIVERY AGREEMENT

On October 1, 2019, the District entered into a Water Delivery Agreement (WDA) with Evergreen Metropolitan District (Evergreen) in order to secure a potable water supply from Evergreen for treatment and delivery to the District's service area. In the WDA, Evergreen agreed to deliver

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

potable water to the District through Evergreen's transmission mains to the point of connection with the Master Meter. The District will use the water facilities within the District to distribute the potable water from Evergreen and will pay service charges to Evergreen for the delivery and use of such potable water.

Evergreen will supply potable water to the District in such quantities and for such uses as allowed by Evergreen's water rights, subject to the following limits: (i) up to 344,000 gallons per month; (ii) up to 3,557,776 gallons per year; and (iii) up to 10,655,328 gallons per any consecutive thirty-six month rolling period. The District is not entitled to receive any more potable water from Evergreen than these limits; however, Evergreen may deliver water exceeding those limits in its sole discretion and subject to the District's payment of penalty charges.

The District is to construct, operate, maintain and repair the Master Meter facility, all distribution mains and other water facilities within the District's service area that are necessary to deliver potable water from Evergreen at the District's expense. All water facilities within the District's water system are owned by and property of the District.

Under the WDA, the District agreed to acquire water rights and water storage rights for the purpose of offsetting the increased water demand on Evergreen's existing water rights, water storage rights, and water facilities to supply the District with potable water. The District agreed to convey such water rights and storage capacity to Evergreen with good and merchantable title, by bargain and sale deed or by assignment agreement. The District and Evergreen also agreed that an adjudication of the District's water rights (a change case) would be commenced and prosecuted by Evergreen at the District's sole expense. All legal, engineering and related costs incurred by Evergreen are to be reimbursed by the District within 30 days following receipt of an invoice. The WDA requires conveyance of the District's water rights to Evergreen within ten days of the issuance of a satisfactory final decree in the change case. To date, the District has acquired certain ditch company water rights, and Evergreen has filed the change case for those water rights, which case is currently pending. The ditch company water rights are being held in escrow until the conclusion of the change case, pursuant to the WDA as mentioned above. The District has not yet acquired the water storage rights.

The WDA anticipates commencement of water service to the District prior to the conclusion of the change case. To commence providing water service to the District during the pendency of the change case, Evergreen will need to obtain a Substitute Water Supply Plan from the Division of Water Resources. The District is to pay all costs incurred by Evergreen in connection with the preparation, submittal, approval and annual renewal of the Substitute Water Supply Plan.

In order to compensate Evergreen for the District's anticipated use of the Evergreen water facilities, the District shall pay a capital participation fee in the amount of \$360,000 to Evergreen, which amount is based upon an estimated monthly usage of 8,600 gallons per equivalent residential unit from forty equivalent residential units connected to the District's water system. If actual deliveries of potable water over any thirty-six month tolling period exceeds 12,384,000 gallons, the District will be required to pay additional capital participation fees, based on the amount of actual water deliveries.

The District is to pay monthly water delivery charges and, if applicable, penalty charges to Evergreen for all potable water delivered through the Master Meter for distribution at current rates as follows: (i) a monthly base rate for each residential unit of \$29.50 x 64 residential units equals \$1,888.00; (ii) water delivery rate of \$2.90 per 1,000 gallons for actual usage up to 344,000 gallons

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

per month; (iii) penalty charges for actual water deliveries in excess of 344,000 gallons per month of \$5.00 per 1,000 gallons as measured at the Master Meter; and (iv) drought penalty charges for actual water deliveries in excess of 344,000 gallons per month of \$15.00 per 1,000 gallons above 344,000 whenever Evergreen has imposed Level II or more restrictive drought restrictions on its users.

As of December 31, 2019, the Master Meter project was under construction and is expected to be completed in 2020.

NOTE 7 – WATER LEASING AGREEMENT

On October 1, 2019, the District entered into an Assignment and Assumption of Water Leasing Agreement the Water Company, whereby the District acquired the Water Company's rights and interest as lessee under the Water Company's Water Leasing Agreement with the Board of County Commissioners of Clear Creek County (Clear Creek County).

The Water Leasing Agreement provides for Clear Creek County to lease up to three acre-feet of water per year, subject to the terms and conditions set forth in the Leasing Agreement, as needed by the Water Company. The price for water purchased by the Water Company is a delivered base rate of \$2,200 per acre foot of water. The base rate automatically will change to 110% of Clear Creek's then-current water rates for in-county business consumptive use every five years beginning April 1, 2008.

The District gave notice to Clear Creek terminating the Water Leasing Agreement effective July 31, 2020.

NOTE 8 - NET POSITION

The District's net position consists of three components – net investment in capital assets; restricted; and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and, if applicable, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2019, the District had \$253,418 net investment in capital assets.

Restricted net position includes amounts that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District's restricted net position consists of \$2,100 as of December 31, 2019, as required by Article X, Section 20 of the Constitution of the State of Colorado (See Note 10). The District's restricted net position for debt service includes \$14,885 as of December 31, 2019, respectively, which represent unspent taxes levied for debt service and the debt service reserve requirement under the USDA Loan (see Note 5).

NOTE 9 - RISK MANAGEMENT

Except as provided by the Colorado Governmental Immunity Act, Section 24-10-101, et seq., C.R.S., as may be amended from time to time, the District may be exposed to various risks of

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2019. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past four fiscal years.

The District pays annual premiums to the Pool for property, liability, public officials' liability, boiler and machinery, and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members.

Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors, and qualification as an Enterprise, may require judicial interpretation.

The District's voters approved the following ballot questions at the November 7, 2017 election:

Shall the District taxes be increased \$125,000 annually (for collection in calendar year 2018) and by the amounts, whether more or less than \$125,000, that are raised annually thereafter by the imposition of an unlimited ad valorem property tax levy as adjusted from time to time due to legislative and constitutional adjustments, or such less amount as necessary to pay the District's administration, covenant enforcement, design review, operations, maintenance and other similar expenses by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, to pay such expense and shall the proceeds of such taxes and investment income thereon be collected, retained and spent by the District in fiscal year 2018 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on any increases in property taxation by Section 29-1-

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

301, C.R.S. in any year, or any other law which purports to limit the District's revenue or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Shall the District taxes be increased \$125,000 annually (for collection in calendar year 2018) and by the amounts, whether more or less than \$125,000, that are raised annually thereafter by the imposition of an unlimited ad valorem property tax levy as adjusted from time to time due to legislative and constitutional adjustments, or such less amount as necessary to pay for capital costs of public improvements, by the imposition of ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, to pay such expense and shall the proceeds of such taxes and investment income thereon be collected, retained and spent by the District in fiscal year 2018 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on any increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenue or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Shall the District taxes be increased \$125,000 annually (for collection in calendar year 2018) and by the amounts, whether more or less than \$125,000, that are raised annually thereafter by the imposition of an unlimited ad valorem property tax levy as adjusted from time to time due to legislative and constitutional adjustments, or such less amount as necessary to pay the District's administration, covenant enforcement, design review, operations, maintenance and other similar expenses by the imposition of by the imposition of a fee or fees imposed, without limitation as to rate or amount or any other condition, to pay such expense and shall the proceeds of such taxes and investment income thereon be collected, retained and spent by the District in fiscal year 2018 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on any increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenue or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Shall the District taxes be increased \$125,000 annually (for collection in calendar year 2018) and by the amounts, whether more or less than \$125,000, that are raised annually thereafter by the imposition of an unlimited ad valorem property tax levy as adjusted from time to time due to legislative and constitutional adjustments, or such less amount as necessary for the payment of such amounts due pursuant to one or more intergovernmental agreements or other contract, or for payment of regional improvements for which the District is authorized or obligated pursuant to its service plan, ad valorem property taxes levied in any year, without limitation as to rate or amount or any other condition, for the payment of such amounts due and shall the proceeds of such taxes and investment income thereon be collected, retained and spent by the District in fiscal year 2018 and in each fiscal year thereafter as a voter-approved revenue change without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on any increases in property taxation by Section 29-1-301, C.R.S. in any year, or any other law which purports to limit the District's revenue or expenditures as it currently exists or as it may be amended in the future, all without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

Shall Hidden Valley Water District be authorized to collect, retain, and spend the full amount of all taxes, tax increment revenues, tap fees, park fees, facility fees, service charges, inspection

**HIDDEN VALLEY WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019**

charges, administrative charges, gifts, grants or any other fee, rate, toll, penalty, income or charged authorized by law or contract to be imposed, collected or received by the District ins fiscal year 2018 and in each fiscal year thereafter, such amounts to constitute a voter-approved revenue change and be collected, retained and spent by the District without regard to any spending, revenue-raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the limits imposed on increases in property taxation by Section 29-1-301, C.R.S. in any subsequent year, or any other law which purports to limit the District's revenues or expenditures as it currently exists or as it may be amended in the future, and without limiting in any year the amount of other revenues that may be collected, retained and spent by the District?

NOTE 11 – GRANT AGREEMENT

In 2016, the Water Company was awarded a grant from the State of Colorado's Department of Public Health and Environment (CDPHE Grant) in the amount of \$840,000 for purposes of improving water quality and public health by connecting a transmission line and master meter to Lookout Mountain Water District. On December 30, 2019, the grant was assigned to the District with a change in project description from Lookout Mountain Water District to Evergreen Metropolitan District and an extension of time June 18, 2021. At the time the grant was assigned to the District, the remaining available grant funding was \$263,338.89.

The District submitted eligible expenditures under the grant in the amount of \$129,350 which have been reported as grant receivable and revenue at December 31, 2019.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

HIDDEN VALLEY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2019

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Water service fees	\$ 73,005	\$ 19,385	\$ (53,620)
Late fees / miscellaneous income	650	-	(650)
Property taxes - operations	60,480	60,624	144
Property taxes - debt service	18,200	18,109	(91)
Specific ownership taxes	6,050	6,704	654
Net investment income	-	3	3
Grant funding - CDPHE	200,000	129,350	(70,650)
Loan proceeds - CWCB	945,000	90,652	(854,348)
Contributed capital - cash advances	670,000	180,100	(489,900)
Total Revenues	<u>1,973,385</u>	<u>504,927</u>	<u>(1,468,458)</u>
EXPENDITURES			
Administration			
Insurance	2,200	2,732	(532)
Miscellaneous	1,000	172	828
Administrative/office expenses	2,000	1,503	497
Audit	2,500	-	2,500
Engineering	4,000	-	4,000
Legal	5,000	477	4,523
Management	14,000	20,473	(6,473)
Additional management services	-	1,037	(1,037)
Other professional services	-	400	(400)
County treasurer's fees	2,000	908	1,092
Water Operations			
Treatment and testing	14,000	2,608	11,392
Accounting	1,500	430	1,070
Repairs and maintenance	2,500	-	2,500
Utilities	2,500	303	2,197
Evergreen master meter charges	15,850	-	15,850
Water Company transition costs	-	25,190	(25,190)
EMD Water Agreement costs	-	111,843	(111,843)
Miscellaneous	400	-	400
Debt Service:			
USDA Loan - principal	6,071	1,952	4,119
USDA Loan - interest	11,629	3,101	8,528
USDA Loan costs	-	14,027	(14,027)
CWCB Loan costs	-	9,440	(9,440)
County treasurer's fees	500	273	227
Capital Outlay:			
Water meters	125,000	-	125,000
Water rights	370,000	197,667	172,333
EMD tap connections	360,000	-	360,000
EMD master meter connection	960,000	79,260	880,740
Total expenditures	<u>1,902,650</u>	<u>473,796</u>	<u>1,428,854</u>
REVENUES OVER (UNDER)			
EXPENDITURES	70,735	31,131	(39,604)
FUNDS AVAILABLE - BEGINNING OF YEAR	-	-	-
FUNDS AVAILABLE - END OF YEAR	<u>\$ 70,735</u>	<u>\$ 31,131</u>	<u>\$ (39,604)</u>

Funds available are computed as follows:

Current assets	\$ 312,540
Current liabilities	(194,409)
Deferred inflows of resources	(87,000)
	<u>\$ 31,131</u>

**HIDDEN VALLEY WATER DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2019**

Revenue (budgetary basis)	\$	504,927
Contributed capital - capital assets/debt		72,502
Loan proceeds - CWCB		<u>(90,652)</u>
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position		<u>486,777</u>
Expenditures (budgetary basis)		473,796
Depreciation		7,311
Capital outlay		(276,927)
Loan principal payment		<u>(1,952)</u>
Expenses per Statement of Revenues, Expenses and Changes in Fund Net Position		<u>202,228</u>
Change in net position per Statement of Revenues, Expenses and Changes in Fund Net Position		<u><u>\$ 284,549</u></u>