

Hoover Hill Water and Sanitation District

Annual Financial Report

December 31, 2019 and 2018

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Independent Auditor's Report

Members of the Board of Directors
Hoover Hill Water and Sanitation District

We have audited the accompanying financial statements of the business-type activities of Hoover Hill Water and Sanitation District as of and for the years ended December 31, 2019 and 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 respective financial position of the business-type activities of Hoover Hill Water and Sanitation District, as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

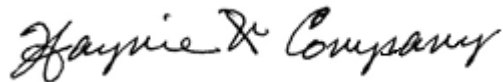
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hoover Hill Water and Sanitation District's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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.



Littleton, Colorado
June 29, 2020

Hoover Hill Water and Sanitation District Management Discussion and Analysis

This section of the Hoover Hill Water and Sanitation District's (the District) annual financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2019. Please read it in conjunction with the financial statements.

1. Financial Highlights

The District's operating revenue decreased by \$415 from 2018 to 2019. The District increased rates in response to the City of Boulder's rate increases of 7% for water and 5% for sanitation. In addition, the District maintained the additional \$25 per month supplemental water fee in order to prepare for future upgrades to the water infrastructure. These increases were offset by a slight reduction in overall water usage as well as a reduction in tap fees received during the current year.

Non-operating revenue (property taxes, specific ownership tax and interest income) increased \$4,142 primarily due to moving investments to ColoTrust which provided higher interest income.

The District replaced 23 water meters in 2019 at a cost of \$9,500 and will continue to replace meters annually.

General and Administrative expenses increased by \$5,478 from 2018 to 2019.

The total cost of upcoming infrastructure improvements is estimated at \$3.2M but has not been adjusted for the time value of money. Projects will begin in 2020 and continue at 2 year intervals with expected completion in 2030.

The District's net position increased by \$135,797 from 2018 to 2019; bringing the net position to \$1,299,368.

The District has enough in unrestricted funds to maintain operations for well over one year and has over \$690,000 in unrestricted funds that can be used for capital improvements. This is an indication that the District is healthy and operationally sound.

The District was able to issue a clean Customer Confidence Report (CCR); violation free to all customers and complied with all the standards of CDPHE regulations.

Hoover Hill Water and Sanitation District Management Discussion and Analysis

2. Overview of the Financial Statements

The annual report consists of three parts:

- Management's Discussion and Analysis
- Financial Statements
- Supplementary Information

3. Required Financial Statements

Statement of Net Position

The statement of net position provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Net Position

This statement measures the results of the District's operations over the past year and may be used to determine profitability, credit worthiness, and whether the District has successfully recovered all costs through its user fees, taxes and other charges.

Statement of Cash Flows

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and the net changes in cash resulting from operations, non-capital financing, capital-related financing, and investing activities.

4. Financial Analysis of the District

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The statement of net position and statement of revenues, expenses, and changes in net position report information about the District's activities in a way that can help answer that question. These two statements report the net position of the District and the related change in these

Hoover Hill Water and Sanitation District Management Discussion and Analysis

assets. The District's net position (the difference between assets and liabilities) is one way to measure financial health or financial position. Over time, increases in the District's net position, is one indicator that the District's financial health is improving. However, other non-financial factors should be considered such as changes in economic conditions, population growth, or changed governmental legislation.

5. Net Position

As part of our analysis, we provide a summary of the District's statement of net position:

	Condensed Statement of Net Position			
	2019	2018	2019-2018 Change	
Current and Other Assets	\$ 788,890	\$ 654,453	\$ 134,437	20.5%
Capital Assets	592,854	600,384	(7,530)	-1.3%
Total Assets	1,381,744	1,254,837	126,907	10.1%
Current Liabilities	-	22,514	(22,514)	-100.0%
Total Liabilities	-	22,514	(22,514)	-100.0%
Deferred Inflow of Resources	82,376	68,752	13,624	19.8%
Net Position:				
Net Investment in Capital Assets	592,854	600,384	(7,530)	-1.3%
Emergencies	15,535	15,423	112	0.7%
Unrestricted	690,979	547,764	143,215	26.1%
Total Net Position	1,299,368	1,163,571	135,797	11.7%
Total Liabilities, Deferred Inflows & Net Position	\$ 1,381,744	\$ 1,254,837	\$ 126,907	10.1%

Hoover Hill Water and Sanitation District showed an increase in Current and Other Assets of approximately \$130,000 from 2018 to 2019. Net Investment in Capital Assets decreased due to depreciation and the majority of assets have exceeded their life cycle.

The District rarely has Accounts Receivable of over 90 days.

Hoover Hill Water and Sanitation District Management Discussion and Analysis

While the statement of net position shows the financial net position; the statement of revenue, expenses and changes in net position answers questions as to the nature and sources of these changes.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2019	2018	2019-2018 Change	
Operating Revenues	433,266	433,681	\$ (415)	-0.1%
Non-operating Revenues	84,568	79,287	5,281	6.7%
Total Revenues	517,834	512,968	4,866	0.9%
Depreciation	18,861	23,581	(4,720)	-20.0%
Other Operating Expense	295,665	294,942	723	0.2%
G&A Expenses	67,511	62,033	5,478	8.8%
Total Expenses	382,037	380,556	1,481	0.4%
Change in Net Position	135,797	132,412	3,385	2.6%
Beginning Net Position	1,163,571	1,031,159	132,412	12.8%
Ending Net Position	\$ 1,299,368	\$ 1,163,571	\$ 135,797	11.7%

The District purchases water and sanitation services from the City of Boulder. When the City of Boulder increases its water and sanitation fees, Hoover Hill must also raise its rates to the customers of the District. Although the City of Boulder increased both water and sewer rates for 2019, the operating revenues remained consistent due to a slight reduction in water usage and reduced tap fees. Non-operating revenues increased due to interest income earned on ColoTrust investments. Depreciation decreased during 2019 as more of the capital assets have fully depreciated. The increase in G&A expenses is primarily due to management and professional fees.

6. Budgetary Highlights

As required by state law, the District adopts a budget and appropriates funds by December 15 for the following fiscal year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado.

Hoover Hill Water and Sanitation District Management Discussion and Analysis

7. Capital Assets and Debt Administration

	Capital Assets			
	2019	2018	2019-2018 Change	
Water & Sanitation System	\$ 1,686,570	\$ 1,675,239	\$ 11,331	0.7%
Less: Accumulated Depreciation	(1,093,716)	(1,074,855)	(18,861)	1.8%
Net Capital Assets	\$ 592,854	\$ 600,384	\$ (7,530)	-1.3%

There are several water lines within the District that have exceeded their life expectancy of 40 years and are in the capital plan to be replaced. The District intends to continue funding reserves for capital improvements. See Note 4 for more information.

8. Long-Term Debt

The District's General Obligation Debt was paid off in July 2017. The District currently has no long term debt.

9. Economic Factors And Next Year's Budget Rates

The District's Board of Directors and management consider many factors when setting the 2020 budget, including user fees and charges. The following table presents the changes in the District's budget from 2019 to 2020.

Hoover Hill Water and Sanitation District Management Discussion and Analysis

	2020 vs 2019 Budget			
	2020	2019	2020-2019 Change	
Operating Revenues	\$ 461,174	\$ 466,152	\$ (4,978)	-1.1%
Non-operating Revenues	92,315	77,397	14,918	19.3%
Total Revenues	553,489	543,549	9,940	1.8%
Operating Expense	356,294	336,127	20,167	6.0%
G&A Expenses	153,246	116,357	36,889	31.7%
Capital Outlays	450,000	350,000	100,000	100.0%
Non-operating Expense	-	-	-	0.0%
Total Expenses	959,540	802,484	157,056	19.6%
Net Income	(406,051)	(258,935)	(147,116)	56.8%
GAAP Adjustments:				
Depreciation	-	-	-	0.0%
Net Gain GAAP Basis	(406,051)	(258,935)	(147,116)	56.8%
Change in Net Position	(406,051)	(258,935)	(147,116)	56.8%
Beginning Net Position	1,338,930	1,243,708	95,222	7.7%
Ending Net Position	\$ 932,879	\$ 984,773	\$ (51,894)	-5.3%

The 2020 projected revenues reflect the rate changes the District will charge to compensate for any changes to the charges the District will incur from the City of Boulder. Non-operating revenues are expected to increase due to increases in property taxes.

Operating Expenses are projected to be higher in 2020 due to another increase by the City of Boulder for the purchase of water and sanitation services. G&A Expenses in 2020 include charges of \$20,130 for repairs, \$22,100 for the laptop meter replacement and \$28,000 for engineering services. Capital Outlay of \$450,000 is projected for planned infrastructure projects.

The expected reduction of \$406,000 in net position is in large part due to anticipated capital outlay related to the District's infrastructure.

Basic Financial Statements

Hoover Hill Water and Sanitation District
Statements of Net Position
Proprietary Fund
December 31, 2019 and 2018

Assets	2019	2018
Current Assets		
Cash and Investments	\$ 665,158	\$ 540,161
Property Taxes Receivable	82,376	68,752
Accounts Receivable	<u>41,356</u>	<u>45,540</u>
Total Current Assets	<u>788,890</u>	<u>654,453</u>
Noncurrent Assets		
Capital Assets, Net of Accumulated Depreciation	<u>592,854</u>	<u>600,384</u>
Total Assets	<u>\$ 1,381,744</u>	<u>\$ 1,254,837</u>
 Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Accounts Payable	<u>\$ -</u>	<u>\$ 22,514</u>
Total Liabilities	<u>-</u>	<u>22,514</u>
Deferred Inflows of Resources		
Deferred Property Tax Revenue	<u>82,376</u>	<u>68,752</u>
Net Position		
Net Investment in capital assets	592,854	600,384
Restricted - emergency reserve	15,535	15,423
Unrestricted	<u>690,979</u>	<u>547,764</u>
Total net position	<u>1,299,368</u>	<u>1,163,571</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 1,381,744</u>	<u>\$ 1,254,837</u>

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

Hoover Hill Water and Sanitation District
Statements of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
User Fees and Surcharges	\$ 433,266	\$ 433,681
Total Operating Revenues	<u>433,266</u>	<u>433,681</u>
Operating Expenses		
General and Administrative	67,511	62,033
Operating	295,665	294,942
Depreciation	<u>18,861</u>	<u>23,581</u>
Total Operating Expenses	<u>382,037</u>	<u>380,556</u>
Operating Income (Loss)	<u>51,229</u>	<u>53,125</u>
Non-Operating Revenues (Expenses)		
Property Taxes	68,752	68,471
Specific Ownership Taxes	3,664	3,650
Interest Income	12,152	8,305
Other	<u>-</u>	<u>(1,139)</u>
Total Nonoperating Revenues	<u>84,568</u>	<u>79,287</u>
Change in Net Position	135,797	132,412
Net position—Beginning of Year	<u>1,163,571</u>	<u>1,031,159</u>
Net Position—End of Year	<u><u>\$ 1,299,368</u></u>	<u><u>\$ 1,163,571</u></u>

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

Hoover Hill Water and Sanitation District
Statements of Cash Flows
Proprietary Fund
For the Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows From Operating Activities		
Cash Received From User Fees and Surcharges	\$ 437,450	\$ 426,208
Cash Paid for Goods and Services	<u>(385,690)</u>	<u>(353,686)</u>
Net Cash From Operating Activities	<u>51,760</u>	<u>72,522</u>
Cash Flows From Noncapital Financing Activities		
Property Taxes	68,752	68,471
Specific Ownership Taxes	<u>3,664</u>	<u>3,650</u>
Net Cash From Noncapital Financing Activities	<u>72,416</u>	<u>72,121</u>
Cash Flows From Capital and Related Financing Activities		
Capital Expenditures	(11,331)	(6,574)
Interest Income	<u>12,152</u>	<u>8,305</u>
Net Cash From Capital and Related Financing Activities	<u>821</u>	<u>1,731</u>
Net Change in Cash and Cash Equivalents	124,997	146,374
Cash and Cash Equivalents—Beginning of Year	<u>540,161</u>	<u>393,787</u>
Cash and Cash Equivalents—End of Year	<u><u>\$ 665,158</u></u>	<u><u>\$ 540,161</u></u>
Reconciliation of Operating Loss to Net Cash From Operating Activities		
Operating income	\$ 51,229	\$ 53,125
Adjustments to Reconcile Operating Income to Net cash from operating activities		
Depreciation and Amortization	18,861	23,581
Change in Accounts Receivable	4,184	(7,473)
Prepaid Expense	-	2,653
Change in Accounts Payable	<u>(22,514)</u>	<u>636</u>
Net cash from operating activities	<u><u>\$ 51,760</u></u>	<u><u>\$ 72,522</u></u>

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

Hoover Hill Water and Sanitation District

Notes to Basic Financial Statements

December 31, 2019 and 2018

1. Organization

Organization

Hoover Hill Water and Sanitation District (the District) is a quasi-municipal organization established under the State of Colorado Special District Act. The District was established for the purpose of providing water and sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

The District is operated and accounted for as an enterprise fund and the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's policies are described below.

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its basic financial statements.

The definition of the reporting entity is based primarily on financial accountability. The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the District.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

2. Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District's fund is classified as an enterprise fund type. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Hoover Hill Water and Sanitation District

Notes to Basic Financial Statements (continued)

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

The 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the unrestricted resources as they are needed.

The District reports all activity in one enterprise fund which is a proprietary fund type.

Assets, Liabilities and Fund Balance/Net Position

Cash and Cash Equivalents – Cash and cash equivalents include amounts in deposit accounts and short-term investments with an original maturity of three months or less.

Receivables – Receivables consist of amounts owed to the District by its utility customers. It is the District's policy to file liens on any past due user fees, therefore amounts are considered to be collectible and no allowance for bad debt has been recorded.

Capital Assets – Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed. Depreciation of capital assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Water and Wastewater systems	20-40 years
Office and Maintenance equipment	5 years

Hoover Hill Water and Sanitation District

Notes to Basic Financial Statements (continued)

December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Net Position - The business-type fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt and any associated unamortized cost. Restricted net position are liquid assets which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position may include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/ expenditure) until then.

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

Property Taxes -Property taxes are levied on November 1 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred inflow of resources are recorded at December 31. As the tax is collected in the succeeding year, the deferred inflow is recognized as revenue and the receivable is reduced.

Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage, to, or destruction of assets; errors or omissions; injuries to employees, or natural disasters.

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 the past three years.

Hoover Hill Water and Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

The District pays annual premiums to the Pool for liability, property, and public officials' 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 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.

Budget and Appropriation

In accordance with the State Budget law, 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 incurred expenditures on the budgetary basis of \$363,176 during 2019 and \$358,114 during 2018.

The following table summarizes the 2019 individual fund budgeted expenditures, as originally adopted, and as revised. The general government budgetary information is presented to show the District's compliance with the amendment to Article X, Section 20 of the Colorado Constitution.

	Original Budget	Total Revisions	Revised Budget
General government	\$ 72,087	\$ -	\$ 72,087
Water enterprise fund	567,643	-	567,643
Sewer enterprise fund	162,754	-	162,754
District total	\$ 802,484	\$ -	\$ 802,484

3. Cash Deposits and Investments

A summary of deposits and investments, as of December 31, 2019 and 2018 follows:

	2019	2018
Cash Deposits	\$ 41,182	\$ 68,150
Investments	623,976	472,011
Total	\$ 665,158	\$ 540,161

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. 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. At December 31, 2019 and 2018, State regulatory

Hoover Hill Water and Sanitation District

Notes to Basic Financial Statements (continued)

December 31, 2019 and 2018

3. Cash Deposits and Investments (continued)

commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

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. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2019 and 2018, the carrying amount of the District's deposits was \$41,182 and \$68,150, respectively. The bank balances were \$67,284 and \$68,266, respectively. All of these balances were covered by federal depository insurance.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria that local governments may invest in, which include:

- obligations of the United States and certain U.S. government agency securities,
- certain international agency securities,
- general obligation and revenue bonds of U.S. local government entities,
- bankers' acceptances of certain banks,
- commercial paper,
- written repurchase agreements collateralized by certain authorized securities,
- certain money market funds,
- guaranteed investment contracts, and
- local government investment pools.

For investments, custodial credit risk is the risk that in the event of a failure of a counter party, the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a specific policy for custodial credit risk.

Interest Rate Risk

In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting investments in U.S. Treasuries and Certificates of Deposit to an original maturity of five years or less.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy

Hoover Hill Water and Sanitation District

Notes to Basic Financial Statements (continued)

December 31, 2019 and 2018

3. Cash Deposits and Investments (continued)

established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The District invested \$20,221 and \$10,200, respectively in a Money Market Mutual Fund at December 31, 2019 and 2018. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from quoted prices in an active market, such securities are categorized as Level 2.

Local Government Investment Pool

As of December 31, 2019 and 2018, the District had \$603,755 and \$461,811, respectively, invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds and is registered with the State Securities Commissioner. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. Colotrust offers shares in two portfolios, Colotrust Prime and Colotrust Plus+. The District funds are only invested in Colotrust Plus+. The portfolio may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank serves as custodian for Colotrust's portfolios pursuant to a custodian agreement.

Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial banks. The custodian acts as safekeeping agent for Colotrust investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by Colotrust. Colotrust records its investments at fair value and the District records its investments in Colotrust using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice paid.

Hoover Hill Water and Sanitation District
Notes to Basic Financial Statements (continued)
December 31, 2019 and 2018

5. Property, Plant and Equipment

Capital Assets activity for the years ended December 31, 2019 and 2018, is summarized below.

	Balance December 31, 2018	Additions	Retirements	Balance December 31, 2019
Business-Type Activities				
Capital Assets, depreciated,				
Infrastructure—Water System	\$1,387,067	\$ 11,331	\$ -	\$1,398,398
Infrastructure—Wastewater System	<u>288,172</u>	<u>-</u>	<u>-</u>	<u>288,172</u>
Total capital assets, depreciated	<u>1,675,239</u>	<u>11,331</u>	<u>-</u>	<u>1,686,570</u>
Less: Accumulated Depreciation				
Infrastructure—Water System	(790,528)	(18,527)	-	(809,055)
Infrastructure—Wastewater System	<u>(284,327)</u>	<u>(334)</u>	<u>-</u>	<u>(284,661)</u>
	<u>(1,074,855)</u>	<u>(18,861)</u>	<u>-</u>	<u>(1,093,716)</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 600,384</u>	<u>\$ (7,530)</u>	<u>\$ -</u>	<u>\$ 592,854</u>
	Balance December 31, 2017	Additions	Retirements	Balance December 31, 2018
Business-Type Activities				
Capital Assets, depreciated,				
Infrastructure—Water System	\$1,380,493	\$ 6,574	\$ -	\$1,387,067
Infrastructure—Wastewater System	<u>288,172</u>	<u>-</u>	<u>-</u>	<u>288,172</u>
Total capital assets, depreciated	<u>1,668,665</u>	<u>6,574</u>	<u>-</u>	<u>1,675,239</u>
Less: Accumulated Depreciation				
Infrastructure—Water System	(767,281)	(23,247)	-	(790,528)
Infrastructure—Wastewater System	<u>(283,993)</u>	<u>(334)</u>	<u>-</u>	<u>(284,327)</u>
	<u>(1,051,274)</u>	<u>(23,581)</u>	<u>-</u>	<u>(1,074,855)</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 617,391</u>	<u>\$ (17,007)</u>	<u>\$ -</u>	<u>\$ 600,384</u>

Hoover Hill Water and Sanitation District

Notes to Basic Financial Statements (continued)

December 31, 2019 and 2018

6. Commitments and Contingencies

In 1992, Colorado voters approved Amendment 1, commonly known as the Taxpayer Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments. Enterprises, defined by TABOR 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 establishes 1992 as the initial base for spending and revenue limits. Future spending and revenue limits can be adjusted for inflation and local growth without voter approval. TABOR requires the establishment of Emergency Reserves that must be at least 3% of spending (excluding bonded debt service). Excess funds within the spending and revenue limits can be reserved for general use and, when spent in subsequent years, are not subject to the spending limits mentioned above. The District has set aside \$15,535 and \$15,423 as of December 31, 2019 and 2018, respectively, for emergencies as defined by the Amendment.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing taxes or spending above the limits prescribed above, increasing a mill levy, extending an expiring tax or implementing a tax policy change directly causing a net tax revenue gain to any local government. Multiple fiscal year debt requires voter approval, except for bond refinancing at lower interest rates or adding employees to existing pension plans.

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 qualifications as an Enterprise, will require judicial interpretation.

7. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which may negatively impact operations of the District. Other financial impact could occur, though such potential impact is unknown at this time.

Supplementary Information

Hoover Hill Water and Sanitation District
Statement of Revenues, Expenditures, and Changes in Net Position
Budget and Actual (Budgetary Basis)
Proprietary Fund
For the Year Ended December 31, 2019

	Original and Final Budget	Actual Amounts	Variance Favorable (Unfavorable)
Revenues			
User Fees and Surcharges	\$ 462,152	430,691	\$ (31,461)
Late Fees	4,000	2,575	(1,425)
Property Taxes	68,752	68,752	-
Specific Ownership Taxes	3,500	3,664	164
Interest Income	<u>5,145</u>	<u>12,152</u>	<u>7,007</u>
Total Revenues	<u>543,549</u>	<u>517,834</u>	<u>(25,715)</u>
Expenditures			
Director's Fees	2,700	1,800	900
Treasurer's Fees	1,100	1,032	68
Water and Sewer Fees	317,227	282,163	35,064
Management Fees	44,604	46,907	(2,303)
Accounting and Audit Fees	8,000	6,000	2,000
Engineer	23,000	-	23,000
Special Projects	3,500	-	3,500
Computer and Software	2,544	2,220	324
Repairs and Maintenance	16,900	11,931	4,969
Legal Fees	500	96	404
Office Supplies and Expenses	8,159	5,708	2,451
Bank and Credit Card Fees	900	760	140
SDA Dues	850	347	503
Insurance	3,000	2,641	359
Water Analysis	2,000	1,571	429
Reserves	<u>17,500</u>	<u>-</u>	<u>17,500</u>
Total Expenditures	<u>452,484</u>	<u>363,176</u>	<u>89,308</u>
Excess of Revenue Over (Under) Expenditures	<u>91,065</u>	<u>154,658</u>	<u>63,593</u>
Capital Projects	<u>(350,000)</u>	<u>-</u>	<u>(350,000)</u>
Net Income	<u>(258,935)</u>	<u>\$ 154,658</u>	<u>\$ (286,407)</u>
Beginning Funds Available	<u>1,243,708</u>		
Ending Funds Available	<u>\$ 984,773</u>		
Reconciling Difference Between Budgetary Basis and Generally Accepted Accounting Principles (GAAP)			
Excess of Revenues Over Expenditures, Budgetary Basis		\$ 154,658	
Adjustments			
Expenses Which Are Not Expenditures for Budgetary Purposes			
Depreciation		<u>(18,861)</u>	
Net income (GAAP basis)		<u>\$ 135,797</u>	

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