

HIGHLAND LAKES WATER DISTRICT
FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTAL INFORMATION
AND
SUPPLEMENTAL INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2020

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Highland Lakes Water District
Divide, Colorado

We have audited the accompanying financial statements of the business-type activities of Highland Lakes Water District (District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT - CONTINUED

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2020, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

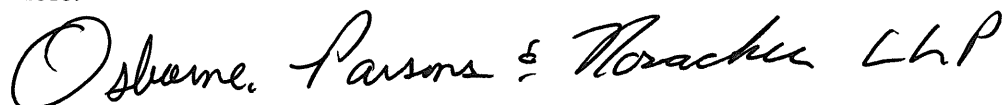
Required Supplemental Information

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

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Highland Lakes Water District's basic financial statements as a whole. The *schedule of revenues, expenses and changes in fund net position - proprietary fund, budgetary (non-GAAP basis) and actual*, and the *schedule of expenses - proprietary fund, budgetary (non-GAAP basis)* (supplemental information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Colorado Springs, Colorado

July 26, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

This management's discussion and analysis (MD&A) of the Highland Lakes Water District's (District) financial performance provides an overall review of the District's financial activities for the fiscal year ended December 31, 2020. The intent of the MD&A is to look at the District's financial performance as a whole. The MD&A should be read in conjunction with the District's financial statements to enhance understanding of the District's financial performance. The MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The District is a special district organized under Colorado Statutes to provide water and related services to property owners and residents located within the District. The District is a primary governmental agency as defined in GASB Statement No. 14, *The Financial Reporting Entity*.

Background Information

Highland Lakes Water District is an independent governmental entity organized under provision of the Colorado Revised Statutes. It operates within Teller County but is not part of the county government.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District finances.

Fund Structure

The District is composed of an enterprise fund, which primarily derives revenue from charges for service, as well as a general governmental fund, which levies and collects taxes. The District's only major fund is the proprietary fund, which records transactions based on the flow of economic resources. The District's financial statements report all financial activity through the proprietary fund.

Under GASB Statement No. 34, proprietary funds have the option to continue to utilize the balance sheet and statements of revenues, expenses and changes in retained earnings format or change to the statement of fund net position and statement of revenues, expenses and changes in fund net position format. The District has elected to use the statement of fund net position and the statement of revenues, expenses, and changes in fund net position format.

The *Statement of fund net position* presents information on the combined funds of the District's assets and liabilities. The difference between reported assets and liabilities is net position.

The *Statement of revenues, expenses, and changes in fund net position* presents information showing changes to the government's net position, by operating and non-operating changes during the past year.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

Current Financial Issues

The District's enterprise fund activities relate to providing water to the residents within the Highland Lakes subdivision.

The District's enterprise fund revenue consists primarily of water sales and tap fees. The general fund derives revenues through the levying and collection of property taxes as well as specific ownership taxes and federal grants. Water sales are approximately 97% of total operating revenues.

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

Components of the major disbursements relating to the District's detailed activities are in the supplemental schedules to the financial statements, starting on page 20.

Current Projects

The District Board of Directors continues work efforts to upgrade the collection, storage, treatment, and distribution facility and infrastructure. A list of priorities has been established and a five-year strategic operations plan has been developed to make certain that the necessary infrastructure projects remain on track to completion. As board members change in the years to come, the strategies created in 2020 will be expanded and improved to set the course of the District for the future.

STATEMENT OF FUND NET POSITION

The statement of fund net position conveys the financial health of the District and includes all assets and liabilities, both financial and capital. The District uses the accrual basis of accounting.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

STATEMENT OF FUND NET POSITION - Continued

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

	<u>2020</u>	<u>2019</u>	Increase (Decrease)
Assets			
Current Assets	\$ 675,554	\$ 690,175	\$ (14,621)
Capital Assets - Net	3,568,409	3,756,830	(188,421)
Total Assets	<u>\$ 4,243,963</u>	<u>\$ 4,447,005</u>	<u>\$ (203,042)</u>
Liabilities			
Current Liabilities	\$ 82,613	\$ 83,640	\$ (1,027)
Noncurrent Liabilities	1,122,111	1,190,927	(68,816)
Total Liabilities	<u>\$ 1,204,724</u>	<u>\$ 1,274,567</u>	<u>\$ (69,843)</u>
Deferred Inflow of Resources			
Total Deferred Inflow of Resources	<u>\$ 58,373</u>	<u>\$ 54,599</u>	<u>\$ 3,774</u>
Fund Net Position			
Net Investment in Capital Assets	\$ 2,377,482	\$ 2,498,443	\$ (120,961)
Restricted for TABOR Emergency	11,000	16,000	(5,000)
Unrestricted	592,384	603,396	(11,012)
Total Fund Net Position	<u>\$ 2,980,866</u>	<u>\$ 3,117,839</u>	<u>\$ (136,973)</u>

Current Assets

Current assets decreased by approximately \$15,000. The decrease was largely due to the repayment of debt, payment of 2019 accounts payable and outlay for leaks, including repairs.

Capital Assets

The District purchased approximately \$118,000 in capital equipment relating to replacement piping and posted a period depreciation expense of approximately \$306,000, resulting in a decrease in the book value of capital assets of approximately \$188,000.

Current Liabilities

Current liabilities decreased by approximately \$1,000 due to a decrease in accounts payable.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

STATEMENT OF FUND NET POSITION - Continued

Noncurrent Liabilities

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

Net Position

Net position decreased by approximately \$137,000, a result of the loss from operations for the year, due to repair costs for leaks and costs to replace piping of \$87,135 and bringing Well 24 back online at a cost of \$23,050.

STATEMENT OF REVENUE, EXPENSE, AND CHANGES IN FUND NET POSITION

Comparative statements and comments relating to significant changes follow:

	2020	2019	Net Position Increase (Decrease)
Operating Revenue	\$ 345,077	\$ 367,292	\$ (22,215)
Operating Expense	532,486	749,680	(217,194)
Operating Loss	(187,409)	(382,388)	194,979
Non-operating Revenue (Expense)	50,436	47,488	2,948
Change in Net Position	\$ (136,973)	\$ (334,900)	\$ 197,927

Operating Revenue and Expenses

Operating revenue decreased from the prior year by approximately \$22,000, due to decreased water sales.

Operating expenses decreased by approximately \$217,000 from 2019.

Operating Income

Operating income increased by approximately \$195,000, due to lower interest on the loan payment and decreased operating expenses.

Non-operating Revenue (Expense)

Non-operating revenues increased by approximately \$3,000 from 2019.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

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

Total Expenses

	2020	2019	Increase (Decrease)
Operating	\$ 532,486	\$ 749,680	\$ (217,194)
Non-operating	29,456	29,077	379
	<u>\$ 561,942</u>	<u>\$ 778,757</u>	<u>\$ (216,815)</u>

BUDGETED AMOUNTS

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

	Original	Final	Increase (Decrease)
Operating Revenue	\$ 342,390	\$ 342,390	\$ -
Operating Expense	1,163,540	1,163,540	-
Operating Loss	(821,150)	(821,150)	-
Non-operating Revenue	45,535	45,535	-
Change in Net Position	<u>\$ (775,615)</u>	<u>\$ (775,615)</u>	<u>\$ -</u>

There were no amendments to the original budget.

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

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

	Final	Actual Budgetary Basis	Net Position Increase
Operating Revenue	\$ 342,390	\$ 345,078	\$ 2,688
Operating Expense	1,163,540	344,065	819,475
Operating (Loss) Income	(821,150)	1,013	822,163
Non-operating Revenue	45,535	50,436	4,901
Change in Net Position	<u>\$ (775,615)</u>	<u>\$ 51,449</u>	<u>\$ 827,064</u>

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020**

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

Operating Revenue

Operating revenue was over budget by approximately \$2,700.

Operating Expense

Operating expense was under budget by approximately \$819,000, primarily due to costs being below budget.

Non-operating Revenue

Non-operating revenue was over budget by approximately \$4,900.

Change in Net Position

Change in net position was over budget by approximately \$827,000, primarily due to operating expenses actually incurred, being less than budgeted for.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

An elected Board of Directors, who oversees the daily operations and financial management of the District, manages the District.

This financial report is designed to provide readers with a general overview of the District's finances, and to show the accountability for the money entrusted to it for the operation of the water delivery system. If you have questions about this report or need additional information, contact the District at:

Highland Lakes Water District
3136 Blue Mesa Drive
Divide, CO 80814

FINANCIAL STATEMENTS

HIGHLAND LAKES WATER DISTRICT
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
DECEMBER 31, 2020

ASSETS

Current Assets

Cash and Cash Equivalents	\$	583,040
Cash with County Treasurer		443
Receivables from:		
Customers		33,579
Property Taxes		58,373
Prepaid Expenses		119
Total Current Assets		675,554

Capital Assets

Property, Plant, and Equipment		7,067,759
Accumulated Depreciation		(3,499,350)
Total Capital Assets, Net		3,568,409

Total Assets	\$	4,243,963
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LIABILITIES

Current Liabilities

Accounts Payable and Accrued Expenses	\$	9,802
Unearned Revenue		25
Accrued Interest		3,970
Current Portion of Long-term Debt		68,816
Total Current Liabilities		82,613

Noncurrent Liabilities

Long-term Debt		1,122,111
Total Noncurrent Liabilities		1,122,111

Deferred Inflow of Resources

Unearned Tax Revenue		58,373
Total Deferred Inflow of Resources		58,373

Total Liabilities and Deferred Inflow of Resources	\$	1,263,097
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FUND NET POSITION

Net Investment in Capital Assets	\$	2,377,482
TABOR Restricted Reserves		11,000
Unrestricted		592,384
Total Fund Net Position	\$	2,980,866

See Notes to Financial Statements

**HIGHLAND LAKES WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2020**

OPERATING REVENUES

Water Sales	\$	336,047
Other Resident Charges		3,832
Interest Income		3,949
Miscellaneous Income		1,249
Total Operating Revenues		345,077

OPERATING EXPENSES

Source of Supply		121,087
Water Treatment		9,895
Transmission and Distribution		20,021
Administrative and General		75,275
Depreciation		306,208
Total Operating Expenses		532,486
 Total Operating Loss		 (187,409)

NON-OPERATING REVENUES (EXPENSES)

Property Taxes		51,928
Specific Ownership Taxes		5,374
Water Tap Fees		22,482
Interest Income		108
Non-operating Expenses		(29,456)
Total Non-operating Revenues (Expenses)		50,436

Change in Net Position		(136,973)
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Net Position

Beginning of Year		3,117,839
End of Year		\$ 2,980,866

**HIGHLAND LAKES WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers and Users	\$ 359,856
Other Operating Cash Receipts	5,198
Cash Paid to Suppliers for Goods or Services	(196,514)
Cash Paid to Employees for Services	(30,108)
	138,432
Net Cash Provided by Operating Activities	138,432

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Collection of Taxes from Teller County	57,386
Collection of Tap Fees	22,482
Non-operating Expenses	(29,456)
	50,412
Net Cash Provided by Non-capital Financing Activities	50,412

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(117,787)
Loan Repayment	(67,460)
	(185,247)
Net Cash Used by Capital and Related Financing Activities	(185,247)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	108
	108
Net Cash Provided by Investing Activities	108

Change in Cash and Cash Equivalents 3,705

CASH AND CASH EQUIVALENTS

Beginning of Year	579,335
End of Year	\$ 583,040

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

Operating Loss	\$ (187,409)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	306,208
Change in	
Accounts Receivable from Customers	22,135
Prepaid Expenses	(119)
Accounts Payable and Accrued Expenses	(2,174)
Unearned Revenue	16
Accrued Interest	(225)
	325,841
Total Adjustments	325,841
Net Cash Provided by Operating Activities	\$ 138,432

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

HIGHLAND LAKES WATER DISTRICT NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History and Organization - Highland Lakes Water District (District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates entirely within Teller County but is not part of the county government.

The District's annual financial statements include the accounts and funds of all District operations presented in accordance with GASB Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles.

Government-wide and Fund Financial Statements

Government-wide Financial Statements - The government-wide financial statements (i.e., the statement of fund net position - proprietary fund, and the statement of revenue, expense and changes in fund net position), report information on all of the non-fiduciary activities of the government.

Fund Accounting - The District uses funds to report on its financial position and results of its operations. The proprietary fund (enterprise) is used to account for activity similar to that found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided to outside parties.

Financial Reporting Entity - For financial reporting purposes, the District includes all funds for which it is financially accountable. Criteria for defining whether the District has the ability to impose its will on other organizations, is determined by the District's ability to, remove appointed members of the organization's governing board; modify or approve the budget; veto, overrule or modify the decisions of the organization's governing board; or hire/reassign, or dismiss those persons responsible for the day-to-day operations of the organization. In determining whether an organization has a financial benefit or burden relationship with the District, the following conditions are used: legal entitlement to or access to the organization's resources, legal obligation for assumption of the organization's debt obligation, to finance the deficits or provide financial support to the organization. The District does not exercise any power over any other entity and is considered the sole reporting entity.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements are presented as a proprietary fund using the accrual method of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue includes activities that have the characteristics of exchange transactions, ordinarily water service fees. Operating expenses relate to the operation, maintenance, and management of the water systems. These expenses are intended to be funded by use charges. Non-operating revenue includes earnings on investments and non-exchange transactions such as property taxes and tap fees.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Non-operating expenses relate to debt services and tax collection. These expenses are funded by property taxes levied on residents of the District

Budget Accounting - Budgets are prepared in accordance with the requirements of Colorado Revised Statute 29-1-103 and accordingly include anticipated income and other means of financing proposed expenditures. Expenditures also include, in addition to those shown in the operating statements, debt redemptions, and capital expenditures.

Budgets - The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. Budgets are required by state law for all funds. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
- C. Prior to December 31, the budget is adopted, and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the District nor included in the budget. The Board of Directors has the authority to make budget amendments.

Definition of Cash – For the purpose of the statement of cash flows, the District defines cash as all cash on hand, demand deposits, and money market accounts held for three months or less.

Capital Assets - Capital assets are reported in the proprietary fund financial statements. Capital assets are defined as assets having an estimated life in excess of one year. Such assets are recorded at cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of the donation.

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

Depreciable capital assets are depreciated using the straight-line method over estimated useful lives of 5 - 40 years.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes/Deferred Inflow of Resources - Upon certification of the amount of levy by the District to Teller County (County); the County levies the property taxes in December of the year prior to the year of collection of the taxes. The County also acts as the billing and collecting agency for the District. Property taxes attach a lien on January 1 and may be paid in full by April 30 or in equal installments by February 28 and June 15. The District records the taxes as a receivable when they are measurable, and an enforceable legal claim attaches to the property. The taxes are recognized as revenue when the money is available in the following year.

Equity Classifications

Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balance of any bonds, loans, notes or other borrowings that are attributable to the acquisition, construction or improvement of these assets.

Restricted Net Position - Consists of net position with constraints placed on the use either by external groups, such as creditors, or laws or regulations of other governments.

Unrestricted Net Position - Includes all other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Equity - The governmental fund reports fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. The most significant estimate made in the accompanying financial statements is the useful lives of capital assets used to compute depreciation expense. Actual results could differ from those estimates.

Accounts Receivable - Customer - The District's accounts receivable consists of amounts due from customers for water usage and other related service fees. Management believes that all accounts receivable – customers are collectible and no allowance for doubtful accounts is deemed necessary.

NOTE 1 – DEPOSITS AND INVESTMENTS

Deposits - The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows eligible institutions to create single collateral pools for all public funds. Pools are to be maintained by separate institutions or held in trust for all the uninsured public funds. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

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

NOTE 1 – DEPOSITS AND INVESTMENTS - Continued

The PDPA has the effect of perfecting a security interest in the name of the local government agency. Accordingly, all collateral held under the PDPA is considered to be held for, and in the name of, the local government agency.

Deposits are categorized as follows: Category a) Uncollateralized, b) Collateralized with securities held by the pledging financial institution, c) Collateralized with securities held by the pledging financial institution’s trust department or agent but not in the depositor-government name.

The District has \$545,179 invested with the Colorado Local Government Liquid Asset Trust (COLOTRUST PLUS+) being reported at fair value. However, these investments are not subject to the fair value hierarchy. The Trust is rated AAAM by Standard & Poor’s.

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

Custodial Credit Risk Deposits - Custodial credit risk is the risk that in the event of bank failure, the District’s deposits will not be returned to it. The District does not have a policy related to custodial credit risk. At December 31, 2020, the District did not have any funds exposed to credit risk.

At December 31, 2020, the District’s deposits and investments consisted of:

	<u>Bank Balance</u>	<u>Book Balance</u>
Insured (FDIC Insured)	\$ 38,069	\$ 37,861
Category C	545,179	545,179
Total	<u>\$ 583,248</u>	<u>\$ 583,040</u>

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

NOTE 2 – CAPITAL ASSETS

Capital asset activity for 2020 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Proprietary Fund				
Contributed Property	\$ 1,095,020	\$ -	\$ -	\$ 1,095,020
Collection, Transmission and Distribution System	2,041,214	117,472	-	2,158,686
Utility Building Equipment	9,016	-	-	9,016
Equipment	174,104	-	-	174,104
Plant Equipment	29,872	315	-	30,187
Water Rights and Augmentation Plan	442,901	-	-	442,901
Construction in Progress	3,157,845	-	-	3,157,845
Total at Historical Cost	<u>6,949,972</u>	<u>117,787</u>	<u>-</u>	<u>7,067,759</u>
Less Accumulated Depreciation				
Contributed Property	1,040,269	-	-	1,040,269
Collection, Transmission and Distribution System	1,311,593	74,884	-	1,386,477
Utility Building Equipment	9,016	-	-	9,016
Equipment	165,909	4,097	-	170,006
Plant Equipment	5,815	5,999	-	11,814
Water Improvement System	421,045	210,523	-	631,568
Water Rights and Augmentation Plan	239,495	10,705	-	250,200
Total Accumulated Depreciation	<u>3,193,142</u>	<u>306,208</u>	<u>-</u>	<u>3,499,350</u>
Total Capital Assets, Net	<u>\$ 3,756,830</u>	<u>\$ (188,421)</u>	<u>\$ -</u>	<u>\$ 3,568,409</u>

Depreciation expense for 2020 was \$306,208.

NOTE 3 – TAX SPENDING AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved the Taxpayer’s Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue, and debt limitations that apply to the State of Colorado and all local governments.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance. The District believes it has complied with all aspects of the TABOR amendment.

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

NOTE 3 – TAX SPENDING AND DEBT LIMITATIONS - Continued

The District voters approved and authorized the District to collect, retain and spend all revenue from tax levies and all other District revenue as a voter approved revenue change and an exception to the limits which otherwise apply. This vote effectively removed the District from some provisions of TABOR.

NOTE 4 – RISK MANAGEMENT

The District is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters on claims made basis. The District provides for these risks through the purchase of commercial insurance. Settled claims resulting from these risks have not exceeded the purchased commercial coverage in any of the past three fiscal years.

NOTE 5 – FAIR VALUE OF FINANCIAL STATEMENTS

The carrying amount of the District’s financial instruments approximates their fair value.

NOTE 6 – LONG TERM DEBT

Long-term debt consists of a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA). The District entered into the loan agreement with the CWRPDA in 2015. The loan was for a total of \$2,000,000 with interest at 2% and a term of twenty-years. The loan proceeds are being used to pay a portion of the costs for a specific water project of the District.

A summary of changes in long-term debt is:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments & Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Long-Term Debt					
Note Payable	\$ 1,258,387	\$ -	\$ (67,460)	\$ 1,190,927	\$ 68,816

Interest expense for 2020 was \$24,607.

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

NOTE 6 – LONG TERM DEBT - Continued

Annual debt service requirements to maturity for the loan at December 31, 2020 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2021	\$ 68,816	\$ 23,476	\$ 92,292
2022	70,199	22,093	92,292
2023	71,610	20,682	92,292
2024	73,049	19,243	92,292
2025	74,517	17,775	92,292
2026 to 2030	395,671	65,792	461,463
2031 to 2035	437,065	24,398	461,463
Total	<u>\$ 1,190,927</u>	<u>\$ 193,459</u>	<u>\$ 1,384,386</u>

NOTE 7– LOAN COVENANT CALCULATIONS

The loan agreement with the CWRPDA requires the District to comply with a rate covenant and maintain specified operation and maintenance reserves. To remain in compliance, the District must generate enough revenue after operating expenses to cover annual debt service at 1.10 times. The district is required to maintain reserves, in the form of unobligated cash balances or restricted assets, equal to three months of operation and maintenance expenses. During the year ended December 31, 2020, the District was in compliance with all loan covenants.

The rate covenant calculation is as follows:

Total Revenue

Operating Revenue	\$ 345,077
Non-Operating/Tap/Misc. Income	79,892
Total Revenue	<u>\$ 424,969</u>

Total Operating Expenses

Operating Expenses	\$ 532,486
Less: Depreciation	(306,208)
Less: Water Hauling Fees	(5,500)
Total Operating Expenses	<u>\$ 220,778</u>

Debt Service

Principal and Interest Paid on Debt	<u>\$ 92,292</u>
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Rate Covenant Calculation

<u>221%</u>

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

NOTE 7– LOAN COVENANT CALCULATIONS - Continued

During the year ended December 31, 2020, the District generated enough revenue, after operating expenses, to cover annual debt service at 2.21 times.

The operating reserve calculation is as follows:

Current Assets	\$ 583,040
Current Liabilities	(82,613)
	<u>\$ 500,427</u>
Operating Expenses	\$ 532,486
Less: Depreciation	(306,208)
	<u>226,278</u>
Three Months	0.25
	<u>\$ 56,570</u>
Excess Available	<u>\$ 443,858</u>

The District has sufficient unrestricted current assets, after current liabilities, to cover three months of operating expenses.

NOTE 8 – RISKS AND UNCERTAINTIES

Coronavirus (COVID-19) Pandemic

In December 2019, an outbreak of a novel strain of Coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic, and multiple jurisdictions in the U.S. have declared a state of emergency. The extent of the impact of COVID-19 on the District’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on our employees, none of which can be reasonably predicted. At this point, the extent to which COVID-19 may impact the District’s financial condition or results of operations is uncertain.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2021, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS) AND ACTUAL
YEAR ENDED DECEMBER 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Water Sales	\$ 320,510	\$ 320,510	\$ 336,047	\$ 15,537
Other Resident Charges	5,680	5,680	3,832	(1,848)
Interest Income	16,200	16,200	3,949	(12,251)
Miscellaneous Income	-	-	1,249	1,249
Total Operating Revenues	<u>342,390</u>	<u>342,390</u>	<u>345,077</u>	<u>2,687</u>
Operating Expenses				
Source of Supply	300,132	300,132	121,087	179,045
Water Treatment	9,262	9,262	9,895	(633)
Transmission and Distribution	23,000	23,000	20,021	2,979
Administration and General	84,852	84,852	75,275	9,577
Capital Outlay	100,000	100,000	117,787	(17,787)
Appropriation of Surplus to Budget	646,294	646,294	-	646,294
Total Operating Expenses	<u>1,163,540</u>	<u>1,163,540</u>	<u>344,065</u>	<u>819,475</u>
Operating (Loss) Income	<u>(821,150)</u>	<u>(821,150)</u>	<u>1,012</u>	<u>822,162</u>
Non-operating Revenues (Expenses)				
Property Taxes	54,599	54,599	51,928	(2,671)
Specific Ownership Taxes	5,650	5,650	5,374	(276)
Water Tap Fees	21,864	21,864	22,482	618
Interest Income	70	70	108	38
Non-operating Expenses	(36,648)	(36,648)	(29,456)	7,192
Total Non-operating Revenue (Expense)	<u>45,535</u>	<u>45,535</u>	<u>50,436</u>	<u>4,901</u>
Change in Net Position - Budgetary Basis	<u>\$ (775,615)</u>	<u>\$ (775,615)</u>	<u>51,448</u>	<u>\$ 827,063</u>
GAAP Adjustments				
Capital Outlay			117,787	
Depreciation			(306,208)	
Change in Net Position GAAP Basis			<u>(136,973)</u>	
Net Position Beginning of Year			3,117,839	
Net Position End of Year			<u>\$ 2,980,866</u>	

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2020**

Operating Expenses	Final	Actual	Variance with
Source of Supply	Budget	Budgetary	Final Budget
		Basis	Favorable
			(Unfavorable)
Water Operator Service	\$ 67,270	\$ 57,321	\$ 9,949
Supplies	11,460	16,332	(4,872)
Purchased Services	41,850	11,280	30,570
Water Hauling	150,000	5,500	144,500
Lake Maintenance	2,500	4,875	(2,375)
Interest	24,382	24,607	(225)
Water Employee Wages	2,670	1,172	1,498
Total Source of Supply	300,132	121,087	179,045
Water Treatment			
Testing	8,162	8,564	(402)
Chemicals	1,100	1,331	(231)
Total Water Treatment	9,262	9,895	(633)
Transmission and Distribution			
Purchased Services	15,000	13,162	1,838
Supplies	8,000	6,859	1,141
Total Transmission and Distribution	23,000	20,021	2,979
Administration and General			
Engineering	10,000	-	10,000
General Supplies	3,060	2,108	952
Computer/Printer	290	207	83
Postage	2,520	1,451	1,069
Office Administration	29,860	30,181	(321)
Employment Taxes	2,370	2,504	(134)
Electric	29,094	30,752	(1,658)
Telephone	4,140	3,864	276
Gas	2,110	2,076	34
Trash	647	697	(50)
Miscellaneous	761	1,435	(674)
Total Administration and General	84,852	75,275	9,577
Capital Projects			
Capital Equipment and Improvements	100,000	117,787	(17,787)
Total Capital Projects	100,000	117,787	(17,787)
Emergency and Non-emergency Reserves			
Appropriation of Surplus to Budget	646,294	-	646,294
Total Emergency and Non-emergency Reserves	646,294	-	646,294
Total Operating Expenses	1,163,540	344,065	819,475

Continued on Page 22

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2020**

Continued from Page - 21

	Final Budget	Actual Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Non-operating Expenses			
Director Fees	7,000	2,600	4,400
Postage for Publication	540	242	298
Audit	5,000	4,578	422
Public News Required Publication	700	607	93
Insurance	15,000	14,236	764
Legal - Regular	60	100.00	(40)
Legal - Augmentation	180	142	38
Legal - Water Rights	300	-	300
Bookkeeping Services	4,308	4,344	(36)
Dues	600	546	54
Meeting Rental	420	330	90
State Fees	220	220	-
County Treasurer Fees	1,620	1,511	109
Election	700	-	700
Total Non-operating Expenses	<u>36,648</u>	<u>29,456</u>	<u>7,192</u>
 Total Expenses	 <u><u>\$ 1,200,188</u></u>	 373,521	 <u><u>\$ 826,667</u></u>
 GAAP Adjustments:			
Capital Outlay		(117,787)	
Depreciation		306,208	
Total Expenses GAAP Basis		<u><u>\$ 561,942</u></u>	
 Reconciliation of Total Expenses			
Operating Expenses		\$ 344,065	
Nonoperating Expenses		29,456	
Depreciation		306,208	
Capital Outlay		(117,787)	
		<u><u>\$ 561,942</u></u>	