

HIGHLAND LAKES WATER DISTRICT

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTAL INFORMATION

AND

SUPPLEMENTAL INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

December 31, 2023

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Highland Lakes Water District
Divide, CO

Opinion

We have audited the accompanying financial statements of Highland Lakes Water District (District), which comprise the statement of net position as of December 31, 2023 and the related statements of revenue, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the business-type activities of the District as of December 31, 2023, and the changes in its revenue, expense, net position and, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

CBIZ CPAs P.C.

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¹In certain jurisdictions, CBIZ CPAs P.C. operates under its previous name, Mayer Hoffman McCann P.C.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



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 is the responsibility of management and, 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 supplemental information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. 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. Such information 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. The 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 basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

CBIZ CPAs P.C.¹

Colorado Springs, Colorado
November 19, 2024

¹ In certain jurisdictions, CBIZ CPAs P.C. operates under its previous name, Mayer Hoffman McCann P.C.

***MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)***

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2023**

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, 2023. 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 (UNAUDITED)
YEAR ENDED DECEMBER 31, 2023**

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, infrastructure income, 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 80% 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 22.

Current Projects

The District Board of Directors continues work efforts to upgrade the collection, storage, treatment, and distribution facility and infrastructure. In 2020 The Colorado Department of Public Health and Environment (CDPHE) required the District to test three of its wells, and after this testing, the District supply was declared Ground Water Under Direct Influence (GWUDI) in 2021. As such, the District has undertaken a project to augment its treatment facilities to meet State treatment requirements. The anticipated funding for this project is approximately \$1.94 million. However, the District is also planning for a 10% project budget contingency, bringing total project costs to around \$2.1 million. The district has secured \$1.66 million in grants and low-interest loans and are pending approval of a \$464k supplemental loan to cover the remaining project costs.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2023**

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.

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

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Assets			
Current Assets	\$ 947,538	\$ 742,929	\$ 204,609
Capital Assets - Net	3,059,017	3,179,711	(120,694)
Total Assets	<u>\$ 4,006,555</u>	<u>\$ 3,922,640</u>	<u>\$ 83,915</u>
Liabilities			
Current Liabilities	\$ 128,365	\$ 115,338	\$ 13,027
Noncurrent Liabilities	1,064,491	980,301	84,190
Total Liabilities	<u>\$ 1,192,856</u>	<u>\$ 1,095,639</u>	<u>\$ 97,217</u>
Deferred Inflow of Resources			
Unearned Tax Revenue	\$ 69,551	\$ 65,703	\$ 3,848
Total Deferred Inflow of Resources	<u>\$ 69,551</u>	<u>\$ 65,703</u>	<u>\$ 3,848</u>
Fund Net Position			
Net Investment in Capital Assets	\$ 1,917,117	\$ 2,127,800	\$ (210,683)
TABOR Restricted Reserves	16,000	12,000	4,000
Unrestricted	811,031	621,498	189,533
Total Fund Net Position	<u>\$ 2,744,148</u>	<u>\$ 2,761,298</u>	<u>\$ (17,150)</u>

Current Assets

Current assets increased by approximately \$84,000 due to two tap fees and increased interest income from interest rates increasing over the prior years.

Capital Assets

The District completed approximately \$80,000 in upgrades and repairs for the #6 Beaver Lake dam. An additional \$92,000 was spent on work in progress for engineering design of the GWUDI project and \$20,000 of new equipment editions.

Current Liabilities

Current liabilities increased by approximately \$13,000 due to an increase in accounts payable.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2023**

STATEMENT OF FUND NET POSITION - Continued

Noncurrent Liabilities

Noncurrent liabilities consist of the outstanding balance associated with the CWRPDA loan, the decrease was the result of normal repayments.

Fund Net Position

Fund Net position decreased by approximately \$17,000, a result of the loss from operations for the year. The loss from operations was due to dam engineering/repairs along with engineering design for the GWUDI project.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Comparative statements and comments relating to significant changes follow:

	<u>2023</u>	<u>2022</u>	Net Position Increase (Decrease)
Operating Revenues	\$ 439,628	\$ 412,630	\$ 26,998
Operating Expenses	652,470	540,571	111,899
Operating Loss	<u>(212,842)</u>	<u>(127,941)</u>	<u>(84,901)</u>
Non-operating Revenues	195,692	60,010	135,682
Change in Net Position	<u>\$ (17,150)</u>	<u>\$ (67,931)</u>	<u>\$ 50,781</u>

Operating Revenues and Expenses

Operating revenues increased from the prior year by approximately \$27,000.

Operating expenses increased from the prior year by approximately \$112,000, due to water hauling, increased repair costs, and increased water testing due to additional requirements of the GWUDI designation.

Operating Loss

Operating loss increased by approximately \$85,000, due to increased operating expenses.

Non-operating Revenues

Non-operating revenues increased by approximately \$136,000, due to a loan from and forgiven by the Colorado Water Resources and Power Development Authority in 2023.

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2023**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION -
Continued**

Total Expenses

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Operating	\$ 652,470	\$ 540,571	\$ 111,899
Non-operating	10,256	7,987	2,269
	<u>\$ 662,726</u>	<u>\$ 548,558</u>	<u>\$ 114,168</u>

BUDGETED AMOUNTS

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

	<u>Original</u>	<u>Final</u>	<u>Increase (Decrease)</u>
Operating Revenues	\$ 416,480	\$ 416,480	\$ -
Operating Expenses	1,075,094	1,075,094	-
Operating Loss	(658,614)	(658,614)	-
Non-operating Revenues (Expenses)	63,493	63,493	-
Change in Net Position	<u>\$ (595,121)</u>	<u>\$ (595,121)</u>	<u>\$ -</u>

There were no amendments to the original budget.

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
BUDGET (NON-GAAP BASIS) AND ACTUAL**

A comparison of the final budget and actual statement of revenues, expenses, and changes in net position, budgetary basis, follows:

	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance (Unfavorable) Favorable</u>
Operating Revenues	\$ 416,480	\$ 439,628	\$ 23,148
Operating Expenses	1,075,094	531,778	543,316
Operating (Loss) Income	(658,614)	(92,150)	566,464
Non-operating Revenues (Expenses)	63,493	195,692	132,199
Change in Net Position	<u>\$ (595,121)</u>	<u>\$ 103,542</u>	<u>\$ 698,663</u>

**HIGHLAND LAKES WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2023**

**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
BUDGET (NON-GAAP BASIS) AND ACTUAL - Continued**

Operating Revenues

Operating revenues were over budget by approximately \$23,000, due to additional interest income.

Operating Expenses

Operating expenses were under budget by approximately \$543,000, primarily due to the appropriation of surplus to budget and decreased capital outlay.

Non-operating Revenues

Non-operating revenues were over budget by approximately \$132,000, due to a forgivable loan from the CWRPDA.

Change in Net Position

Change in net position was under budget by approximately \$699,000, primarily due to the appropriation of surplus to budget.

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, 2023

ASSETS

Current Assets

Cash and Cash Equivalents	\$	669,376
Cash with County Treasurer		395
Receivables from:		
Customers		44,936
Loan		161,598
Property Taxes		69,551
Prepaid Expenses		1,682
Total Current Assets		947,538

Capital Assets

Property, Plant, and Equipment		7,474,153
Accumulated Depreciation		(4,415,136)
Total Capital Assets, Net		3,059,017

Total Assets	\$	4,006,555
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LIABILITIES

Current Liabilities

Accounts Payable and Accrued Expenses	\$	47,688
Accrued Interest		3,268
Current Portion of Long-term Debt		77,409
Total Current Liabilities		128,365

Noncurrent Liabilities

Long-term Debt, Net of Current Portion		1,064,491
Total Noncurrent Liabilities		1,064,491

Deferred Inflow of Resources

Unearned Tax Revenue		69,551
Total Deferred Inflow of Resources		69,551

Total Liabilities and Deferred Inflow of Resources	\$	1,262,407
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FUND NET POSITION

Net Investment in Capital Assets	\$	1,917,117
TABOR Restricted Reserves		16,000
Unrestricted		811,031
Total Fund Net Position	\$	2,744,148

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, 2023

OPERATING REVENUES

Water Sales	\$ 333,509
Infrastructure Income	44,030
Other Resident Charges	3,855
Water Tap Fees	26,183
Interest Income	30,555
Miscellaneous Income	1,496
Total Operating Revenues	439,628

OPERATING EXPENSES

Source of Supply	186,998
Water Treatment	8,800
Transmission and Distribution	15,315
Administrative and General	115,633
Depreciation	306,403
Capital Outlay	19,321
Total Operating Expenses	652,470
Total Operating Loss	(212,842)

NON-OPERATING REVENUES (EXPENSES)

Forgiveness of Loan Proceeds	133,122
Property Taxes	65,703
Specific Ownership Taxes	7,051
Interest Income	72
Non-operating Expenses	(10,256)
Total Non-operating Revenues (Expenses)	195,692

Change in Fund Net Position	(17,150)
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Fund Net Position

Beginning of Year	2,761,298
End of Year	\$ 2,744,148

**HIGHLAND LAKES WATER DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers and Users	\$ 385,481
Other Operating Cash Receipts	32,051
Cash Paid to Suppliers for Goods or Services	(288,915)
Cash Paid to Employees for Services	(38,629)
Cash Paid for Interest	(20,443)
Collection of Tap Fees	26,183
	<u>95,727</u>
Net Cash Provided by Operating Activities	<u>95,727</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Grants received	133,122
Collection of Taxes from Teller County	72,754
Non-operating Expenses	(10,256)
	<u>195,620</u>
Net Cash Provided by Non-capital Financing Activities	<u>195,620</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of Capital Assets	(185,711)
Loan Repayment	(71,609)
	<u>(257,320)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(257,320)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	72
	<u>72</u>
Net Cash Provided by Investing Activities	<u>72</u>

Change in Cash and Cash Equivalents 34,099

CASH AND CASH EQUIVALENTS

Beginning of Year	<u>635,277</u>
End of Year	<u><u>\$ 669,376</u></u>

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

Operating Loss	\$ (212,842)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	306,403
Change in	
Accounts Receivable from Customers	(3,382)
Prepaid Expenses	(1,682)
Accounts Payable and Accrued Expenses	7,469
Accrued Interest	(238)
	<u>308,569</u>
Total Adjustments	<u>308,569</u>
Net Cash Provided by Operating Activities	<u><u>\$ 95,727</u></u>

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, the statement of revenues, expenses, and changes in fund net position) – proprietary fund, and the statement of cash flows – proprietary fund, 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 revenues include 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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

These expenses are intended to be funded by use charges. Non-operating revenues include earnings on investments and non-exchange transactions such as property taxes and water tap fees.

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

Going Concern - Management assesses the District's ability to continue as a going concern and provides related disclosures in certain circumstances. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. Management has determined there is not substantial doubt about the District's ability to continue as a going concern.

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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 - 25 years.

Property Taxes/Deferred Inflow of Resources - Upon certification of the amount of levy by the District to Teller County (County); the County levies the property taxes in December of the year prior to the year of collection of the taxes. The County also acts as the billing and collecting agency for the District. Property taxes attach a lien on January 1 and may be paid in full by April 30 or in equal installments by 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.

Fund Net Position 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 Net Position - 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 GAAP 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.

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

NOTE 1 – DEPOSITS AND INVESTMENTS

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

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

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 \$612,336 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, 2023, the District did not have any funds exposed to credit risk.

At December 31, 2023, the District’s deposits and investments consisted of:

	<u>Bank Balance</u>	<u>Book Balance</u>
Insured (FDIC Insured)	\$ 68,887	\$ 53,540
Category C	615,836	615,836
Total	<u>\$ 684,723</u>	<u>\$ 669,376</u>

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

NOTE 2 – CAPITAL ASSETS

Capital asset activity for 2023 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Proprietary Fund				
Contributed Property	\$ 1,095,020	\$ -	\$ -	\$ 1,095,020
Collection, Transmission and Distribution System	2,308,761	79,460	-	2,388,221
Utility Building Equipment	9,016	-	-	9,016
Equipment	182,151	19,113	-	201,264
Plant Equipment	30,188	-	-	30,188
Water Rights and Augmentation Plan	442,901	-	-	442,901
Water System Improvement	3,157,843	-	-	3,157,843
Construction In Progress	62,562	92,135	(4,997)	149,700
Total at Historical Cost	<u>7,288,442</u>	<u>190,708</u>	<u>(4,997)</u>	<u>7,474,153</u>
Less Accumulated Depreciation				
Contributed Property	1,040,269	-	-	1,040,269
Collection, Transmission and Distribution System	1,535,622	79,970	-	1,615,592
Utility Building Equipment	9,016	-	-	9,016
Equipment	175,713	1,659	-	177,372
Plant Equipment	23,889	3,545	-	27,434
Water Improvement System	1,052,614	210,523	-	1,263,137
Water Rights and Augmentation Plan	271,610	10,706	-	282,316
Total Accumulated Depreciation	<u>4,108,733</u>	<u>306,403</u>	<u>-</u>	<u>4,415,136</u>
Total Capital Assets, Net	<u>\$ 3,179,709</u>	<u>\$ (115,695)</u>	<u>\$ (4,997)</u>	<u>\$ 3,059,017</u>

Depreciation expense for 2023 was \$306,403.

Construction in Progress additions are related to the construction of a new treatment facility to meet Ground Water rules Under the Direct Influence of surface water (GWUDI) requirements discussed in Notes 8 and note 10.

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.

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

NOTE 3 – TAX SPENDING AND DEBT LIMITATIONS - Continued

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

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

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 a 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.

In October 2023 the District entered into an additional loan agreement with the CWRPDA for a total of \$807,988, \$646,390 of which received up-front principal forgiveness. The remaining \$161,598 was set at a 1% interest rate with a term of twenty-years. The loan is for construction of a new membrane surface water treatment plant, with funds from the loan being issued to the District after construction has begun.

A summary of changes in long-term debt is:

	Beginning Balance	Additions	Payments & Reductions	Ending Balance	Due Within One Year
Long-Term Debt Note Payable	\$ 1,051,911	\$ 161,598	\$ (71,609)	\$ 1,141,900	\$ 77,409

Interest expense for 2023 was \$20,443.

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

NOTE 6 – LONG TERM DEBT - Continued

Annual debt service requirements to maturity for the 2015 loan at December 31, 2023 are as follows:

Years Ending December 31,	Principal	Interest	Total Payments
2024	\$ 73,050	\$ 19,243	\$ 92,293
2025	74,518	17,774	92,292
2026	76,016	16,276	92,292
2027	77,544	14,748	92,292
2028	79,102	13,190	92,292
2029-2033	420,010	41,452	461,462
2034-2035	180,063	4,524	184,587
Total	<u>\$ 980,303</u>	<u>\$ 127,207</u>	<u>\$ 1,107,510</u>

Annual debt service requirements to maturity for the 2023 loan at December 31, 2023 are as follows:

2023 loan			
Years Ending December 31,	Principal	Interest	Total Payments
2024	\$ 4,359	\$ 940	\$ 5,298
2025	7,554	1,554	9,107
2026	7,630	1,478	9,107
2027	7,706	1,401	9,107
2028	7,783	1,324	9,107
2029-2033	40,103	5,434	45,537
2034-2038	42,154	3,383	45,537
2039-2043	44,309	1,228	45,537
Total	<u>\$ 161,598</u>	<u>\$ 16,741</u>	<u>\$ 178,339</u>

NOTE 7 – LOAN COVENANT CALCULATIONS

Loan agreements with the CWRPDA require 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, 2023, the District was in compliance with these loan covenants.

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

NOTE 7 – LOAN COVENANT CALCULATIONS - Continued

The rate covenant calculation is as follows:

Total Revenues	
Operating Revenues	\$ 439,628
Non-Operating/Misc. Income	205,948
Total Revenues	<u>\$ 645,576</u>
 Total Operating Expenses	
Operating Expenses	\$ 654,791
Less: Depreciation	(306,403)
Less: Water Hauling Fees	(54,450)
Total Operating Expenses	<u>\$ 293,938</u>
 Debt Service	
Principal and Interest Paid on Debt	<u>\$ 92,052</u>
 Rate Covenant Calculation	 <u><u>382%</u></u>

During the year ended December 31, 2023, the District generated enough revenue, after operating expenses, to cover annual debt service at 3.82 times.

The operating reserve calculation is as follows:

Unobligated Cash	\$ 669,376
Current Liabilities	<u>(128,365)</u>
	<u>\$ 541,011</u>
Operating Expenses	\$ 654,791
Less: Depreciation	<u>(306,403)</u>
	348,388
Three Months	<u>0.25</u>
	<u>\$ 87,097</u>
Excess Available	<u>\$ 453,914</u>

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

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

NOTE 8 – ENVIRONMENTAL COMMITMENTS AND CONTINGENCIES

On September 15, 2021, the District received a notice from the Colorado Department of Health & Environment outlining wells that were reclassified to GWUDI and the requirements for the reclassification. The District is required to provide treatment for the water sources within 18 months of receiving the notice. In the interim, the District is required to perform disinfection treatment in accordance with State requirements and perform daily monitoring of the water sources. The District is also required to obtain approval for construction or modification of any waterworks. In 2023, the District incurred approximately \$111,442 in fees for the design and construction of new assets to meet GWUDI mitigation requirements with construction continuing into 2024.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended December 31, 2023, the District paid \$5,440 to the spouse of the Board President for grant writing services.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditors' report, the date on which the financial statements were available to be issued.

The District has experienced several large events throughout 2024. As the District is overhauling a significant amount of its infrastructure to reduce treated water lost in the distribution system and to increase the amount of raw well water to be made available for treatment and distribution, by July 31st the District had expensed \$87,122 on repairs and maintenance. Major costs associated with water loss are leak detection services and water hauling operations. On August 5th, construction began on the GWUDI treatment project. The District has requested and received an additional \$171,145 in supplemental grant money from the Department of Local Affairs (DOLA) to assist in the construction of a water treatment facility and is pending another \$464,000 from CDPHE to cover the remaining GWUDI project amount as described on page 5.

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, 2023

	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating Revenues				
Water Sales	\$ 337,100	\$ 337,100	\$ 333,509	\$ (3,591)
Infrastructure Income	43,800	43,800	44,030	230
Other Resident Charges	4,700	4,700	3,855	(845)
Interest Income	6,000	6,000	30,555	24,555
Water Tap Fees	24,880	24,880	26,183	1,303
Miscellaneous Income	-	-	1,496	1,496
Total Operating Revenues	416,480	416,480	439,628	23,148
Operating Expenses				
Source of Supply	96,882	96,882	186,998	(90,116)
Water Treatment	7,500	7,500	8,800	(1,300)
Transmission and Distribution	31,400	31,400	15,315	16,085
Administration and General	118,781	118,781	115,633	3,148
Capital Outlay	153,800	153,800	205,032	(51,232)
Appropriation of Surplus to Budget	666,731	666,731	-	666,731
Total Operating Expenses	1,075,094	1,075,094	531,778	543,316
Operating Loss	(658,614)	(658,614)	(92,150)	566,464
Non-operating Revenues (Expenses)				
Forgiveness of Loan Proceeds	-	-	133,122	133,122
Property Taxes	65,703	65,703	65,703	-
Specific Ownership Taxes	5,900	5,900	7,051	1,151
Interest Income	100	100	72	(28)
Non-operating Expenses	(8,210)	(8,210)	(10,256)	(2,046)
Total Non-operating Revenues (Expenses)	63,493	63,493	195,692	132,199
Change in Fund Net Position - Budgetary Basis	\$ (595,121)	\$ (595,121)	103,542	\$ 698,663
GAAP Adjustments				
Capital Outlay			185,711	
Depreciation			(306,403)	
Change in Fund Net Position GAAP Basis			(17,150)	
Fund Net Position Beginning of Year			2,761,298	
Fund Net Position End of Year			\$ 2,744,148	

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2023**

Operating Expenses	Final Budget	Actual Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Source of Supply			
Water Operator Service	\$ 55,100	\$ 79,615	\$ (24,515)
Water Hauling	4,100	54,450	(50,350)
Interest	20,682	20,443	239
Supplies	6,000	19,015	(13,015)
Purchased Services	6,000	9,489	(3,489)
Water Employee Wages	1,300	3,748	(2,448)
Weed Control in Wetlands	400	165	235
Lake Maintenance	3,300	73	3,227
Total Source of Supply	<u>96,882</u>	<u>186,998</u>	<u>(90,116)</u>
Water Treatment			
Testing	4,000	5,444	(1,444)
Chemicals	3,500	3,356	144
Total Water Treatment	<u>7,500</u>	<u>8,800</u>	<u>(1,300)</u>
Transmission and Distribution			
Purchased Services	21,900	11,237	10,663
Supplies	9,500	4,078	5,422
Total Transmission and Distribution	<u>31,400</u>	<u>15,315</u>	<u>16,085</u>
Administration and General			
Office Administration	39,900	38,629	1,271
Electric	32,100	32,845	(745)
P&L Insurance	14,600	13,146	1,454
Director Fees	7,000	5,300	1,700
Bookkeeping Services	5,218	5,100	118
Employment Taxes	3,152	3,242	(90)
Telephone	3,500	3,022	478
Gas	2,100	2,707	(607)
Miscellaneous	2,857	2,551	306
General Supplies	2,300	2,286	14
Postage	2,000	2,130	(130)
Public News Required Publication	700	1,902	(1,202)
Trash	684	852	(168)
Postage for Publication	600	811	(211)
Legal - Water Rights	1,000	461	539
Computer/Printer	300	283	17
Legal - Augmentation	100	153	(53)
Meeting Rental	420	120	300
Election	250	93	157
Total Administration and General	<u>118,781</u>	<u>115,633</u>	<u>3,148</u>
Capital Projects			
Capital Equipment and Improvements	153,800	185,711	(31,911)
Non-Capitalized Equipment and Improvements	-	19,321	(19,321)
Total Capital Projects	<u>153,800</u>	<u>205,032</u>	<u>(51,232)</u>
Emergency and Non-emergency Reserves			
Appropriation of Surplus to Budget	666,731	-	666,731
Total Emergency and Non-emergency Reserves	<u>666,731</u>	<u>-</u>	<u>666,731</u>
Total Operating Expenses	<u>1,075,094</u>	<u>531,778</u>	<u>543,316</u>

Continued on Page 24

**HIGHLAND LAKES WATER DISTRICT
SCHEDULE OF EXPENSES - PROPRIETARY FUND
BUDGETARY (NON-GAAP BASIS)
YEAR ENDED DECEMBER 31, 2023**

Continued from Page 23

	Final Budget	Actual Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
Non-operating Expenses			
Audit	5,000	4,970	30
Legal - Regular	100	1,989	(1,889)
Dues	500	808	(308)
Public Official Liability Insurance	500	333	167
State Fees	310	310	-
County Treasurer Fees	1,800	1,846	(46)
Total Non-operating Expenses	<u>8,210</u>	<u>10,256</u>	<u>(2,046)</u>
Total Expenses	<u>\$ 1,083,304</u>	542,034	<u>\$ 541,270</u>
GAAP Adjustments			
Depreciation		306,403	
Capital Outlay		(185,711)	
Total Expenses GAAP Basis		<u>\$ 662,726</u>	
Reconciliation of Total Expenses			
Operating Expenses		\$ 531,778	
Depreciation		306,403	
Nonoperating Expenses		10,256	
Capital Outlay		(185,711)	
		<u>\$ 662,726</u>	