



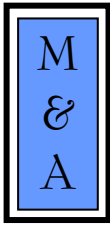
Grand Lake, Colorado

**Financial Statements
December 31, 2018**

**Three Lakes Water and Sanitation District
Financial Report
December 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Three Lakes Water and Sanitation District

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of Three Lakes Water and Sanitation District (the "District"), as of and for the year ended December 31, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of Three Lakes Water and Sanitation District as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member: American Institute of Certified Public Accountants

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Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis in Section B 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, economical, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis in Section B 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.

The budgetary comparison information in section E is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. The budgetary comparison 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 statement or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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 individual fund budgetary comparison information in Section F is presented for purposes of additional analysis and is not a required part of the basic financial statements. The individual fund budgetary comparison is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
August 13, 2019**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Lakes Water and Sanitation District

Management's Discussion and Analysis

December 31, 2018

As management of the Three Lakes Water and Sanitation District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2018.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets, deferred outflows, liabilities, and deferred inflows, with the differences reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District primarily include administration. The business-type activities of the District are the sewer services. The government-wide financial statements can be found on pages C1 and C2 of this report.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Overview of the Financial Statements (continued)

Governmental funds (continued): The District adopts an annual appropriated budget for each of its funds. Budgetary comparison schedules have been provided as supplementary information to the financial statements.

Proprietary fund: The District maintains an enterprise fund. The enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for the sewer services provided by the District.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each of the business-type services provided by the District.

The basic proprietary fund financial statements can be found on pages C6 through C8 of this report. The District adopts an annual appropriated budget for its Proprietary Funds and budgetary comparison schedules have been provided on page F1 of this report to demonstrate compliance with these budgets.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found starting on page D1 of this report.

Financial Analysis of the District

Three Lakes Water and Sanitation District's Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current assets	\$ 1,352,783	\$ 1,303,067	2,682,504	2,887,276	4,035,287	4,190,343
Capital and other assets	-	-	17,550,572	17,367,050	17,550,572	17,367,050
Total Assets	1,352,783	1,303,067	20,233,076	20,254,326	21,585,859	21,557,393
Liabilities & Deferred Inflows:						
Current liab & def inflows	1,236,851	733,526	314,694	937,837	1,551,545	1,671,363
Long-term liabilities	-	-	1,644,857	2,216,711	1,644,857	2,216,711
Total Liabilities & Def Inflows	1,236,851	733,526	1,959,551	3,154,548	3,196,402	3,888,074
Net Position:						
Net investment in capital assets	-	-	15,816,017	14,607,297	15,816,017	14,607,297
Restricted	10,000	10,000	-	-	10,000	10,000
Unrestricted	105,932	559,541	2,457,508	2,492,481	2,563,440	3,052,022
Total Net Postion	\$ 115,932	\$ 569,541	18,273,525	17,099,778	18,389,457	17,669,319

The largest portion of the District's net position is reflected in the net investment in capital assets (i.e. land, buildings, sewer lines, lift stations, treatment plant, vehicles and equipment). At the end of 2018, this accounted for 86% of the total net position. Accordingly, this portion of the net position is not an available source for payment of future spending. Of the remaining net position 3% of the governmental activities annual budget is restricted for use in the event of an emergency.

Financial Analysis of the District (continued)

Three Lakes Water and Sanitation District's Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ -	-	1,767,634	1,788,231	1,767,634	1,788,231
Capital grants & contributions	-	-	382,419	345,513	382,419	345,513
General revenues:						
Property taxes	733,753	728,649	-	-	733,753	728,649
Other taxes	57,132	50,800	-	-	57,132	50,800
Interest and other revenue	1,575	1,646	54,438	33,869	56,013	35,515
Total Revenues	792,460	781,095	2,204,491	2,167,613	2,996,951	2,948,708
Expenses:						
Sewer	-	-	2,303,174	2,230,607	2,303,174	2,230,607
General government	271,308	316,757	-	-	271,308	316,757
Interest on long-term debt	35,164	-	-	93,011	35,164	93,011
Proceeds from sale of asset	-	-	(332,833)	-	(332,833)	-
Transfers	939,597	477,066	(939,597)	(477,066)	-	-
Total Expenses	1,246,069	793,823	1,030,744	1,846,552	2,276,813	2,640,375
Change in Net Position	(453,609)	(12,728)	1,173,747	321,061	720,138	308,333
Net Position - Beginning	569,541	582,269	17,099,778	16,778,717	17,669,319	17,360,986
Net Position - Ending	\$ 115,932	\$ 569,541	18,273,525	17,099,778	18,389,457	17,669,319

Governmental activities: Net position of the governmental activities decreased \$453,609 during 2018 after a decrease of \$12,728 during 2017. The District is using property taxes collected for administrative costs and to make the scheduled payments on long-term debt.

Business-type activities: Net position of the business-type activities increased \$1,173,747 during 2018 after an increase of \$321,061 during 2017. The increase is largely due to changes in debt liabilities between governmental and business activities.

As mentioned earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$615,327. Of this balance, \$10,000 is restricted for emergencies as required by TABOR, and the remaining \$605,327 is unassigned.

Proprietary funds: The District's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

The enterprise fund operating revenues of \$1,767,634 were exceeded by operational expenses of \$2,267,455, resulting in an operating loss of \$499,821. User fees of \$1,622,065, interest of \$54,438, and the sale of assets totaling \$332,833 and a transfer of debt liabilities to governmental activities caused a lesser deficiency in change of net position than budgeted.

As of the end of the current fiscal year, the District's enterprise fund reported an ending net position balance of \$18,273,525 which consisted of \$15,816,017 in net investment in capital assets and the remaining \$2,457,508 being unrestricted for use by the District in future years.

Budget variances: Variances in the general fund were mostly in line with budget and netted positively to \$93,936. The enterprise fund had mostly positive variances. These positive variances netted to \$813,912. The large overall positive variance was due largely to the sale of the modular and condo units and a transfer of debt liabilities. Details of the variances by fund can be seen on pages E1 through F3 of this report.

Capital assets: The District's total capital assets increased by \$183,520 as a result of increased capital outlays greater than depreciation expense. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements.

Long-term debts: During 2018 the District continued to make scheduled payments on its long-term debts. Details of the District's long-term obligations are contained in the Notes to the Financial Statements.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Three Lakes Water and Sanitation District, PO Box 899, Grand Lake, CO 80447, phone 970-627-3544.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Three Lakes Water and Sanitation District
Statement of Net Position
December 31, 2018

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and investments	251,327	2,512,928	2,764,255
Cash and investments - restricted	364,000	-	364,000
Accounts receivable, net of allowance for uncollectibles	-	50,087	50,087
Taxes receivable - ensuing year	737,456	-	737,456
Inventory	-	107,209	107,209
Capital assets, not being depreciated	-	619,744	619,744
Capital assets, net	-	16,930,828	16,930,828
Other assets	-	12,280	12,280
Total Assets	<u>1,352,783</u>	<u>20,233,076</u>	<u>21,585,859</u>
Liabilities:			
Accounts payable	-	165,163	165,163
Accrued liabilities	-	38,092	38,092
Accrued interest payable	7,239	5,782	13,021
Unearned user fees	-	15,959	15,959
Noncurrent liabilities:			
Due within one year	492,156	89,698	581,854
Due in more than one year	-	1,644,857	1,644,857
Total Liabilities	<u>499,395</u>	<u>1,959,551</u>	<u>2,458,946</u>
Deferred Inflow of Resources:			
Deferred taxes receivable	737,456	-	737,456
Total Deferred Inflow of Resources	<u>737,456</u>	<u>-</u>	<u>737,456</u>
Net Position:			
Net investment in capital assets	-	15,816,017	15,816,017
Restricted for emergencies	10,000	-	10,000
Unrestricted	105,932	2,457,508	2,563,440
Total Net Position	<u>115,932</u>	<u>18,273,525</u>	<u>18,389,457</u>

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

**Three Lakes Water and Sanitation District
Statement of Activities
For the Year Ended December 31, 2018**

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Functions/Programs:							
Governmental Activities:							
General government	271,308	-	-	-	(271,308)		(271,308)
Interest on long-term debt and related costs	35,164	-	-	-	(35,164)		(35,164)
Total Governmental Activities	<u>306,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(306,472)</u>		<u>(306,472)</u>
Business-type Activities:							
Sewer	2,303,174	1,767,634	-	382,419		(153,121)	(153,121)
Total Business-type Activities	<u>2,303,174</u>	<u>1,767,634</u>	<u>-</u>	<u>382,419</u>		<u>(153,121)</u>	<u>(153,121)</u>
General Revenues:							
Taxes:							
Property tax					233,301	-	233,301
Property tax - Bonds					500,452	-	500,452
Specific ownership tax					57,132	-	57,132
Investment earnings					1,575	54,438	56,013
Gain on sale of asset					-	332,833	332,833
Transfer (to) from other funds					(939,597)	939,597	-
Total General Revenues and Transfers					<u>(147,137)</u>	<u>1,326,868</u>	<u>1,179,731</u>
Change in Net Position					<u>(453,609)</u>	<u>1,173,747</u>	<u>720,138</u>
Net Position - Beginning					<u>569,541</u>	<u>17,099,778</u>	<u>17,669,319</u>
Net Position - Ending					<u>115,932</u>	<u>18,273,525</u>	<u>18,389,457</u>

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

FUND FINANCIAL STATEMENTS

**Three Lakes Water and Sanitation District
Balance Sheet
Governmental Funds
December 31, 2018**

	General	Debt Service	Total
Assets:			
Cash and cash equivalents	251,327	-	251,327
Restricted cash	364,000	-	364,000
Property tax receivable - ensuing year	234,476	502,980	737,456
Total Assets	849,803	502,980	1,352,783
Liabilities and Fund Balances:			
Deferred Inflow of Resources:			
Unavailable property tax revenue	234,476	502,980	737,456
Total Deferred Inflow of Resources	234,476	502,980	737,456
Fund Balances:			
Restricted for TABOR reserve	10,000	-	10,000
Unassigned	605,327	-	605,327
Total Fund Balances	615,327	-	615,327
Total Liabilities, Deferred Inflow of Resources and Fund Balances	849,803	502,980	1,352,783
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			(499,395)
Net Position of Governmental Activities			115,932

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

Three Lakes Water and Sanitation District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018

	General	Debt Service	Total
Revenues:			
Property taxes	233,301	500,452	733,753
Specific ownership taxes	57,132	-	57,132
Interest income	1,575	-	1,575
Total Revenues	292,008	500,452	792,460
Expenditures:			
County treasurer's fees	11,693	25,086	36,779
Salaries and wages	166,019	-	166,019
Car and mileage allowance	1,378	-	1,378
Contract labor	6,000	-	6,000
Office supplies	5,398	-	5,398
Pension Plan - ICMA 401	43,003	-	43,003
Retirement Plan - ICMA 457	12,731	-	12,731
Debt service:			
Principal	-	455,112	455,112
Interest	-	45,300	45,300
Total Expenditures	246,222	525,498	771,720
Excess (Deficiency) of Revenues Over Expenditures	45,786	(25,046)	20,740
Other Financing Sources (Uses):			
Transfer (to) from other fund	-	25,046	25,046
Total Other Financing Sources	-	25,046	25,046
Change in Fund Balances	45,786	-	45,786
Fund Balances - Beginning	569,541	-	569,541
Fund Balances - Ending	615,327	-	615,327
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.			(499,395)
Change in Net Position of Governmental Activities			(453,609)

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

Three Lakes Water and Sanitation District
Statement of Net Position
Enterprise Fund
December 31, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Assets:		
Cash	2,512,928	2,373,748
Restricted cash	-	364,000
Accounts receivable, net of allowance for uncollectibles	50,087	64,470
Inventory	107,209	78,005
Capital assets, not being depreciated	619,744	1,783,198
Capital assets, net of depreciation	16,930,828	15,583,852
Other assets	12,280	7,053
Total Assets	<u>20,233,076</u>	<u>20,254,326</u>
Liabilities:		
Accounts payable	165,163	310,941
Accrued liabilities	38,092	36,400
Unearned user fees	15,959	24,001
Accrued interest payable	5,782	23,453
Noncurrent liabilities:		
Due within one year	89,698	543,042
Due in more than one year	1,644,857	2,216,711
Total Liabilities	<u>1,959,551</u>	<u>3,154,548</u>
Net Position:		
Net investment in capital assets	15,816,017	14,607,295
Unrestricted	2,457,508	2,492,483
Total Net Position	<u>18,273,525</u>	<u>17,099,778</u>

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

Three Lakes Water and Sanitation District
Statement of Revenues, Expenses and Changes in Net Position
Enterprise Fund
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Revenues:		
Charges for sewer services	1,622,065	1,622,125
Other service revenue	30,352	23,217
Service contract revenue	96,927	82,203
Miscellaneous revenue	18,290	60,686
Total Revenues	<u>1,767,634</u>	<u>1,788,231</u>
Expenses		
Administrative	218,616	174,944
Operating	1,022,708	985,961
Depreciation	1,026,131	1,069,702
Total Expenses	<u>2,267,455</u>	<u>2,230,607</u>
Operating Income (Loss)	<u>(499,821)</u>	<u>(442,376)</u>
Nonoperating Revenues (Expenses)		
Tap fees	382,419	340,513
Grants received	-	5,000
Interest income	54,438	33,869
Interest expense	(35,719)	(93,011)
Proceeds from sale of asset	332,833	-
Total Nonoperating Revenues (Expenses)	<u>733,971</u>	<u>286,371</u>
Net Income (Loss) Before Transfers	234,150	(156,005)
Transfer (to) from other fund	<u>939,597</u>	<u>477,066</u>
Change in Net Position	1,173,747	321,061
Net Position - Beginning	<u>17,099,778</u>	<u>16,778,717</u>
Net Position - Ending	<u><u>18,273,525</u></u>	<u><u>17,099,778</u></u>

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

Three Lakes Water and Sanitation District
Statement of Cash Flows
Enterprise Fund
For the Year Ended December 31, 2018

	2018	2017
Cash Flows from Operating Activities:		
Cash received from customers	1,773,975	1,759,550
Cash paid for goods and services	(966,036)	(483,778)
Cash paid to employees	(453,771)	(392,696)
Net Cash Provided by Operating Activities	354,168	883,076
Cash Flows from Capital and Related Financing Activities:		
Tap fees received	382,419	340,513
Loan proceeds	10,000	563,631
Transfer (to) from other fund	(25,146)	477,066
Loan payments	(87,930)	(520,141)
Interest paid on debt	(35,915)	(105,406)
Acquisition of capital assets	(1,324,341)	(1,602,186)
Proceeds from sale of asset	447,487	-
Grants received	-	5,000
Net Cash Provided (Used) by Capital and Related Financing Activities	(633,426)	(841,523)
Cash Flows from Investing Activities:		
Investment earnings received	54,438	33,869
Net Cash Provided by Investing Activities	54,438	33,869
Net Increase in Cash and Cash Equivalents	(224,820)	75,422
Cash and Cash Equivalents - Beginning	2,737,748	2,662,326
Cash and Cash Equivalents - Ending	2,512,928	2,737,748
Financial Statement Captions:		
Cash	2,512,928	2,373,748
Restricted cash	-	364,000
Cash and Cash Equivalents - Ending	2,512,928	2,737,748
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	(499,821)	(442,376)
Adjustments:		
(Increase) decrease in accounts receivable	14,382	(26,813)
Increase (decrease) in accounts payable and accrued liabilities	(145,779)	286,464
Increase (decrease) in unearned user fees	1,692	(3,237)
Increase (decrease) in inventory	(8,042)	(1,869)
Increase (decrease) in inventory	(29,204)	1,203
Increase (decrease) in other assets	(5,227)	-
Depreciation	1,026,167	1,069,704
Total Adjustments	853,989	1,325,452
Net Cash Provided by Operating Activities	354,168	883,076
Non-cash Items:		
Transfer of 2001 CWRPDA Loan to Governmental Activities	939,597	-

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

NOTES TO THE FINANCIAL STATEMENTS

Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018

I. Summary of Significant Accounting Policies

Three Lakes Water and Sanitation District (the "District") was formed in 1971 to provide sanitary services located in the northeastern portion of Grand County, Colorado.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

B. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's administration and debt service are classified as governmental activities. The District's sewer operations are classified as business-type activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities. The functions are also supported by general government revenues (property and specific ownership taxes, investment earnings, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants. Program revenues must be directly associated with a function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018

I. Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

The District reports the following governmental funds:

The *General Fund* is the District's administration fund. It accounts for property taxes and a portion of the costs of administration of the District.

The *Debt Service Fund* accounts for property taxes collected for the payment of principal and interest on bonds and related costs.

The District reports the following proprietary or business-type funds:

The *Enterprise Fund* accounts for sewer operations and a portion of administration.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter (60 days) to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018

I. Summary of Significant Accounting Policies (continued)

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

3. Financial Statement Presentation

Amounts reported as program revenues include 1) charges to customers and applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the 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 non-operating revenues and expenses.

E. Financial Statement Accounts and Accounting Policies

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers cash on hand, demand deposits, U.S. government obligations and other highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

2. Investments

Investments are stated at fair value, net asset value, or amortized cost. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

3. Receivables

User charges constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by Statute, or certified to the Grand County Treasurer for collection on its tax rolls, as provided by Statute. Therefore, no provision for uncollectible accounts has been made in the financial statements.

4. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a receivable and as unavailable property tax revenue.

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

I. Summary of Significant Accounting Policies (continued)

E. Financial Statement Accounts and Accounting Policies

5. Inventory

Inventory is determined at the lower of cost (determined on the first-in, first-out basis) or market.

6. Capital Assets

Capital assets, which include land, water rights, construction in progress, buildings and improvements, sewer lines, lift stations, treatment plant, vehicles and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed, if applicable.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Buildings and improvements, infrastructure, vehicles, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Vehicles and equipment	5 to 7 years
Buildings and improvements	15 to 30 years
Lift stations	10 years
Sewer system	30 to 40 years

7. Net Position

Net position represents the difference between assets, liabilities, and deferred inflows (outflows) of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and increased by any unspent proceeds from related borrowings. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

I. Summary of Significant Accounting Policies (continued)

E. Financial Statement Accounts and Accounting Policies (continued)

8. Compensated Absences

Earned but unused vacation and sick benefits are accrued when incurred in the financial statements. The District accrued \$12,164 for accumulated unpaid vacation pay and \$15,944 for accumulated unpaid sick at December 31, 2018.

9. Long-term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated for payment early in the following year. Long-term obligations for proprietary funds are recognized when the related liability is incurred, regardless of the timing of the related cash flows.

10. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Property taxes levied in 2018 for collection in 2019 are reported as deferred inflows of resources.

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

12. Categories and Classification of Fund Balance

The District classifies governmental fund balances as follows:

Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority which is the Board of Directors

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

I. Summary of Significant Accounting Policies (continued)

E. Financial Statement Accounts and Accounting Policies (continued)

12. Categories and Classification of Fund Balance

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors or its management designee.

Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

The District uses restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the District first uses committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy. However, the District's budget includes a calculation of a targeted reserve positions and management calculates targets and reports them annually to Board of Directors.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations for the ensuing year pursuant to the Colorado Local Budget Law. The budget is adopted on a non-GAAP basis and is reconciled to GAAP in Section E of this report. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

As required by Colorado statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for 2018.

1. For the 2018 budget year, prior to August 25, 2017, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The District submitted, on or before October 15, 2017, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

II. Stewardship, Compliance, and Accountability

A. Budgetary Information (continued)

3. Prior to December 15, 2017, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2017 were collected in 2018 and taxes certified in 2018 will be collected in 2019. Taxes are due on January 1 in the year of collection; however, they may be paid in either one installment (no later than April 30) or two equal installments (not later than February 28 and June 15) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at varying rates per month until paid.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. For this purpose, the District has set aside \$10,000.

On May 2, 2000, the District's voters approved the following ballot question:

"Shall Three Lakes Water and Sanitation District debt be increased by \$6.5 million, with a repayment cost of \$10.6 million and shall the District taxes be increased \$560,000 annually (all of the foregoing amounts being maximums) for the purpose of expanding the District's wastewater treatment plant subject to the following:

1. *The District has been pre-approved to obtain a loan from the Colorado Water Resources and Power Development Authority;*
2. *The mill levy may be increased in any year, without limitation of rate or amount, to pay the principal of, premium, if any, and interest on such debt (or to create a reserve for such payment);*

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

3. *Such debt may be evidenced by loans, bonds, or other forms of indebtedness including loans, bonds, or indebtedness issued to refund such debt as may be issued in the discretion of the Board of Directors of the District, bearing interest at a maximum net effective interest rate not to exceed 5.5%;*
4. *Such debt may be sold at a price above, below or equal to the principal amount of such debt and on such terms and conditions and with such maturities as permitted by law and as the Board of Directors of the District may determine, including provisions for redemption prior to maturity with or without payment of premium;*

And shall the proceeds of such debt and the revenues from such taxes and any earnings from the investment of such proceeds and revenues be collected and spent as a voter approved revenue change under Article X, Section 20 of the Colorado Constitution?"

The District believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise, will require judicial interpretation.

III. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures depositors up to \$250,000 for all accounts. Deposit balances over \$250,000 are collateralized as required by PDPA.

At December 31, 2018, the District had the following cash and investments with the following maturities:

		<u>Maturities</u>			
		<u>Standard & Poors Rating</u>	<u>Carrying Amounts</u>	<u>Less than one year</u>	<u>1 - 5 years</u>
Petty cash		Not rated	\$ 200	200	
Deposits:					
Checking		Not rated	378,570	378,570	
Certificates of deposit		Not rated	200,805	200,805	
Investment Pools		AAAm	2,548,680	2,548,680	
	Total		<u>\$ 3,128,255</u>	<u>3,128,255</u>	<u>-</u>

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2018, the District had the following recurring fair value measurements:

<u>Investments Measured at Fair Value</u>	<u>Total</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	200,805	200,805	-	-
<u>Investments Measured at Net Asset Value</u>	<u>Total</u>			
Colostrust	2,517,689			
<u>Investments Measured at Amortized Cost</u>	<u>Total</u>			
C-Safe	30,991			

The District has invested in the Colorado Local Government Liquid Asset Trust (“COLOTRUST”). COLOTRUST is a 2a7-like pool. The trust is an investment vehicle established for local government entities in Colorado to pool surplus funds. The trust operates similarly to a money market fund and each share is equal in value to \$1. Investments of the trust consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to the trusts in connection with their direct investment and withdrawal functions. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the trusts. Investments in pools are not categorized since the underlying investments are not specifically identifiable to the District.

Interest Rate Risk. Colorado Revised Statutes limit the District's investment maturities to five years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair values arising from changes in interest rates. As a result of the limited length of maturities, the District has limited its interest rate risk.

Credit Risk. The District follows Colorado statutes regarding its investments. Colorado statutes specify instruments in which local governments may invest, including:

- Obligations of the U.S. and certain U.S. governmental agency securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local governmental entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Cash, cash equivalents, and investments are reflected on the December 31, 2018, Statement of Net Position as follows:

	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 251,606	2,512,649	2,764,255
Cash and investments -- restricted	364,000	-	364,000
	<u>\$ 615,606</u>	<u>2,512,649</u>	<u>3,128,255</u>

B. Capital Assets

Capital asset activity for 2018 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated				
Land	103,699	-	-	103,699
Rights and easements	101,428	-	-	101,428
Water rights	29,000	-	-	29,000
Construction in Progress	1,549,071	385,617	(1,549,071)	385,617
Total capital assets, not being depreciated	<u>1,783,198</u>	<u>385,617</u>	<u>(1,549,071)</u>	<u>619,744</u>
Capital assets being depreciated				
Building and improvements	1,348,663	-	(375,852)	972,811
Sewer system	26,537,598	1,781,204	(40,189)	28,278,613
Plant expansion	10,008,589	-	-	10,008,589
Vehicles and equipment	1,094,527	706,591	(359,862)	1,441,256
Furniture and office equipment	155,510	-	(105,850)	49,660
CAD maps	170,606	-	-	170,606
Total capital assets being depreciated	<u>39,315,494</u>	<u>2,487,795</u>	<u>(881,753)</u>	<u>40,921,536</u>
Less accumulated depreciation for				
Building improvements	951,880	23,751	(261,199)	714,432
Sewer system	17,924,599	671,417	(40,189)	18,555,827
Plant expansion	3,699,598	250,215	-	3,949,813
Vehicles and equipment	831,002	80,395	(359,862)	551,535
Furniture and office equipment	153,953	389	(105,849)	48,493
CAD maps	170,606	-	-	170,606
Total accumulated depreciation	<u>23,731,638</u>	<u>1,026,167</u>	<u>(767,099)</u>	<u>23,990,706</u>
Total capital assets being depreciated, net	<u>15,583,855</u>			<u>16,930,829</u>
Capital assets, net	<u>17,367,053</u>			<u>17,550,573</u>

All depreciation expense was charged to sewer operations.

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

III. Detailed Notes on All Funds (continued)

C. Long-Term Obligations

Colorado Water Resources and Power Development Authority Loan

On May 2, 2000, the District's voters authorized the District to levy up to \$560,000 in additional property taxes to pay debt service on up to \$6.5 million in debt to expand the wastewater treatment plant.

In 2001, the Colorado Water Resources and Power Development Authority (CWRPDA) loaned the District \$6,498,576 to finance the construction of the District's sewer treatment plant. The loan bears interest at an average annual rate of 4.642%, and requires payments in varying amounts of principal and interest due on February 1 and August 1, through August 1, 2019. In addition, the loan requires payment of an annual administrative fee equal to 0.8% of the initial loan amount and reduces to 0.7% and 0.4% of the initial loan amount effective August 1, 2017 and August 1, 2018, respectively. These administrative fees are included in debt interest expense.

During 2005 and 2013, the CWRPDA refinanced a portion of the bond issue that supplied the funds for the District's loan. The effect of this refinancing provided a savings on future loan payments of approximately \$238,000. During 2016, the CWRPDA again refinanced the bond issue, resulting in an additional \$70,783 savings to the District. The loan agreement with the CWRPDA requires the District to establish and maintain an operation and maintenance reserve fund. The loan agreement is secured by the District's covenant to levy property taxes in amounts necessary to pay the principal and interest on the loan, not to exceed \$560,000. The District levied 3.542 mills to generate approximately \$500,318 in property taxes for collection during 2018.

In 2014, CWRPDA and the District, acting through its enterprise, entered into a \$2,000,000 loan agreement to finance lift station improvements. The District draws against the loan as improvement costs are incurred. As of December 31, 2016, the District had drawn \$1,426,368. During 2017, the District drew an additional \$563,631, and \$10,000 during 2018 for a total of \$2,000,000. The loan bears interest at an annual rate of 2%, and requires payments of \$61,971 for principal and interest due on May 1 and November 1, commencing on May 1, 2016 and terminating on May 1, 2035. The District pledges net revenues from enterprise system user fees to repay the loan.

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
CWRPDA Loan 2001	\$ 947,268	-	455,112	492,156	492,156
CWRPDA Loan 2014	1,812,485	10,000	87,930	1,734,555	89,698
	<u>\$ 2,759,753</u>	<u>10,000</u>	<u>543,042</u>	<u>2,226,711</u>	<u>581,854</u>

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018**

III. Detailed Notes on All Funds (continued)

C. Long-Term Obligations (continued)

Annual debt service requirements for the loans (based on \$2 million principal on the loan) are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	581,854	45,069	626,923
2020	91,500	32,442	123,942
2021	93,340	17,603	110,942
2022	95,216	28,727	123,942
2023	96,930	26,813	123,742
2024-2028	515,729	103,982	619,711
2029-2033	569,686	50,026	619,712
2024-2035	182,457	9,083	191,540
Total	<u>\$ 2,226,711</u>	<u>313,744</u>	<u>2,540,455</u>

At December 31, 2018, the District had no authorized but unissued debt.

IV. Other Information

A. Intergovernmental Agreements

The District entered into separate intergovernmental agreements with three other special districts whereby the District serves as the Operator of Record of the three water systems and performs all operational duties. Pursuant to two of these agreements, the District also provides administrative functions. During 2017, the District received \$96,927 for operational and administrative services under these agreements.

B. Deferred Compensation Plan and Trust

All employees of the District participate in a Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with respect to service for State and Local Governments). The Plan is administered by ICMA Retirement Corporation.

The Deferred Compensation Plan is available to all employees of the District. Under the Plan, the District contributes 7.65% of each employee's gross salary on a monthly basis. The employees may elect to defer a portion of their salaries and avoid paying income taxes on the deferred portion. Invested monies are not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency, but does have a loan component.

In accordance with Internal Revenue Code Section 457(b), all plan assets and income are held in trust for the exclusive benefit of the participants and their beneficiaries. During the year ended December 31, 2018, there was \$163,152 in benefits remitted to the Trustee. No part of the corpus or income of the Trust shall revert to the Employer or be used for or diverted to purposes other than the exclusive benefit of Participants and their beneficiaries. The District has no liability for losses under the 457 Deferred Compensation Plan. Accordingly, it is not a part of the District's financial statements.

Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2018

IV. Other Information (continued)

C. 401(a) Money Purchase Plan and Trust

The District provides a Defined Contribution Plan (401 Plan) under Section 401(a) of the Internal Revenue Code. The 401 Plan is administered by ICMA Retirement Corporation.

The 401 Plan is available to all full time employees of the District. Under the 401 Plan, the District contributes 7% of each full time and salaried employee's gross salary on a monthly basis. This is a "District contribution only" plan. The District's contributions do not vest until after the first two years of employment. Half of the contributions are vested through the third year, and an additional 25% are vested in the fourth and fifth year, each.

In accordance with Internal Revenue Code Section 401(a), all plan assets and income are held in trust for the exclusive benefit of the participants and their beneficiaries. During the year ended December 31, 2018, the District remitted \$35,932 in benefits to the Trustee, which represents its cost and required contribution. No part of the corpus or income of the Trust shall revert to the Employer or be used for or diverted to purposes other than the exclusive benefit of Participants and their beneficiaries. The District has no liability for losses under the 401(a) Money Purchase Plan. Accordingly, it is not a part of the District's financial statements.

D. Subsequent Events

On March 19, 2019, the District entered into a loan agreement with CWRPDA for a total of \$3 million at an interest rate of 2.5% per annum and term of 30 years, with payments due semi-annually. The District has pledged enterprise revenues to service the debt and will use the proceeds for the copper removal project.

REQUIRED SUPPLEMENTARY INFORMATION

Three Lakes Water and Sanitation District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended December 31, 2018
(With Comparative Actual Amounts for 2017)

	<u>2018</u>		<u>Final Budget Variance Positive (Negative)</u>	<u>2017</u>
	<u>Original and Final Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Taxes:				
Property taxes	233,208	233,301	93	226,415
Specific ownership taxes	30,000	57,132	27,132	50,800
Investment income	1,100	1,575	475	1,646
Total Taxes	<u>264,308</u>	<u>292,008</u>	<u>27,700</u>	<u>278,861</u>
Expenditures:				
County treasurer's fees	11,660	11,693	(33)	11,348
Salaries and wages	180,536	166,019	14,517	184,234
Car and mileage allowance	1,000	1,378	(378)	3,410
Contract labor	21,000	6,000	15,000	-
Dental insurance	-	-	-	3,393
Disability insurance	-	-	-	1,793
Health insurance	-	-	-	52,150
Miscellaneous expense	2,500	-	2,500	2,517
Office supplies	6,500	5,398	1,102	6,157
Pension Plan - ICMA 401	75,805	43,003	32,802	12,428
Retirement Plan - ICMA 457	13,457	12,731	726	14,159
Total Expenditures	<u>312,458</u>	<u>246,222</u>	<u>66,236</u>	<u>291,589</u>
Net Change in Fund Balance	(48,150)	45,786	93,936	(12,728)
Fund Balance - Beginning	<u>231,457</u>	<u>569,541</u>	<u>338,084</u>	<u>582,269</u>
Fund Balance - Ending	<u><u>183,307</u></u>	<u><u>615,327</u></u>	<u><u>432,020</u></u>	<u><u>569,541</u></u>

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

SUPPLEMENTARY INFORMATION

Three Lakes Water and Sanitation District
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Debt Service Fund
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018			Final Budget Variance Positive (Negative)	2017
	Original Budget	Final Budget	Actual		Actual
Revenues:					
Taxes:					
Property taxes	500,318	500,318	500,452	134	523,589
Total Taxes	<u>500,318</u>	<u>500,318</u>	<u>500,452</u>	<u>134</u>	<u>523,589</u>
Expenditures:					
County treasurer's fees	25,016	25,086	25,086	-	25,168
Debt service:					
Principal	500,412	500,412	455,112	45,300	-
Interest	-	-	45,300	(45,300)	-
Total Expenditures	<u>525,428</u>	<u>525,498</u>	<u>525,498</u>	<u>-</u>	<u>25,168</u>
Other Financing (Uses)					
Transfer (to) from other fund	-	-	25,046	(25,046)	(497,699)
Total Other Financing (Uses)	<u>-</u>	<u>-</u>	<u>25,046</u>	<u>(25,046)</u>	<u>(497,699)</u>
Net Change in Fund Balance	(25,110)	(25,180)	-	25,180	722
Fund Balance - Beginning	204,936	204,936	-	204,936	-
Fund Balance - Ending	<u><u>179,826</u></u>	<u><u>179,756</u></u>	<u><u>-</u></u>	<u><u>179,756</u></u>	<u><u>-</u></u>

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

Three Lakes Water and Sanitation District
Schedule of Revenues, Expenditures, and Changes in Funds Available
Budget and Actual (Budgetary Basis) - Enterprise Fund
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018			2017
	Original and Final Budget	Actual	Final Budget Variance Positive (Negative)	Actual
Revenues:				
User charges	1,619,713	1,622,065	2,352	1,622,125
Other service revenue	15,250	30,352	15,102	23,217
Service contract revenue	82,609	96,927	14,318	82,203
Tap fees	461,200	382,419	(78,781)	340,513
Miscellaneous revenue	25,200	18,290	(6,910)	60,686
Interest income	10,000	54,438	44,438	33,869
Total Revenues	2,213,972	2,204,491	(9,481)	2,162,613
Expenditures:				
<i>Administrative:</i>				
Auditor services	12,500	12,900	(400)	10,325
Accountant services	4,500	7,725	(3,225)	-
Bank charges	2,500	1,932	568	2,242
Business insurance	55,929	58,483	(2,554)	54,027
Computers/related equipment	14,324	10,493	3,831	1,377
Condo utilities/maintenance	3,000	3,746	(746)	1,846
Consultant - rate study	30,000	28,330	1,670	-
Director fees	14,040	8,868	5,172	12,721
Dues and seminars	5,000	3,248	1,752	1,517
Election expense	4,000	56	3,944	-
Equipment/maintenance areement	5,814	6,502	(688)	7,031
Legal services	50,000	43,983	6,017	48,091
Modular utilities	8,000	3,673	4,327	-
Postage/box rent	5,100	5,865	(765)	6,035
Printing and publications	3,430	(488)	3,918	4,460
Property repair and maintenance	5,000	2,988	2,012	1,675
Recording fees	250	276	(26)	-
Repair and maintenance	7,900	5,538	2,362	7,014
Telephone and internet	5,440	5,497	(57)	5,310
Utilities - administration building	9,038	7,001	2,037	9,273
Water rights	2,000	2,000	-	2,000
	247,765	218,616	29,149	174,944
<i>Operating:</i>				
Payroll	290,925	333,906	(42,981)	302,811
Unemployment tax	868	919	(51)	927
Cell phone	-	-	-	1,517
Computers/related equipment	29,230	15,859	13,371	18,124
Copper compliance - engineering	-	-	-	71,175
Dues/training/publications	5,000	2,884	2,116	2,218
Engineering and facilities plan	410,336	-	410,336	59,812
Equipment repairs	5,000	389	4,611	3,429
Fuel	20,000	14,035	5,965	11,696
Employee insurance	78,049	76,163	1,886	72,410

(continued on next page)

Three Lakes Water and Sanitation District
Schedule of Revenues, Expenditures, and Changes in Funds Available
Budget and Actual (Budgetary Basis) - Enterprise Fund (continued)
For the Year Ended December 31, 2018
(With Comparative Totals for 2017)

	2018		Final Budget Variance Positive (Negative)	2017
	Original and Final Budget	Actual		Actual
<i>Operating (continued):</i>				
Locates - utility notification center	1,500	1,004	496	1,155
Miscellaneous	1,000	752	248	249
Office supplies	1,000	120	880	80
Permits and licenses	10,000	8,025	1,975	7,082
Pension plan - ICMA 401	20,260	21,690	(1,430)	18,491
Radio/telemetry maintenance	5,000	2,288	2,712	-
Retirement plan - 457 deferred compensation	22,141	23,704	(1,563)	22,263
SCADA software	242,340	22,576	219,764	16,464
Shop supplies	4,000	3,091	909	3,397
System repair and maintenance	100,000	144,139	(44,139)	12,115
Tools	5,000	2,689	2,311	1,680
Treatment plant - chemicals	10,000	9,720	280	4,140
Treatment plant - repair and maintenance	90,000	33,540	56,460	50,301
Treatment plant - telephone	2,200	3,116	(916)	2,095
Treatment plant - utilities	155,400	149,265	6,135	151,930
Truck repair and maintenance	7,000	4,367	2,633	4,794
Uniform expense	2,000	1,205	795	1,129
Utilities - lift stations	88,000	72,869	15,131	88,505
Utilities - 2 garages	2,500	2,427	73	2,458
Valves	1,200	5,144	(3,944)	-
Lab - drinking water	10,000	9,110	890	5,953
Treatment plant - lab	30,000	31,513	(1,513)	24,703
Treatment plant - sludge hauling	30,000	26,199	3,801	22,858
Contingency	200,000	-	200,000	-
	<u>1,879,949</u>	<u>1,022,708</u>	<u>857,241</u>	<u>985,961</u>
<i>Debt service:</i>				
Principal	123,943	87,930	36,013	520,141
Interest	-	18,344	(18,344)	93,011
	<u>123,943</u>	<u>106,274</u>	<u>17,669</u>	<u>613,152</u>
<i>Capital outlay</i>				
	370,000	1,324,341	(954,341)	1,602,186
Total Expenditures	<u>2,621,657</u>	<u>2,671,939</u>	<u>(50,282)</u>	<u>3,376,243</u>
Excess (Deficiency) of Revenues Over Expenditures	(407,685)	(467,448)	(59,763)	(1,213,630)
Other Financing Sources (Uses)				
Proceeds from long-term debt	10,000	10,000	-	563,631
Proceeds on sale of asset	-	447,521	447,521	-
Grants	-	-	-	5,000
Transfer (to) from other fund	(451,200)	(25,046)	426,154	477,066
Total Other Financing Sources (Uses)	<u>(441,200)</u>	<u>432,475</u>	<u>873,675</u>	<u>1,045,697</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	(848,885)	(34,973)	813,912	(167,933)
Funds Available - Beginning	<u>1,194,086</u>	<u>2,492,481</u>	<u>1,298,395</u>	<u>2,660,414</u>
Funds Available - Ending	<u>345,201</u>	<u>2,457,508</u>	<u>2,112,307</u>	<u>2,492,481</u>
Reconciliation of Budget to GAAP Basis:				
Excess of Revenues over Expenditures		(34,973)		(167,933)
Loan proceeds		(10,000)		(563,631)
Loan principal paid		87,930		520,141
Capital outlay		1,324,341		1,602,186
Depreciation		(1,026,131)		(1,069,702)
Loss on disposal		(114,688)		-
Changes in accruals		947,268		-
Change in Net Position		<u>1,173,747</u>		<u>321,061</u>

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