



Grand Lake, Colorado

**Financial Statements
December 31, 2019**

**Three Lakes Water and Sanitation District
Financial Report
December 31, 2019**

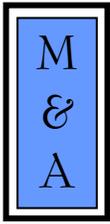
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MCMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

CHAPEL SQUARE, BLDG C
245 CHAPEL PLACE, SUITE 300
P.O. Box 5850, AVON, CO 81620

WEB SITE: WWW.MCMAHANCPA.COM
MAIN OFFICE: (970) 845-8800
FACSIMILE: (970) 845-8108
E-MAIL: MCMAHAN@MCMAHANCPA.COM

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, 2019, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*. 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. 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, 2019, 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

PAUL J. BACKES, CPA, CGMA
MICHAEL N. JENKINS, CA, CPA, CGMA
DANIEL R. CUDAHY, CPA, CGMA

AVON: (970) 845-8800
ASPEN: (970) 544-3996
FRISCO: (970) 668-3481

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.

Additionally, the Schedule of Expenditures of Federal Awards included in the Single Audit section is presented for the purpose of additional analysis, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"), and are not a required part of the District's financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

**To the Board of Directors
Three Lakes Water and Sanitation District**

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated **June 9, 2020**, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
June 9, 2020**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Three Lakes Water and Sanitation District

Management's Discussion and Analysis

December 31, 2019

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, 2019.

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	
	2019	2018	2019	2018	2019	2018
Assets:						
Current assets	\$ 898,566	\$ 1,352,783	3,191,724	2,682,504	4,090,290	4,035,287
Capital and other assets	-	-	18,109,444	17,550,572	18,109,444	17,550,572
Total Assets	898,566	1,352,783	21,301,168	20,233,076	22,199,734	21,585,859
Liabilities & Deferred Inflows:						
Current liab & def inflows	249,534	1,236,851	459,384	314,694	708,918	1,551,545
Long-term liabilities	-	-	2,758,860	1,644,857	2,758,860	1,644,857
Total Liabilities & Def Inflows	249,534	1,236,851	3,218,244	1,959,551	3,467,778	3,196,402
Net Position:						
Net investment in capital assets	-	-	15,218,816	15,816,017	15,218,816	15,816,017
Restricted	10,000	10,000	-	-	10,000	10,000
Unrestricted	639,032	105,932	2,864,108	2,457,508	3,503,140	2,563,440
Total Net Postion	\$ 649,032	\$ 115,932	18,082,924	18,273,525	18,731,956	18,389,457

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 2019, this accounted for 81% 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	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ -	-	1,916,717	1,767,634	1,916,717	1,767,634
Capital grants & contributions	-	-	260,100	382,419	260,100	382,419
General revenues:						
Property taxes	735,974	733,753	-	-	735,974	733,753
Other taxes	63,320	57,132	-	-	63,320	57,132
Interest and other revenue	1,787	1,575	64,069	54,438	65,856	56,013
Total Revenues	801,081	792,460	2,240,886	2,204,491	3,041,967	2,996,951
Expenses:						
Sewer	-	-	2,405,112	2,303,174	2,405,112	2,303,174
General government	290,771	271,308	-	-	290,771	271,308
Interest on long-term debt	3,585	35,164	-	-	3,585	35,164
Proceeds from sale of asset	-	-	-	(332,833)	-	(332,833)
Transfers	(26,375)	939,597	26,375	(939,597)	-	-
Total Expenses	267,981	1,246,069	2,431,487	1,030,744	2,699,468	2,276,813
Change in Net Position	533,100	(453,609)	(190,601)	1,173,747	342,499	720,138
Net Position - Beginning	115,932	569,541	18,273,525	17,099,778	18,389,457	17,669,319
Net Position - Ending	\$ 649,032	\$ 115,932	18,082,924	18,273,525	18,731,956	18,389,457

Governmental activities: Net position of the governmental activities increased \$533,100 during 2019 after a decrease of \$453,609 during 2018. 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 decreased \$190,601 during 2019 after an increase of \$1,173,747 during 2018. The prior year increase was 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 \$649,032. Of this balance, \$10,000 is restricted for emergencies as required by TABOR, and the remaining \$639,032 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 \$1,916,717 were exceeded by operational expenses of \$2,366,999, resulting in an operating loss of \$450,282. User fees of \$1,772,568, interest of \$64,069, and capital outlays of \$1,686,896 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 \$18,082,924 which consisted of \$15,218,816 in net investment in capital assets and the remaining \$2,864,108 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 \$39,062. The enterprise fund had mostly positive variances. These positive variances netted to \$406,600. The large overall positive variance was due largely to lower budgeted transfers, and a positive contingency budget. 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 \$558,868 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 2019 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, 2019

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and investments	649,032	3,019,561	3,668,593
Accounts receivable, net of allowance for uncollectibles	-	55,719	55,719
Taxes receivable - ensuing year	249,534	-	249,534
Inventory	-	107,209	107,209
Capital assets, not being depreciated	-	2,231,947	2,231,947
Capital assets, net	-	15,877,493	15,877,493
Other assets	-	9,239	9,239
Total Assets	<u>898,566</u>	<u>21,301,168</u>	<u>22,199,734</u>
Liabilities:			
Accounts payable	-	255,485	255,485
Accrued liabilities	-	44,664	44,664
Accrued interest payable	-	9,650	9,650
Unearned user fees	-	17,821	17,821
Noncurrent liabilities:			
Due within one year	-	131,764	131,764
Due in more than one year	-	2,758,860	2,758,860
Total Liabilities	<u>-</u>	<u>3,218,244</u>	<u>3,218,244</u>
Deferred Inflow of Resources:			
Deferred taxes receivable	249,534	-	249,534
Total Deferred Inflow of Resources	<u>249,534</u>	<u>-</u>	<u>249,534</u>
Net Position:			
Net investment in capital assets	-	15,218,816	15,218,816
Restricted for emergencies	10,000	-	10,000
Unrestricted	639,032	2,864,108	3,503,140
Total Net Position	<u>649,032</u>	<u>18,082,924</u>	<u>18,731,956</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, 2019**

	<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	290,771	-	-	-	(290,771)		(290,771)
Interest on long-term debt and related costs	3,585	-	-	-	(3,585)		(3,585)
Total Governmental Activities	<u>294,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(294,356)</u>		<u>(294,356)</u>
Business-type Activities:							
Sewer	2,405,112	1,916,717	-	260,100		(228,295)	(228,295)
Total Business-type Activities	<u>2,405,112</u>	<u>1,916,717</u>	<u>-</u>	<u>260,100</u>		<u>(228,295)</u>	<u>(228,295)</u>
General Revenues:							
Taxes:							
Property tax					234,225	-	234,225
Property tax - Bonds					501,749	-	501,749
Specific ownership tax					63,320	-	63,320
Investment earnings					1,787	64,069	65,856
Transfer (to) from other funds					26,375	(26,375)	-
Total General Revenues and Transfers					<u>827,456</u>	<u>37,694</u>	<u>865,150</u>
Change in Net Position					533,100	(190,601)	342,499
Net Position - Beginning					<u>115,932</u>	<u>18,273,525</u>	<u>18,389,457</u>
Net Position - Ending					<u>649,032</u>	<u>18,082,924</u>	<u>18,731,956</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, 2019**

	General	Debt Service	Total
Assets:			
Cash and cash equivalents	649,032	-	649,032
Property tax receivable - ensuing year	249,534	-	249,534
Total Assets	898,566	-	898,566
Liabilities and Fund Balances:			
Deferred Inflow of Resources:			
Unavailable property tax revenue	249,534	-	249,534
Total Deferred Inflow of Resources	249,534	-	249,534
Fund Balances:			
Restricted for TABOR reserve	10,000	-	10,000
Unassigned	639,032	-	639,032
Total Fund Balances	649,032	-	649,032
Total Liabilities, Deferred Inflow of Resources and Fund Balances	898,566	-	898,566
Net Position of Governmental Activities			649,032

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, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:			
Property taxes	234,225	501,749	735,974
Specific ownership taxes	63,320	-	63,320
Interest income	1,787	-	1,787
Total Revenues	<u>299,332</u>	<u>501,749</u>	<u>801,081</u>
Expenditures:			
County treasurer's fees	11,738	25,144	36,882
Salaries and wages	169,160	-	169,160
Car and mileage allowance	1,054	-	1,054
Employee insurance	51,482	-	51,482
Miscellaneous expense	2,819	-	2,819
Office supplies	4,592	-	4,592
Pension Plan - ICMA 401	12,206	-	12,206
Retirement Plan - ICMA 457	12,576	-	12,576
Debt service:			
Principal	-	492,156	492,156
Interest	-	10,824	10,824
Total Expenditures	<u>265,627</u>	<u>528,124</u>	<u>793,751</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>33,705</u>	<u>(26,375)</u>	<u>7,330</u>
Other Financing Sources (Uses):			
Transfer (to) from other fund	-	26,375	26,375
Total Other Financing Sources	<u>-</u>	<u>26,375</u>	<u>26,375</u>
Change in Fund Balances	33,705	-	33,705
Fund Balances - Beginning	<u>615,327</u>	<u>-</u>	<u>615,327</u>
Fund Balances - Ending	<u>649,032</u>	<u>-</u>	<u>649,032</u>
			<u>499,395</u>
Change in Net Position of Governmental Activities			<u>533,100</u>

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.

Three Lakes Water and Sanitation District
Statement of Net Position
Enterprise Fund
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets:		
Cash	3,019,561	2,512,928
Accounts receivable, net of allowance for uncollectibles	55,719	50,087
Inventory	107,209	107,209
Capital assets, not being depreciated	2,231,947	619,744
Capital assets, net of depreciation	15,877,493	16,930,828
Other assets	9,239	12,280
Total Assets	21,301,168	20,233,076
Liabilities:		
Accounts payable	255,485	165,163
Accrued liabilities	44,664	38,092
Unearned user fees	17,821	15,959
Accrued interest payable	9,650	5,782
Noncurrent liabilities:		
Due within one year	131,764	89,698
Due in more than one year	2,758,860	1,644,857
Total Liabilities	3,218,244	1,959,551
Net Position:		
Net investment in capital assets	15,218,816	15,816,015
Unrestricted	2,864,108	2,457,510
Total Net Position	18,082,924	18,273,525

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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Revenues:		
Charges for sewer services	1,772,568	1,622,065
Other service revenue	22,890	30,352
Service contract revenue	109,608	96,927
Miscellaneous revenue	11,651	18,290
Total Revenues	<u>1,916,717</u>	<u>1,767,634</u>
Expenses		
Administrative	207,094	218,616
Operating	1,031,877	1,022,708
Depreciation	1,128,028	1,026,131
Total Expenses	<u>2,366,999</u>	<u>2,267,455</u>
Operating Income (Loss)	<u>(450,282)</u>	<u>(499,821)</u>
Nonoperating Revenues (Expenses)		
Tap fees	260,100	382,419
Interest income	64,069	54,438
Interest expense	(38,113)	(35,719)
Proceeds from sale of asset	-	332,833
Total Nonoperating Revenues (Expenses)	<u>286,056</u>	<u>733,971</u>
Net Income (Loss) Before Transfers	(164,226)	234,150
Transfer (to) from other fund	<u>(26,375)</u>	<u>939,597</u>
Change in Net Position	(190,601)	1,173,747
Net Position - Beginning	<u>18,273,525</u>	<u>17,099,778</u>
Net Position - Ending	<u>18,082,924</u>	<u>18,273,525</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, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash Flows from Operating Activities:		
Cash received from customers	1,912,947	1,773,975
Cash paid for goods and services	(727,501)	(966,036)
Cash paid to employees	(411,537)	(453,771)
Net Cash Provided by Operating Activities	773,909	354,168
Cash Flows from Capital and Related Financing Activities:		
Tap fees received	260,100	382,419
Loan proceeds	1,245,767	10,000
Transfer (to) from other fund	(26,375)	(25,146)
Loan payments	(89,697)	(87,930)
Interest paid on debt	(34,245)	(35,915)
Acquisition of capital assets	(1,686,895)	(1,324,341)
Proceeds from sale of asset	-	447,487
Net Cash Provided (Used) by Capital and Related Financing Activities	(331,345)	(633,426)
Cash Flows from Investing Activities:		
Investment earnings received	64,069	54,438
Net Cash Provided by Investing Activities	64,069	54,438
Net Increase in Cash and Cash Equivalents	506,633	(224,820)
Cash and Cash Equivalents - Beginning	2,512,928	2,737,748
Cash and Cash Equivalents - Ending	3,019,561	2,512,928
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	(450,282)	(499,821)
Adjustments:		
(Increase) decrease in accounts receivable	(5,633)	14,382
Increase (decrease) in accounts payable and accrued liabilities	90,321	(145,779)
Increase (decrease) in unearned user fees	6,572	1,692
Increase (decrease) in inventory	1,862	(8,042)
Increase (decrease) in other assets	-	(29,204)
Increase (decrease) in other assets	3,041	(5,227)
Depreciation	1,128,028	1,026,167
Total Adjustments	1,224,191	853,989
Net Cash Provided by Operating Activities	773,909	354,168

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, 2019

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, 2019

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, 2019

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, 2019**

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, 2019**

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 \$13,406 for accumulated unpaid vacation pay and \$16,958 for accumulated unpaid sick at December 31, 2019.

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 2019 for collection in 2020 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, 2019

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 2019.

1. For the 2019 budget year, prior to August 25, 2018, 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, 2018, 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, 2019

II. Stewardship, Compliance, and Accountability

A. Budgetary Information (continued)

3. Prior to December 15, 2018, 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 2018 were collected in 2019 and taxes certified in 2019 will be collected in 2020. 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, 2019**

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, 2019, the District had the following cash and investments with the following maturities:

	Standard & Poors Rating	Carrying Amounts	Maturities	
			Less than one year	1 - 5 years
Petty cash	Not rated	\$ 200	200	
Deposits:				
Checking	Not rated	705,347	705,347	
Investment Pools	AAAm	2,963,045	2,963,045	
Total		<u>\$ 3,668,592</u>	<u>3,668,592</u>	<u>-</u>

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2019**

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At December 31, 2019, the District had the following recurring fair value measurements:

<u>Investments Measured at Net Asset Value</u>	<u>Total</u>
Colotrust	2,931,354

<u>Investments Measured at Amortized Cost</u>	<u>Total</u>
C-Safe	31,691

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, 2019**

III. Detailed Notes on All Funds (continued)

B. Capital Assets

Capital asset activity for 2019 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	385,617	1,612,203	-	1,997,820
Total capital assets, not being depreciated	619,744	1,612,203	-	2,231,947
Capital assets being depreciated				
Building and improvements	972,811	-	-	972,811
Sewer system	28,278,612	74,693	-	28,353,305
Plant expansion	10,008,589	-	-	10,008,589
Vehicles and equipment	1,441,256	-	-	1,441,256
Furniture and office equipment	49,660	-	-	49,660
CAD maps	170,606	-	-	170,606
Total capital assets being depreciated	40,921,535	74,693	-	40,996,228
Less accumulated depreciation for				
Building improvements	714,432	18,992	-	733,424
Sewer system	18,555,827	750,917	-	19,306,744
Plant expansion	3,949,813	250,215	-	4,200,028
Vehicles and equipment	551,535	107,515	-	659,050
Furniture and office equipment	48,493	389	-	48,882
CAD maps	170,606	-	-	170,606
Total accumulated depreciation	23,990,706	1,128,028	-	25,118,734
Total capital assets being depreciated, net	16,930,828			15,877,493
Capital assets, net	17,550,572			18,109,440

All depreciation expense was charged to sewer operations.

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2019**

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 0.4% and 0.3% of the initial loan amount effective August 1, 2018 and August 1, 2019, 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. As of December 31, 2019, the loan was paid in full.

In 2014, CWRPDA and the District, acting through its enterprise, entered into a \$2,000,000 loan agreement to finance lift station improvements. 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.

In 2019, CWRPDA and the District, acting through its enterprise, entered into a \$3,000,000 loan agreement to finance a copper removal project. The District draws against the loan as improvement costs are incurred. As of December 31, 2019, the District made draws totaling \$1,245,767. The loan bears interest at an annual rate of 2.5%, and requires payments of \$72,048 for principal and interest due on May 1 and November 1, commencing on May 1, 2020 and terminating on May 1, 2049. 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, 2019:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
CWRPDA Loan 2001	\$ 492,156	-	492,156	-	-
CWRPDA Loan 2014	1,734,555	-	89,698	1,644,857	91,500
CWRPDA Loan 2019	-	1,245,767	-	1,245,767	40,264
	<u>\$ 2,226,711</u>	<u>1,245,767</u>	<u>581,854</u>	<u>2,890,624</u>	<u>131,764</u>

**Three Lakes Water and Sanitation District
Notes to the Financial Statements
December 31, 2019**

III. Detailed Notes on All Funds (continued)

C. Long-Term Obligations (continued)

Annual debt service requirements for the loans (based on \$3 million principal on the 2019 loan) are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 131,765	76,121	207,886
2021	163,882	91,158	255,040
2022	167,533	100,507	268,040
2023	171,066	96,774	267,840
2024	175,083	92,957	268,040
2025-2029	935,761	93,616	1,029,377
2030-2034	1,044,990	295,212	1,340,202
2035-2039	586,565	245,601	832,166
2040-2044	594,677	159,586	754,263
2045-2049	673,335	66,335	739,670
	<u>\$ 4,644,657</u>	<u>1,317,867</u>	<u>5,962,524</u>

At December 31, 2019, the District had \$1,754,033 in 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 2019, the District received \$109,608 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, 2019, there was \$47,570 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, 2019

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 six months of employment. After six months of employment, the District's contributions are 100% vested.

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, 2019, the District remitted \$32,582 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.

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, 2019
(With Comparative Actual Amounts for 2018)

	2019		Final Budget Variance Positive (Negative)	2018
	Original and Final Budget	Actual		Actual
Revenues:				
Taxes:				
Property taxes	235,633	234,225	(1,408)	233,301
Specific ownership taxes	30,000	63,320	33,320	57,132
Investment income	100	1,787	1,687	1,575
Total Taxes	265,733	299,332	33,599	292,008
Expenditures:				
County treasurer's fees	11,732	11,738	(6)	11,693
Salaries and wages	170,991	169,160	1,831	166,019
Car and mileage allowance	2,000	1,054	946	1,378
Contract labor	-	-	-	6,000
Employee insurance	52,751	51,482	1,269	-
Miscellaneous expense	2,500	2,819	(319)	-
Office supplies	6,500	4,592	1,908	5,398
Pension Plan - ICMA 401	11,762	12,206	(444)	43,003
Retirement Plan - ICMA 457	12,854	12,576	278	12,731
Total Expenditures	271,090	265,627	5,463	246,222
Net Change in Fund Balance	(5,357)	33,705	39,062	45,786
Fund Balance - Beginning	301,050	615,327	314,277	569,541
Fund Balance - Ending	295,693	649,032	353,339	615,327

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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>			<u>Final Budget</u>	<u>2018</u>
	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>	<u>Actual</u>
Revenues:					
Taxes:					
Property taxes	502,980	502,980	501,749	(1,231)	500,452
Total Taxes	<u>502,980</u>	<u>502,980</u>	<u>501,749</u>	<u>(1,231)</u>	<u>500,452</u>
Expenditures:					
County treasurer's fees	25,149	25,149	25,144	5	25,086
Debt service:					
Principal	502,980	502,980	492,156	10,824	455,112
Interest	-	-	10,824	(10,824)	45,300
Total Expenditures	<u>528,129</u>	<u>528,129</u>	<u>528,124</u>	<u>5</u>	<u>525,498</u>
Other Financing Sources (Uses)					
Transfer (to) from other fund	-	-	26,375	(26,375)	25,046
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>26,375</u>	<u>(26,375)</u>	<u>25,046</u>
Net Change in Fund Balance	(25,149)	(25,149)	-	25,149	-
Fund Balance - Beginning	162,879	162,879	-	162,879	-
Fund Balance - Ending	<u>137,730</u>	<u>137,730</u>	<u>-</u>	<u>137,730</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, 2019
(With Comparative Totals for 2018)

	<u>2019</u>			<u>2018</u>
	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Final Budget Variance Positive (Negative)</u>	<u>Actual</u>
Revenues:				
User charges	1,758,438	1,772,568	14,130	1,622,065
Other service revenue	17,050	22,890	5,840	30,352
Service contract revenue	103,800	109,608	5,808	96,927
Tap fees	451,200	260,100	(191,100)	382,419
Miscellaneous revenue	12,000	11,651	(349)	18,290
Interest income	20,000	64,069	44,069	54,438
Total Revenues	<u>2,362,488</u>	<u>2,240,886</u>	<u>(121,602)</u>	<u>2,204,491</u>
Expenditures:				
<i>Administrative:</i>				
Auditor services	18,000	13,700	4,300	12,900
Accountant services	13,200	14,343	(1,143)	7,725
Bank charges	2,500	1,932	568	1,932
Business insurance	75,586	62,541	13,045	58,483
Computers/related equipment	25,900	18,269	7,631	10,493
Condo utilities/maintenance	-	-	-	3,746
Consultant - rate study	-	-	-	28,330
Director fees	15,755	8,668	7,087	8,868
Dues and seminars	5,000	2,695	2,305	3,248
Election expense	-	-	-	56
Equipment/maintenance agreement	6,673	3,921	2,752	6,502
Legal services	50,000	42,115	7,885	43,983
Modular utilities	-	-	-	3,673
Postage/box rent	7,500	6,386	1,114	5,865
Printing and publications	1,200	832	368	(488)
Property repair and maintenance	10,500	11,226	(726)	2,988
Recording fees	250	-	250	276
Repair and maintenance	7,900	5,048	2,852	5,538
Telephone and internet	5,559	5,570	(11)	5,497
Utilities - administration building	9,480	7,848	1,632	7,001
Water rights	2,000	2,000	-	2,000
	<u>257,003</u>	<u>207,094</u>	<u>49,909</u>	<u>218,616</u>
<i>Operating:</i>				
Payroll	341,782	315,054	26,728	333,906
Unemployment tax	1,025	914	111	919
Cell phone	1,500	1,380	120	-
Computers/related equipment	18,090	14,494	3,596	15,859
Copper compliance - engineering	100,000	13,358	86,642	-
Dues/training/publications	5,000	4,510	490	2,884
Engineering and facilities plan	20,000	6,028	13,972	-
Equipment repairs	5,000	201	4,799	389
Fuel	20,000	12,334	7,666	14,035
Employee insurance	82,764	59,321	23,443	76,163

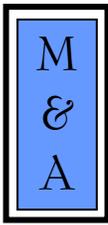
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Three Lakes Water and Sanitation District
Schedule of Revenues, Expenditures, and Changes in Funds Available
Budget and Actual (Budgetary Basis) - Enterprise Fund (continued)
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	2019		2018	
	Original and Final Budget	Actual	Final Budget Variance Positive (Negative)	Actual
<i>Operating (continued):</i>				
Locates - utility notification center	1,500	1,252	248	1,004
Miscellaneous	1,000	6	994	752
Office supplies	1,000	85	915	120
Permits and licenses	10,000	8,469	1,531	8,025
Pension plan - ICMA 401	23,583	20,249	3,334	21,690
Radio/telemetry maintenance	-	-	-	2,288
Retirement plan - 457 deferred compensation	25,620	23,485	2,135	23,704
SCADA software	35,760	32,032	3,728	22,576
Shop supplies	4,000	3,075	925	3,091
System repair and maintenance	100,000	37,203	62,797	144,139
Tools	5,000	730	4,270	2,689
Treatment plant - chemicals	10,000	8,942	1,058	9,720
Treatment plant - repair and maintenance	90,000	112,490	(22,490)	33,540
Treatment plant - telephone	2,200	1,729	471	3,116
Treatment plant - utilities	171,851	178,215	(6,364)	149,265
Truck repair and maintenance	5,000	4,604	396	4,367
Uniform expense	2,000	1,608	392	1,205
Utilities - lift stations	91,170	89,934	1,236	72,869
Utilities - 2 garages	1,934	3,291	(1,357)	2,427
Valves	2,000	6,958	(4,958)	5,144
Lab - drinking water	11,000	9,288	1,712	9,110
Treatment plant - lab	35,000	29,310	5,690	31,513
Treatment plant - sludge hauling	30,000	31,328	(1,328)	26,199
Contingency	200,000	-	200,000	-
	<u>1,454,779</u>	<u>1,031,877</u>	<u>422,902</u>	<u>1,022,708</u>
<i>Debt service:</i>				
Principal	123,944	89,698	34,246	87,930
Interest	-	38,113	(38,113)	18,344
	<u>123,944</u>	<u>127,811</u>	<u>(3,867)</u>	<u>106,274</u>
<i>Capital outlay</i>				
	<u>3,163,000</u>	<u>1,686,896</u>	<u>1,476,104</u>	<u>1,324,341</u>
Total Expenditures	<u>4,998,726</u>	<u>3,053,678</u>	<u>1,945,048</u>	<u>2,671,939</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,636,238)	(812,792)	1,823,446	(467,448)
Other Financing Sources (Uses)				
Proceeds from long-term debt	3,000,000	1,245,767	(1,754,233)	10,000
Proceeds on sale of asset	-	-	-	447,521
Transfer (to) from other fund	(363,762)	(26,375)	337,387	(25,046)
Total Other Financing Sources (Uses)	<u>2,636,238</u>	<u>1,219,392</u>	<u>(1,416,846)</u>	<u>432,475</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures	-	406,600	406,600	(34,973)
Funds Available - Beginning	<u>593,455</u>	<u>2,457,508</u>	<u>1,864,053</u>	<u>2,492,481</u>
Funds Available - Ending	<u>593,455</u>	<u>2,864,108</u>	<u>2,270,653</u>	<u>2,457,508</u>
Reconciliation of Budget to GAAP Basis:				
Excess of Revenues over Expenditures		406,600		(34,973)
Loan proceeds		(1,245,767)		(10,000)
Loan principal paid		89,698		87,930
Capital outlay		1,686,896		1,324,341
Depreciation		(1,128,028)		(1,026,131)
Loss on disposal		-		(114,688)
Changes in accruals		-		947,268
Change in Net Position		<u>(190,601)</u>		<u>1,173,747</u>

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

**REPORTS AND SCHEDULES FOR REPORTING REQUIREMENTS
OF UNIFORM GUIDANCE**



MCMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

CHAPEL SQUARE, BLDG C
245 CHAPEL PLACE, SUITE 300
P.O. Box 5850, Avon, CO 81620

WEB SITE: WWW.MCMAHANCPA.COM
MAIN OFFICE: (970) 845-8800
FACSIMILE: (970) 845-8108
E-MAIL: MCMAHAN@MCMAHANCPA.COM

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**To the Board of District Commissioners
Three Lakes Water and Sanitation District
Grand Lake, Colorado**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Three Lakes Water and Sanitation District (the "District") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit on the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Member: American Institute of Certified Public Accountants

PAUL J. BACKES, CPA, CGMA
MICHAEL N. JENKINS, CA, CPA, CGMA
DANIEL R. CUDAHY, CPA, CGMA

Avon: (970) 845-8800
Aspen: (970) 544-3996
Frisco: (970) 668-3481

**INDEPENDENT AUDITOR'S REPORT
To the Board of District Commissioners
Three Lakes Water and Sanitation District**

Compliance and Other Matters

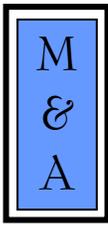
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
Avon, Colorado
June 9, 2020**



MCMAHAN AND ASSOCIATES, L.L.C.

Certified Public Accountants and Consultants

CHAPEL SQUARE, BLDG C
245 CHAPEL PLACE, SUITE 300
P.O. Box 5850, AVON, CO 81620

WEB SITE: WWW.MCMAHANCPA.COM
MAIN OFFICE: (970) 845-8800
FACSIMILE: (970) 845-8108
E-MAIL: MCMAHAN@MCMAHANCPA.COM

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

**To the Board of District Commissioners
Three Lakes Water and Sanitation District
Grand Lake, Colorado**

Report on Compliance for Each Major Program

We have audited the Three Lakes Water and Sanitation District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2019. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance with those requirements.

Member: American Institute of Certified Public Accountants

PAUL J. BACKES, CPA, CGMA
MICHAEL N. JENKINS, CA, CPA, CGMA
DANIEL R. CUDAHY, CPA, CGMA

AVON: (970) 845-8800
ASPEN: (970) 544-3996
FRISCO: (970) 668-3481

**INDEPENDENT AUDITOR's REPORT
To the Board of District Commissioners
Three Lakes Water and Sanitation District**

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the District's internal control over compliance with types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
Avon, Colorado
June 9, 2020**

Three Lakes Water and Sanitation District, Colorado
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019

Part I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	None noted
Significant deficiency identified	None noted
Noncompliance material to financial statements noted	None noted

Federal Awards:

Internal control over major programs:	
Material weakness identified	None noted
Significant deficiency identified	None noted
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200	No
Major programs:	
Capitalization Grants for Clean Water Revolving Loan Funds	CFDA #66.458
Dollar threshold used to identify Type A from Type B programs:	\$750,000
Identified as low-risk auditee	No

Part II – Findings Related to Financial Statements

Findings related to financial statements as required by <i>Government Auditing Standards</i>	None noted
Auditor-assigned reference number	Not applicable

Part III – Findings Related to Federal Awards

Internal control findings	None noted
Compliance findings	None noted
Questioned costs	None noted
Auditor-assigned reference number	Not applicable

**Three Lakes Water and Sanitation District
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2019**

There were no findings for the fiscal year ended December 31, 2018.

**Three Lakes Water and Sanitation District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2019**

<u>Program Title</u>	<u>Local Agency Identifying Number</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
United States Environmental Protection Agency:			
Passed through Colorado Water and Power Development Authority			
Capitalization Grants for Clean Water Revolving Loan Funds	W19F125	66.458	<u>824,052</u> A
Total United States Environmental Protection Agency			
Total Expenditures			<u><u>\$ 824,052</u></u>

<u>Additional Information for Clusters:</u>	<u>Amount</u>
A - Clean Water State Revolving Fund Cluster	824,052

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2019

Note 1. Basis of Presentation:

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Three Lakes Water and Sanitation District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Therefore, some amounts presented in this schedule or used in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements.

Note 2. Determining the Value of Non-cash Awards Expended:

There were no non-cash awards expended during 2019.

Note 3. Indirect Facilities and Administration costs

The District does not use the 10% de minimis cost rate allowed in Title 2 U.S. Code of Federal Regulations (CFR) part 200.414, Indirect (F & A) costs. Instead, the District prepares an annual cost allocation plan to allocate indirect costs.

Note 4. Sub-recipients:

The District had no sub recipients as of December 31, 2019.