

Columbine Lake Water District  
Grand County, Colorado

FINANCIAL STATEMENTS

With Independent Auditors' Report

December 31, 2011

Columbine Lake Water District

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December 31, 2011

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Certified Public Accountants and Business Consultants

## Independent Auditors' Report

Board of Directors  
Columbine Lake Water District  
Grand County, Colorado

We have audited the accompanying financial statements of Columbine Lake Water District (the District), as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lakewood, Colorado  
June 18, 2012, except for Note 10, as to which the date is  
March 24, 2013

**BASIC FINANCIAL STATEMENTS**

**Columbine Lake Water District**  
**STATEMENT OF NET ASSETS**  
**December 31, 2011**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 13,708
Investments	199,159
Accounts receivable	266
Inventory	2,414
<b>Total current assets</b>	<b>215,547</b>

**Capital assets, net**

803,154

**Total assets**

1,018,701

**LIABILITIES**

**Current liabilities**

Payroll liabilities	1,647
<b>Total current liabilities</b>	<b>1,647</b>

**Total liabilities**

1,647

**NET ASSETS**

Invested in capital assets, net of related debt	803,154
Restricted for emergency	4,200
Unrestricted	209,700
<b>Total net assets</b>	<b>\$ 1,017,054</b>

**Columbine Lake Water District**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2011**

<b>OPERATING REVENUES - WATER</b>	
Water fees	\$ 140,458
Permits, connection, inspection, other	4,115
<b>Total operating revenues - water</b>	<u>144,573</u>
<b>OPERATING EXPENSES - WATER</b>	
Depreciation	51,802
Repairs and maintenance	82,462
Three Lakes operation	29,616
Utilities	5,540
Water testing, treatment, lease	4,193
<b>Total operating expenses - water</b>	<u>173,613</u>
<b>GROSS PROFIT FROM WATER OPERATIONS</b>	<u>(29,040)</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	
Directors expenses	6,720
Insurance	3,187
Professional fees	577
Miscellaneous	1,060
Office	1,465
Payroll tax	428
Telephone	2,592
Three Lakes administration	24,492
<b>Total general and administrative expenses</b>	<u>40,521</u>
<b>OPERATING INCOME</b>	<u>(69,561)</u>
<b>NONOPERATING REVENUES</b>	
Net investment income	369
<b>Total nonoperating revenues</b>	<u>369</u>
<b>CHANGE IN NET ASSETS</b>	<u>(69,192)</u>
<b>NET ASSETS, Beginning of year</b>	<u>1,086,246</u>
<b>NET ASSETS, End of year</b>	<u><u>\$ 1,017,054</u></u>

**Columbine Lake Water District**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended December 31, 2011

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers	\$ 145,135
Payments to suppliers of goods or services	<u>(161,509)</u>
<b>Net cash provided by operating activities</b>	<u>(16,374)</u>
 <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>	
Acquisition of system improvement	<u>(7,672)</u>
<b>Net cash (used) by capital financing activities</b>	<u>(7,672)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest received from investments	<u>369</u>
<b>Net cash provided by investing activities</b>	<u>369</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(23,677)</u>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<u>236,544</u>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<u><u>\$ 212,867</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net operating income	\$ (69,561)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	51,802
(Increase) decrease in:	
Accounts receivable	562
Inventory	874
Increase (decrease) in:	
Accounts payable	<u>(51)</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ (16,374)</u></u>

**Columbine Lake Water District**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011**

**Note 1 – Definition of reporting entity**

The District, a quasi-municipal corporation and political subdivision of the State of Colorado, was organized in 1970 and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Grand County, Colorado. The District was established to provide water and sewer treatment services to inhabitants of the District. The District currently provides only water services.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

**Note 2 – Summary of significant accounting policies**

The more significant accounting policies of the District are described as follows:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

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



**Columbine Lake Water District**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**DECEMBER 31, 2011**

**Basis of Accounting**

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

**Operating revenues and expenses**

The District distinguishes between operating revenues and expenses from nonoperating items in the Statement of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

**Cash equivalents**

For purposes of the Statement of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition, to be cash equivalents.

**Investments**

Investments for the District are reported at fair value.

**Accounts receivable, allowance for doubtful accounts**

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

**Inventory**

Inventory is stated at the lower of cost or fair value, using the first-in, first-out method.

**Columbine Lake Water District**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**DECEMBER 31, 2011**

**Capital assets**

Capital assets include water rights, water system infrastructure, furniture and equipment. Capital assets are defined by the District as those assets with an initial, individual cost of \$500 or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developer's cost.

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. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Water system and improvements	5-50 years
Equipment and fixtures	5-10 years

**Water rights**

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Water rights have a perpetual life, thus the cost is not amortized. All other costs, including costs incurred for the protection of those rights are expensed.

**Capital contributions**

Grants are recognized as capital contributions as soon as all eligibility requirements imposed by the provider have been met. Water lines contributed to the District by developers are recorded as capital contributions and additions to the water system when received. Tap fees are recorded as capital contributions when received.

**Budgets**

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

**Columbine Lake Water District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**DECEMBER 31, 2011**

**Note 3 – Cash and investments**

Cash and investments are reflected on the December 31, 2011 Statement of Net Assets as follows:

Cash and cash equivalents	\$ 13,708
Investments	199,159
Total cash and investments	<u>\$ 212,867</u>

Cash and investments as of December 31, 2011 consist of the following:

Petty cash	\$ 100
Deposits with financial institutions	13,608
Investments	199,159
Total cash and investments	<u>\$ 212,867</u>

At December 31, 2011, the District's cash deposits had a bank balance of \$15,243 and a carrying balance of \$13,708.

**Deposits with financial institutions**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

**Custodial credit risk - deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not adopted a deposit policy for custodial credit risk. As of December 31, 2011, none of the District's bank balance was exposed to custodial credit risk.

**Columbine Lake Water District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**DECEMBER 31, 2011**

**Investments**

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District primarily limits its investments to local government investments pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to custodial credit risk for investments that are in the possession of another party.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest including the following:

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

The local government investment pool, in which the District has invested, is the Colorado Local Government Liquid Asset Trust (ColoTrust). ColoTrust is rated AAAM by Standard and Poor's.

As of December 31, 2011, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Local Government Liquid Asset Trust (ColoTrust)	Weighted average under 60 days	<u>\$ 199,159</u>

**Columbine Lake Water District**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**DECEMBER 31, 2011**

**COLOTRUST**

During 2008, the District invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2011, the District had \$199,159 invested in COLOTRUST PLUS+.

**Note 4 – Fair Value Measurement**

The District has adopted the methods of fair value as defined by U.S. generally accepted accounting principles "GAAP" to value its financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, GAAP establishes a fair value hierarchy that prioritizes observable inputs used to measure fair value into three broad levels. Cash and equivalents and investments held by the District are determined by reference to quoted market prices and other relevant information generated by market transactions (Level 1).

**Columbine Lake Water District**  
**NOTES TO FINANCIAL STATEMENTS**  
**(continued)**

**DECEMBER 31, 2011**

**Note 5 – Capital assets**

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Capital assets, not being depreciated				
Water rights	\$ 4,375	\$ -	\$ -	\$ 4,375
Total capital assets, not being depreciated	4,375	-	-	4,375
Capital assets being depreciated				
Water lines and mechanical	1,639,145	7,672	-	1,646,817
Office equipment	4,191	-	-	4,191
Total capital assets being depreciated	1,643,336	7,672	-	1,651,008
Less accumulated depreciation for				
Water lines and mechanical	796,237	51,801	-	848,038
Office equipment	4,191	-	-	4,191
Total accumulated depreciation	800,428	51,801	-	852,229
Total capital assets being depreciated, net	842,908	(44,129)	-	798,779
Capital assets, net	<u>\$ 847,283</u>	<u>\$ (44,129)</u>	<u>\$ -</u>	<u>\$ 803,154</u>

Depreciation expense for the year ended December 31, 2011 was charged to water operations.

**Note 6 – Net assets**

The District has net assets consisting of three components – invested in capital assets, net of related debt, restricted, and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2011, the District had invested in capital assets, net of related debt of \$803,154.

**Columbine Lake Water District**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**DECEMBER 31, 2011**

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The District had \$4,200 restricted for emergencies in compliance with Article X, Section 20 of the Colorado constitution (Note 9).

The District's unrestricted net assets as of December 31, 2011 were \$209,700.

**Note 7 – Intergovernmental agreement**

The District entered into an agreement with Three Lakes Water and Sanitation District (Three Lakes), located in Grand County, Colorado, whereby Three Lakes performs all operational and administrative functions of the District. During 2011, the District paid Three Lakes \$29,616 for operational services and \$24,492 for administration.

**Note 8 – Risk management**

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2011. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, and public officials liability. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

**Note 9 – Tax, spending, and debt limitation**

Article X, Section 20 of the Colorado constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's

**Columbine Lake Water District**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**DECEMBER 31, 2011**

Board of Directors has adopted a resolution establishing an enterprise to operate its water activities. The District's management believes its water operations qualify for this exclusion. Although the District is excluded from the emergency reserve exclusion, the District reserved \$73,791 for emergencies in the year ended 2011.

The District restricted \$4,200 for emergencies in compliance with TABOR's provision requiring the establishment of a reserve of 3% of fiscal year spending.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

**Note 10 – Information obtained subsequent to financial statement issuance**

Subsequent to the issuance of the December 31, 2011 financial statements, which contained an auditor's report date of June 18, 2012, management re-evaluated legal ownership of certain capital improvements constructed during 2011. Management determined that ownership of the capital improvements resided in an entity that is independent of the District. Accordingly, the cost of the improvements was reclassified as a repair expense and removed from the District's capital assets.

\* \* \* \* \*



**SUPPLEMENTAL INFORMATION**

**Columbine Lake Water District**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**For the Year Ended December 31, 2011**

	Original and Final Budgeted Amounts	Actual (Budgetary Basis)	Variance with Final Budget - Favorable (Unfavorable)
<b>REVENUES</b>			
Water fees	\$ 139,111	\$ 140,458	\$ 1,347
Permits, connection, inspection fees, and other	550	4,115	3,565
Net investment income	455	369	(86)
Tap fees	5,000	-	(5,000)
<b>Total revenues</b>	<b>145,116</b>	<b>144,942</b>	<b>(174)</b>
<b>EXPENDITURES</b>			
Repairs and maintenance	45,000	82,462	(37,462)
Three Lakes operation	32,616	29,616	3,000
Utilities	6,500	5,540	960
Water testing and treatment	6,550	4,193	2,357
Directors expenses	10,000	6,720	3,280
Insurance	3,538	3,187	351
Professional fees	9,300	577	8,723
Miscellaneous	2,200	1,060	1,140
Office	1,800	1,465	335
Payroll taxes	811	428	383
Telephone	2,500	2,592	(92)
Three Lakes administration	24,500	24,492	8
Capital improvements	35,000	7,672	27,328
Contingency	38,106	-	38,106
<b>Total expenditures</b>	<b>218,421</b>	<b>170,004</b>	<b>48,417</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(73,305)</b>	<b>(25,062)</b>	<b>48,243</b>
<b>BEGINNING FUNDS AVAILABLE</b>	<b>235,678</b>	<b>238,963</b>	<b>3,285</b>
<b>ENDING FUNDS AVAILABLE</b>	<b>\$ 162,373</b>	<b>\$ 213,900</b>	<b>\$ 51,528</b>

**Columbine Lake Water District**  
**RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT**  
**OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2010**

Revenues (budgetary basis)	<u>\$</u>	144,942
Total revenues per Statement of Revenues, Expenses and Changes in Net Assets		<u>144,942</u>
Expenditures (budgetary basis)		170,004
Depreciation		51,802
Capital outlay		<u>(7,672)</u>
Total expenses per Statement of Revenues, Expenses and Changes in Net Assets		<u>214,134</u>
Change in net assets per Statement of Revenues, Expenses and Changes in Net Assets	<u>\$</u>	<u>(69,192)</u>