

**The Valley Water District
Jefferson County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2020 and 2019

The Valley Water District
TABLE OF CONTENTS
December 31, 2020 and 2019

Independent Auditor’s Report	I
Management’s Discussion and Analysis	i
Basic financial statements:	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
Supplemental information:	
Statement of Revenues, Expenditures, and Changes in Funds Available – Budget and Actual (Budgetary Basis) – Water Fund	16
Statement of Revenues, Expenditures, and Changes in Funds Available – Budget and Actual (Budgetary Basis) – General Fund	18
Reconciliation of Actual (Budgetary Basis) to Statement of Revenues, Expenses, and Changes in Net Position	18

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Valley Water District
Jefferson County, Colorado

We have audited the accompanying financial statements of The Valley Water District (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Valley Water District, as of December 31, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The supplemental information for the year ended December 31, 2020, as listed in the table of contents, is presented for purposes of additional analysis and legal requirements, and is not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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 basic financial statements as a whole.

Fiscal Focus Partners, LLC

Greenwood Village, Colorado
April 9, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of The Valley Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2020. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should review the information presented here in conjunction with the basic financial statements and the notes to financial statements to enhance their understanding of the District's financial performance.

The Valley Water District operates as a quasi-municipal corporation and political subdivision of the State of Colorado operating as a water service provider serving parts of Wheat Ridge, Arvada and unincorporated Jefferson County.

The District purchases its water through a distributor's contract with the Denver Water Department.

The District derives its revenues from the sales of taps and water. The District prioritizes customer service and budgets funds annually for capital water system improvements.

Due to current economic conditions and the expansion of mass transit within the District, continued development is expected in the areas of residential, commercial and industrial. The majority of this growth will be funded by the developers of said projects.

The District remains dedicated to providing a safe, reliable water supply and adequate reserves for emergencies. The District has upheld its commitment to its customers through its proven track record of minimal service interruptions and no bonded indebtedness.

Financial Highlights

- Assets of the District exceeded its liabilities at the close of the fiscal year by \$28,914,895 (net position). Of this amount, \$15,570,363 (unrestricted net position) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The District's total net position increased by \$1,760,221 over the prior fiscal year.
- Operating revenues from water operations increased \$441,968 from the prior year, primarily due to an increase in demand.
- Operating expenses increased \$470,847 from the prior year, primarily due to an increase in water purchases and an increase in repairs and maintenance as a result of a larger meter replacement effort in 2020 as compared to 2019.
- Tap fees increased \$175,000 from the prior year, primarily due to increased development in the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overview of the Financial Statements

The Valley Water District basic financial statements included in this report are those of a special purpose government engaged in a business-type activity, providing water services. The statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Basic Financial Statements. The basic 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 of the District's assets and liabilities, with the difference between the two 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 Revenues, Expenses and Changes in Net Position* presents information showing how the District'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 the 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 (e.g., earned but unused vacation leave). The statement reports the District's operating and non-operating revenue by source along with operating and non-operating expenses and capital contributions.

The *Statement of Cash Flows* reports the District's cash flows from operating activities, investing, capital and non-capital activities.

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

A budgetary comparison statement has been provided in the *supplemental information* to demonstrate compliance with the budget.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Valley Water District, assets exceeded liabilities by \$28,914,895 (net position) at the close of the most recent fiscal year.

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

Statement of Net Position

	December 31,		
	2020	(Restated) 2019	(Restated) 2018
Current assets	\$ 15,935,093	\$ 14,714,478	\$ 14,166,306
Capital assets	13,182,616	12,634,964	12,065,878
Total assets	<u>29,117,709</u>	<u>27,349,442</u>	<u>26,232,184</u>
Current liabilities	<u>202,814</u>	<u>194,768</u>	<u>463,545</u>
Net position:			
Net investment in			
capital assets	13,182,616	12,634,964	12,065,878
Restricted	161,916	152,258	129,151
Unrestricted	15,570,363	14,367,452	13,573,610
Net position	<u>\$ 28,914,895</u>	<u>\$ 27,154,674</u>	<u>\$ 25,768,639</u>

Unrestricted net position of \$15,570,363 is available for future expansion and major repair costs such as emergency water main breaks.

The District has 46% of its net position invested in capital assets (e.g., water distribution system, building, and equipment). The District uses these capital assets to provide services to citizens; consequently, this net position is *not* available for future spending.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)

Changes in Net Position

	For the Years Ended December 31,		
	2020	(Restated) 2019	(Restated) 2018
Revenues			
Water operations	\$ 4,411,326	\$ 3,969,358	\$ 4,027,219
Non-operating revenue			
Tap fee revenue	230,000	55,000	105,000
Contributed capital	995,000	655,000	100,000
Interest income	45,733	209,855	56,939
Unrealized gain on investment	13,243	9,463	27,126
Other revenue	55,037	6,630	14,598
Total revenues	<u>5,750,339</u>	<u>4,905,306</u>	<u>4,330,882</u>
Expenses			
Water operations	2,563,597	2,259,892	2,243,779
Maintenance and repairs	265,377	153,342	370,639
Administrative and general	702,099	669,651	592,486
Depreciation	459,045	436,386	424,936
Total expenses	<u>3,990,118</u>	<u>3,519,271</u>	<u>3,631,840</u>
Change in net position	<u>1,760,221</u>	<u>1,386,035</u>	<u>699,042</u>
Net position - beginning	<u>27,154,674</u>	<u>25,768,639</u>	<u>25,069,597</u>
Net position - ending	<u><u>\$ 28,914,895</u></u>	<u><u>\$ 27,154,674</u></u>	<u><u>\$ 25,768,639</u></u>

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay in addition to operations and non-operating revenue. Depreciation is not reflected in the budget since it does not affect funds available. Funds available (current assets less current liabilities) increased \$1,212,569 during 2020.

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

Capital Assets

The District's net investment in capital assets as of December 31, 2020, 2019, and 2018 was as follows:

	Capital Assets		
	<u>2020</u>	<u>December 31, 2019</u>	<u>2018</u>
Land	\$ 25,000	\$ 25,000	\$ 25,000
Construction in progress	-	-	266,316
Rights of use of supplemental line	4,041,732	4,041,732	4,041,732
Building and ground improvements	425,242	415,244	407,444
Infrastructure	17,106,607	16,111,607	14,850,891
Vehicles	146,586	146,586	146,586
Office equipment	13,512	11,813	10,140
Other equipment	162,802	162,802	161,203
Total assets	<u>21,921,481</u>	<u>20,914,784</u>	<u>19,909,312</u>
Accumulated depreciation	<u>(8,738,865)</u>	<u>(8,279,820)</u>	<u>(7,843,434)</u>
Net capital assets	<u>\$ 13,182,616</u>	<u>\$ 12,634,964</u>	<u>\$ 12,065,878</u>

Additional information relating to the District's capital assets activity can be found in Note 4 of this report.

Economic Factors and Next Year's Budget

- The District monitors all proposed legislation along with legal counsel and Special District Association representatives. At this time, no legislation that poses significant negative impact to the District is foreseen.
- Recent growth and development within the District has provided funds that will be pledged towards replacement of aging facilities and future expansion of the District's infrastructure.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Treasurer
The Valley Water District
12101 West 52nd Avenue
Wheat Ridge, Colorado 80033

BASIC FINANCIAL STATEMENTS

The Valley Water District
STATEMENTS OF NET POSITION
December 31, 2020 and 2019

	2020	Restated 2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 12,556,747	\$ 11,376,807
Cash and cash equivalents - restricted	161,916	152,258
Investments	2,807,100	2,788,338
Accounts receivable	368,023	306,134
Accrued interest receivable	693	693
Prepaid expenses	22,922	21,104
Inventory	17,692	69,144
Total current assets	15,935,093	14,714,478
Capital assets, not being depreciated	25,000	25,000
Capital assets, net	13,157,616	12,609,964
Total assets	29,117,709	27,349,442
LIABILITIES		
Current liabilities		
Accounts payable	162,531	137,489
Accrued salary and benefits	21,367	32,521
Deposits on system extension requests	18,916	24,758
Total current liabilities	202,814	194,768
Total liabilities	202,814	194,768
NET POSITION		
Net investment in capital assets	13,182,616	12,634,964
Restricted	161,916	152,258
Unrestricted	15,570,363	14,367,452
Total net position	\$ 28,914,895	\$ 27,154,674

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended December 31, 2020 and 2019

	2020	Restated 2019
OPERATING REVENUES		
Water operations	\$ 4,411,326	\$ 3,969,358
OPERATING EXPENSES		
Water operations	2,563,597	2,259,892
Maintenance and repairs	265,377	153,342
Administrative and general	702,099	669,651
Depreciation	459,045	436,386
Total operating expenses	3,990,118	3,519,271
OPERATING INCOME	421,208	450,087
NON-OPERATING REVENUES		
Tap fee revenue	230,000	55,000
Net investment earnings	58,976	219,318
Other revenues	55,037	6,630
Total non-operating revenues	344,013	280,948
INCOME BEFORE CAPITAL CONTRIBUTIONS	765,221	731,035
CAPITAL CONTRIBUTIONS		
Contributed capital from developers	995,000	655,000
CHANGE IN NET POSITION	1,760,221	1,386,035
NET POSITION - beginning of year as restated	27,154,674	25,768,639
NET POSITION - end of year	\$ 28,914,895	\$ 27,154,674

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers and users	\$ 4,398,632	\$ 4,012,511
Cash paid to suppliers	(2,906,398)	(2,870,927)
Cash payments to and for the benefit of employees	(561,153)	(553,629)
Net cash provided by operating activities	931,081	587,955
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid to acquire capital assets	(11,697)	(350,474)
Cash received from tap fees	230,000	55,000
Net cash provided (used) by capital and related financing activities	218,303	(295,474)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net maturity (purchase) of long-term investments	(5,520)	199,774
Interest received on investments	45,734	209,855
Net cash provided (used) by investing activities	40,214	409,629
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,189,598	702,110
CASH AND CASH EQUIVALENTS - beginning of year	11,529,065	10,826,955
CASH AND CASH EQUIVALENTS - end of year	\$12,718,663	\$ 11,529,065
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Assets contributed by other entities	\$ 995,000	\$ 655,000
Change in fair value of investments	\$ 13,243	\$ 9,463

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019
(continued)

	2020	2019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 421,208	\$ 450,087
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Other revenue	55,037	6,630
Depreciation	459,045	436,386
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(61,889)	17,916
Prepaid expenses	(1,818)	(163)
Inventory	51,452	(54,124)
Increase (decrease) in:		
Accounts payable	25,042	(277,934)
Retainage payable	-	(13,316)
Accrued salary and benefits	(11,154)	3,866
Deposits	(5,842)	18,607
Total adjustments	509,873	137,868
Net cash provided by operating activities	\$ 931,081	\$ 587,955

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

Note 1 – Definition of reporting entity

The District is a quasi-municipal corporation and political subdivision of the State of Colorado established on October 27, 1956, 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 Jefferson County, Colorado. The District's primary operating function is to provide treated water for residential and commercial users within the boundaries of the District.

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.

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.

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 property, plant and equipment are shown and recorded as an operating expense. Expenditures for capital assets are

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

shown as increases in assets. Contributed assets from developers are recorded as capital contributions when received.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. 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.

Fair Value of Financial Instruments

The District believes that the carrying amounts of financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximates fair value because of their generally short maturities.

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 carried 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, which includes meters to be installed, is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

Capital assets

Capital assets are defined by the District as those assets with an initial, individual cost of \$500 or greater and an estimated useful life in excess of two years. 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.

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

	<u>Years</u>
Water distribution system	50
Building and improvements	50
Office equipment	5 - 7
Other equipment	5 - 7

Compensated absences

Vacation and sick leave are accrued in the period they are earned. Accrued, unused vacation expires at the end of twelve months subsequent to the time of accrual. As of December 31, 2020 and 2019, accrued vacation and sick leave benefits totaled \$11,334 and \$10,480 respectively.

Use of estimates

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

Capital contributions

The District has agreements with developers whereby extensions to existing water lines are constructed and funded by the developer and donated to the District. The

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

District is then responsible for the maintenance and operations of the lines. 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 revenue 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.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2020 and 2019 Statements of Net Position as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 12,556,747	\$ 11,376,807
Cash and cash equivalents - restricted	161,916	152,258
Investments	<u>2,807,100</u>	<u>2,788,338</u>
Total cash and investments	<u>\$ 15,525,763</u>	<u>\$ 14,317,403</u>

Cash and investments as of December 31, 2020 and 2019 consist of the following:

Deposits with financial institutions	\$ 14,020,665	\$ 12,828,965
Cash on hand	100	100
Investments	<u>1,504,998</u>	<u>1,488,338</u>
Total cash and investments	<u>\$ 15,525,763</u>	<u>\$ 14,317,403</u>

At December 31, 2020 and 2019, the District's cash deposits had bank balances of \$14,015,441 and \$12,814,001, respectively, and carrying balances of \$14,020,665 and \$12,828,965, respectively.

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. As of December 31, 2020 and 2019, the federal insurance limits were

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

\$250,000. 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 102% of 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, 2020 and 2019, the District's bank balances and carrying balances were insured or collateralized as follows:

	2020	2019
Bank balances:		
Federally insured	\$ 1,552,102	\$ 1,550,000
Collateralized	12,463,339	11,264,001
Total bank balances	\$ 14,015,441	\$ 12,814,001
Carrying balances:		
Federally insured	\$ 1,552,102	\$ 1,550,000
Collateralized	12,468,563	11,278,965
Total carrying balances	\$ 14,020,665	\$ 12,828,965

Investments

The District's investment policy calls for investment diversification within the portfolio to avoid unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The District's investments are concentrated in U.S. Treasury Obligation securities (53.6%) and certificates of deposit with original maturities in excess of 90 days (46.4%). The District's policy is to hold investments until maturity.

The District's investments are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. In addition, it is the District's policy to maintain approximately 50 percent of their investment balance in U.S. Treasury Bills with an original maturity of one year or less as a means of further reducing interest rate risks. Colorado Revised Statutes limit investment maturities to three to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

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, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Certain certificates of participation
- Certain securities lending agreements
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized costs.

The District has the following recurring fair value measurements as of December 31, 2020:

- U.S Treasury securities of \$1,504,998 are valued using quoted market prices (Level 1 inputs).
- Certificates of deposit of \$1,302,102 are valued using third-party quotations (Level 2 inputs).

Restricted cash and investments

At December 31, 2020 and 2019, the District had \$18,916 and \$24,758 respectively, restricted for line extension projects within the District. These deposits are being held by the District at the end of the year for unfinished projects.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

The District had restricted cash of \$143,000 and \$127,500, for emergencies as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11), as of December 31, 2020 and 2019, respectively.

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2020 was as follows:

	Balance at December 31, 2019	Increases	Decreases	Balance at December 31, 2020
Capital assets, not being depreciated				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>
Capital assets being depreciated				
Rights of use of supplemental line	\$ 4,041,732	\$ -	\$ -	\$ 4,041,732
Building and ground improvements	415,244	9,998	-	425,242
Infrastructure	16,111,607	995,000	-	17,106,607
Vehicles	146,586	-	-	146,586
Office equipment	11,813	1,699	-	13,512
Other equipment	162,802	-	-	162,802
Total capital assets being depreciated	<u>20,889,784</u>	<u>1,006,697</u>	<u>-</u>	<u>21,896,481</u>
Less accumulated depreciation for				
Rights of use of supplemental line	788,141	80,835	-	868,976
Building and ground improvements	273,390	14,449	-	287,839
Infrastructure	6,968,928	332,182	-	7,301,110
Vehicles	136,343	9,377	-	145,720
Office equipment	7,342	1,607	-	8,949
Other equipment	105,676	20,595	-	126,271
Total accumulated depreciation	<u>8,279,820</u>	<u>459,045</u>	<u>-</u>	<u>8,738,865</u>
Total capital assets being depreciated, net	<u>\$ 12,609,964</u>	<u>\$ 547,652</u>	<u>\$ -</u>	<u>\$ 13,157,616</u>

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

Capital asset activity for the year ended December 31, 2019 was as follows:

	December 31, 2018	Increases	Decreases	December 31, 2019
Capital assets, not being depreciated				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Construction in progress	266,316	-	(266,316)	-
	<u>\$ 291,316</u>	<u>\$ -</u>	<u>\$ (266,316)</u>	<u>\$ 25,000</u>
Capital assets being depreciated				
Rights of use of supplemental line	\$ 4,041,732	\$ -	\$ -	\$ 4,041,732
Building and ground improvements	407,444	7,800	-	415,244
Infrastructure	14,850,891	1,260,716	-	16,111,607
Vehicles	146,586	-	-	146,586
Office equipment	10,140	1,673	-	11,813
Other equipment	161,203	1,599	-	162,802
Total capital assets being depreciated	<u>19,617,996</u>	<u>1,271,788</u>	<u>-</u>	<u>20,889,784</u>
Less accumulated depreciation for				
Rights of use of supplemental line	707,305	80,836	-	788,141
Building and ground improvements	259,684	13,706	-	273,390
Infrastructure	6,659,303	309,625	-	6,968,928
Vehicles	126,966	9,377	-	136,343
Office equipment	5,429	1,913	-	7,342
Other equipment	84,747	20,929	-	105,676
Total accumulated depreciation	<u>7,843,434</u>	<u>436,386</u>	<u>-</u>	<u>8,279,820</u>
Total capital assets being depreciated, net	<u>\$ 11,774,562</u>	<u>\$ 835,402</u>	<u>\$ -</u>	<u>\$ 12,609,964</u>

Depreciation expense of \$459,045 and \$436,386 for the years ended December 31, 2020 and 2019, respectively, was charged to water operations.

Note 5 – General Obligation Debt

The District is not obligated in any manner for general obligation debt at December 31, 2020 and 2019, nor does it have any authorized, unissued debt.

Note 6 – Net Position

The District has Net Position consisting of three components – net investment in capital assets, restricted, and unrestricted.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

Net investment in capital assets 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, 2020 and 2019, the District had net investment in capital assets calculated as follows:

	2020	2019
Capital assets, not being depreciated	\$ 25,000	\$ 25,000
Capital assets, net	13,157,616	12,609,964
Net investment in capital assets	\$ 13,182,616	\$ 12,634,964

Restricted assets include Net Position that is 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. As of December 31, 2020 and 2019, the District had restricted Net Position as follows:

	2020	2019
Emergencies (Note 11)	\$ 143,000	\$ 127,500
Line extension projects (Note 3)	18,916	24,758
Total restricted net position	\$ 161,916	\$ 152,258

The District's unrestricted Net Position as of December 31, 2020 and 2019 was \$15,570,363 and \$14,367,452, respectively.

Note 7 – Deferred compensation plan

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by Great West Life and Annuity Insurance Company. Participation in the plan is optional for all employees. The plan allows the employees to defer a portion of their salary until future years. The deferred compensation is not available to the employee until termination, retirement, death or unforeseen emergencies. All amounts deferred under the plan are required to be held in trust for the exclusive benefit of participating employees and are not accessible by the District or its creditors. During the years ended December 31, 2020 and 2019, \$33,275 and \$33,475, respectively, were deferred at the request of the plan participants and remitted to the trustee in their behalf.

Note 8 – Commitments

As of December 31, 2020 and 2019, the District was under contract with the Denver Water Board for its purchase of water.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

Note 9 – Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District was a member of the Colorado Special District Property and Liability Pool (the Pool) as of December 31, 2020. 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, public officials' liability and workers' compensation coverage. 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 10 – Tax, spending and debt limitations

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 management believes a significant portion of its operations qualifies for this exclusion.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

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,

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2020 and 2019

including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

The District created The Valley Water District Activity Enterprise (the "Enterprise") effective November 8, 1994, for the purpose of conducting its water activities. On December 31, 1994, the District transferred to its Enterprise all of the District's General Expense Reserve Fund, together with all additions thereto to be held, invested, reinvested and utilized by the governing body of the Enterprise.

Note 11 – Financial Statement Restatement

Beginning net position for the year ended December 31, 2019 has been restated from \$25,660,118 to \$25,768,639, an increase of \$108,521. This is related to billings for December 2018 water usage that was not included in accounts receivable at December 31, 2018. Accounts receivable at December 31, 2019 has been changed from \$193,058 to \$306,134 and revenue from water operations for the year ended December 31, 2019 has been changed from \$3,964,803 to \$3,969,358 in the comparative financial statements. This is related to billings for December 2019 water usage that was not included in accounts receivable at December 31, 2019.

* * * * *

SUPPLEMENTAL INFORMATION

The Valley Water District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

Water Fund

For the year ended December 31, 2020

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Water operations			
Water sales and penalties	\$ 4,050,000	\$ 4,409,546	\$ 359,546
Inspection fees	9,000	1,780	(7,220)
Total water operations	<u>4,059,000</u>	<u>4,411,326</u>	<u>352,326</u>
Non-operating			
Water taps and permits	330,000	230,000	(100,000)
Deposits - line extensions, net of refunds	12,000	3,000	(9,000)
Net investment earnings	220,000	58,976	(161,024)
Miscellaneous income	500	49,637	49,137
Fruitdale agreement	2,400	2,400	-
Total non-operating	<u>564,900</u>	<u>344,013</u>	<u>(220,887)</u>
Total Revenues	<u>4,623,900</u>	<u>4,755,339</u>	<u>131,439</u>
EXPENDITURES			
Operations			
Denver water costs	2,370,000	2,563,597	(193,597)
Maintenance and repairs	400,000	265,377	134,623
Total operations	<u>2,770,000</u>	<u>2,828,974</u>	<u>(58,974)</u>
General			
Automobile and truck	13,000	7,908	5,092
Gas and electric	15,000	8,503	6,497
Insurance			
Group	128,000	104,493	23,507
Liability and workmen's compensation	28,000	23,488	4,512
Maintenance and repairs - office equipment	6,000	3,758	2,242
Miscellaneous	-	9,266	(9,266)
Mobile communications	4,000	3,211	789
Office supplies	28,000	17,669	10,331
Payroll taxes	35,000	35,802	(802)
Salaries	435,000	432,012	2,988
Sanitation	400	319	81
Telephone	3,500	3,382	118
Uniform and towel expense	3,000	1,347	1,653
Total general	<u>698,900</u>	<u>651,158</u>	<u>47,742</u>

(continued)

The Valley Water District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

Water Fund

For the year ended December 31, 2020
(continued)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
Administration			
Accounting costs	\$ 6,800	\$ 6,900	\$ (100)
Conservation water information program	5,000	-	5,000
County Clerk and recorder	400	100	300
Directors fees	6,500	5,900	600
Dues and subscriptions	4,000	2,592	1,408
Education and training	5,000	-	5,000
Election expense	2,000	-	2,000
Engineering	9,000	21,258	(12,258)
Legal fees	10,000	9,266	734
Total administration	<u>48,700</u>	<u>46,016</u>	<u>2,684</u>
Capital			
Line extensions - Construction	400,000	-	400,000
Line extensions - Engineering	30,000	4,925	25,075
Line extensions - Legal	2,000	-	2,000
Building and ground improvements	15,000	9,998	5,002
Office equipment	10,000	1,699	8,301
Other equipment	10,000	-	10,000
Line extensions - Developer engineering	12,000	-	12,000
Total capital	<u>479,000</u>	<u>16,622</u>	<u>462,378</u>
Total Expenditures	<u>3,996,600</u>	<u>3,542,770</u>	<u>453,830</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	627,300	1,212,569	585,269
FUNDS AVAILABLE - beginning of year	<u>13,970,052</u>	<u>13,919,520</u>	<u>(50,532)</u>
FUNDS AVAILABLE - end of year	<u><u>\$ 14,597,352</u></u>	<u><u>\$ 15,132,089</u></u>	<u><u>\$ 534,737</u></u>

The Valley Water District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

General Fund

For the year ended December 31, 2020

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-
FUNDS AVAILABLE - beginning of year	-	600,189	600,189
FUNDS AVAILABLE - end of year	\$ -	\$ 600,189	\$ 600,189

**RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Revenues (budgetary basis)	\$ 4,755,339
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>4,755,339</u>
Expenditures (budgetary basis)	3,542,770
Depreciation and amortization	459,045
Capital outlay	<u>(11,697)</u>
Total expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>3,990,118</u>
Noncash nonoperating income	
Capital contribution for construction of assets	<u>995,000</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u>\$ 1,760,221</u>