

**LAKEHURST WATER AND SANITATION
DISTRICT**

Jefferson and Denver Counties, Colorado

**FINANCIAL STATEMENTS
DECEMBER 31, 2020**

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Independent Auditor's Report

Board of Directors
Lakehurst Water and Sanitation District
Jefferson and Denver Counties, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Lakehurst Water and Sanitation District (District) as of and for the year ended December 31, 2020, 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 an opinion 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 from 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lakehurst Water and Sanitation District, as of December 31, 2020, and the changes in its financial position and its cash flows for the year 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 III through VII 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 financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
June 21, 2021

**LAKEHURST WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2020**

This section of the District's annual financial report presents our analysis of the District's financial performance during the Fiscal Year ended December 31, 2020. Please read it in conjunction with the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts:

- ◆ Management's Discussion and Analysis
- ◆ Financial Statements
- ◆ Supplementary Information

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

Statement of Net Position

The Statement of Net Position provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Fund Net Position

This statement measures the results of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its user fees, taxes, and other charges, profitability, and credit worthiness.

Statement of Cash Flows

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing, and investing activities. It also provides answers to such questions as where did the cash come from, how cash was used, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the District's activities in a way that can help answer that question. These two

**LAKEHURST WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2020**

statements report the net position of the District and the related change in net position. The District's net position, the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases in the District's net position are one indicator that the District's financial health is improving. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, or changed governmental legislation.

Net Position

As part of our analysis, we provide a summary of the District's Statement of Net Position below:

Condensed Statement of Net Position			
	2019	\$ Change	2020
Current assets	\$ 26,714,478	\$ 1,357,555	\$ 28,072,033
Capital assets	13,751,825	1,455,000	15,206,825
Total assets	40,466,303	2,812,555	43,278,858
Current liabilities	647,167	(280,394)	366,773
Total Liabilities	647,167	(280,394)	366,773
Net Investment in capital assets	13,751,825	1,455,000	15,206,825
Unrestricted	26,067,311	1,637,949	27,705,260
Total Net Position	\$ 39,819,136	\$ 3,092,949	\$ 42,912,085

As can be seen from the chart above, current assets increased by \$1,357,555, or 5.1%. The largest portion of this increase was in cash and cash equivalents and investments, which increased by \$1,150,019 due to positive operating results during 2020. Capital assets increased as 2020 capital asset additions were more than the 2020 depreciation expense, see the Capital Assets and Debt Administration discussion below for more information. Current liabilities increased by \$280,394, or 43.3% from 2019 to 2020. This increase was due primarily to less capital asset activity at the end of 2020 than 2019. Overall net position increased \$3,092,949 in 2020, including the merger with Lochmoor Water and Sanitation District.

Changes in Net Position

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses and Changes in Net Position provides answers as to the nature and source of these changes. As part of our analysis, we provide a summary of the District's Statement Revenues, Expenses and Changes in Fund Net Position below:

As can be seen in the following chart for 2020, there was a \$846,179, or 10.8%, increase in operating revenue. The water usage billed increased by 14.3% and the water service charge rates also increased during 2020. Sewer charges increased by \$97,409, or 3.4% due to an increase in the number of single family equivalents being served by the District. Additionally, there were lower chargebacks of legal and engineering services to developers, builders, homeowners, for projects ongoing in the District's boundaries. Nonoperating revenue decreased

**LAKEHURST WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2020**

by \$214,029, or 55.0% due to lower net investment income due to the economy and the performance of the District's investment portfolio. For 2020 the District's operating expenses increased by \$413,481, or 5.5%. This increase was due primarily to \$142,469 higher water purchases from Denver Water, \$59,578 higher sewer treatment charges from Metro Wastewater Reclamation District, and \$112,990 higher water operations and maintenance costs. Capital contributions increased by \$1,990,995, due to \$506,275 more water and sewer tap fees collected in 2020 than in 2019 and \$1,484,720 more of contributed capital assets in 2020 than in 2019.

**Condensed Statement of Revenues, Expenses and Changes in Fund
Net Position**

	<u>2019</u>	<u>\$ Change</u>	<u>2020</u>
Operating revenue	\$ 7,825,845	\$ 846,179	\$ 8,672,024
Nonoperating revenue	389,262	(214,029)	175,233
Total revenues	<u>8,215,107</u>	<u>632,150</u>	<u>8,847,257</u>
Operating expenses	7,494,294	413,481	7,907,775
Total expenses	<u>7,494,294</u>	<u>413,481</u>	<u>7,907,775</u>
Income before capital contributions	720,813	218,669	939,482
Capital contributions	<u>63,625</u>	<u>1,990,995</u>	<u>2,054,620</u>
Change in net position	784,438	2,209,664	2,994,102
Net Position - Beginning of Year	<u>39,034,698</u>	<u>883,285</u>	<u>39,917,983</u>
Net Position - End of Year	<u>\$ 39,819,136</u>	<u>\$ 3,092,949</u>	<u>\$ 42,912,085</u>

BUDGETARY HIGHLIGHTS

As required by State Law, the District adopts a budget and appropriates funds by December 15 for the following fiscal year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado. There were no amendments to the budget for 2020. A budget to actual statement is included as supplemental information in the audited financial statements.

For 2020, revenues were more than budgeted by \$887,256, primarily due to tap fees being \$489,525 more than budgeted and \$390,887 more service charges than budgeted. Overall expenditures were under budget by \$1,106,090. The categories of expenditures were under budget as follows: Administration by \$101,963, Sewer Operations and Maintenance by \$54,496, Water Operations and Maintenance by \$37,809, and Capital Projects by \$484,958. Additionally, the District budgeted a Contingency of \$426,864 which was not utilized. Additional information regarding the District's 2020 budget to actual performance is located on pages 14 through 16 of these financial statements.

**LAKEHURST WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the District had invested in a broad range of infrastructure including water lines, maintenance and administration facilities, vehicles and equipment charges as shown in the following chart:

Capital Assets			
	2019	\$ Change	2020
Land	\$ 20,636	\$ -	\$ 20,636
Construction in progress	14,607	467,536	482,143
Total capital assets, not being depreciated	35,243	467,536	502,779
Building	221,645	15,453	237,098
Pump stations	6,115	(349)	5,766
Water lines	7,973,703	665,391	8,639,094
Sewer lines	5,458,663	297,424	5,756,087
Water meter reading equipment	5,839	(4,200)	1,639
Vehicles	50,617	13,745	64,362
Total capital assets being depreciated, net	13,716,582	987,464	14,704,046
Total capital assets, net	\$ 13,751,825	\$ 1,455,000	\$ 15,206,825

For 2020 the capital asset increases were: CIPP 24" sewer rehab \$482,143, Quincy water line \$36,300, fire hydrant replacements \$36,300, 2020 Ford F250 pickup \$32,322 and administration office remodeling \$30,277. The District also received contributed water lines with a value of \$1,002,560 and sewer lines with a value of \$502,160.

For additional information on the District's capital assets please refer to Note 4.

Long-Term Debt

As of December 31, 2020, the District did not have any outstanding long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET RATES

The District's Board of Directors and management consider many factors when setting the 2021 budget, including user fees, rates, charges and any anticipated capital improvement projects. Considerations are taken for increased costs of goods and services for the day-to-day

**LAKEHURST WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2020**

operations of the District and in anticipation of Denver Water and Metro Wastewater rates and charges. These rate charges plus operation and maintenance costs of the water and sewer systems are the main driving factors in setting the District rates for the following year. For 2021 the District's Board of Directors approved a 1.0% increase in the District's water consumption rate, increasing it from \$5.05 per thousand gallons to \$5.10 per thousand gallons. The District's water base rate was increased by 1.8% from \$9.50 to \$9.67 per single family unit, and sanitary sewer service rate remained the same as 2020 at \$22.92 per single family equivalent unit. For 2021 the Metro Wastewater Reclamation District charges are \$1,540,634, which is a \$339,758, or 18.1%, decrease over 2020's charges.

REQUESTS FOR INFORMATION

If you have questions about this report, please contact the District Manager, at 7995 W. Quincy Ave. Littleton, CO 80232.

BASIC FINANCIAL STATEMENTS

LAKEHURST WATER AND SANITATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 22,939,969
Investments	4,319,328
Accounts receivable:	
Customers	618,178
Willowbrook W & S District	92,109
Accrued interest receivable	25,000
Prepaid expense	12,199
Parts inventory	65,250
Total current assets	<u>28,072,033</u>

CAPITAL ASSETS

Capital assets, not being depreciated	502,779
Capital assets, being depreciated	27,391,654
	<u>27,894,433</u>
Less accumulated depreciation and amortization	(12,687,608)
Total capital assets	<u>15,206,825</u>

TOTAL ASSETS \$ 43,278,858

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts and retainage payable	\$ 234,452
Warranty escrow deposit	115,152
Accrued compensated absences	17,169
Total current liabilities	<u>366,773</u>

NET POSITION

Net investment in capital assets	15,206,825
Unrestricted	27,705,260
Total net position	<u>42,912,085</u>

TOTAL LIABILITIES AND NET POSITION \$ 43,278,858

These financial statements should be read only in connection with
the accompanying notes to financial statements.

LAKEHURST WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2020

OPERATING REVENUE	
Water sales and service charges	\$ 5,053,685
Sewer service charges	3,474,528
Legal and engineering back charges	76,071
Meter fees	26,916
Miscellaneous	36,724
Turn off, turn on, and late charges	3,300
Inclusion fees	800
Total operating revenue	8,672,024
 OPERATING EXPENSES	
Water operations and maintenance	4,237,211
Sewer operations and maintenance	2,114,253
Administration expense	925,549
Depreciation and amortization	616,155
Total operating expenses	7,893,168
 OPERATING INCOME	 778,856
 NONOPERATING REVENUE (EXPENSE)	
Net investment income	175,233
Loss on disposal of capital assets	(14,607)
Total nonoperating revenue (expense)	160,626
 INCOME BEFORE CAPITAL CONTRIBUTIONS	 939,482
 CAPITAL CONTRIBUTIONS	
Tap fees:	
Water tap fees	296,000
Sewer tap fees	253,900
Contributed capital assets:	
Water lines	1,002,560
Sewer lines	502,160
Total capital contributions	2,054,620
 CHANGE IN NET POSITION	 2,994,102
 NET POSITION - BEGINNING OF YEAR	 39,917,983
 NET POSITION - END OF YEAR	 \$ 42,912,085

These financial statements should be read only in connection with
the accompanying notes to financial statements.

LAKEHURST WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
Year Ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 8,412,041
Payments to vendors	(6,590,635)
Payments to employees	(700,704)
Other operating receipts	36,724
Net cash provided by operating activities	<u>1,157,426</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Capital asset purchases	(786,534)
Capital contributions	549,900
Warranty escrow deposit received	(35,598)
Net cash required by capital financing activities	<u>(272,232)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of investments	(4,290,000)
Maturity of investments	6,020,000
Interest received	170,186
Net cash provided by investing activities	<u>1,900,186</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 2,785,380

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 20,154,589

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 22,939,969

**RECONCILIATION OF OPERATING INCOME TO
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES**

Net income from operations	\$ 778,856
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	616,155
Effects of changes in operating assets and liabilities:	
Accounts receivable	(223,259)
Prepaid expenses	21,942
Parts inventory	5,482
Accounts payable	(41,430)
Accrued compensated absences	(320)
Net cash provided by operating activities	<u><u>\$ 1,157,426</u></u>

**NONCASH CAPITAL FINANCING AND
INVESTING ACTIVITIES**

Contributed capital assets	\$ 1,504,720
Fair value increase decrease of investments	(733)
	<u><u>\$ 1,503,987</u></u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 1 – DEFINITION OF REPORTING ENTITY

Lakehurst Water and Sanitation District (District), was created on September 7, 1962, as a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson and Denver Counties, Colorado. The District's purpose is to provide public water and sanitary sewer services to the citizens of the District. The District is governed by an elected Board of Directors and managed by a full-time District Manager.

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.

As of December 31, 2020, the District had no authorized but unissued debt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets, and redemption of bonds and loans are recorded as a reduction in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

for enterprise funds include the cost of sales and services, 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.

Restricted resources

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

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 appropriation can only be modified upon completion of notification and publication requirements.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Prepaid Expenses

Certain payments to vendors for goods or services reflect costs applicable to future accounting periods are recorded as prepaid items in the financial statements.

Investments

Investments are stated at fair value except for certain investments which are stated at net asset value per share as allowed generally accepted accounting principles.

Inventory

Inventory is valued at the lower of cost using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution.

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. Capital asset purchases and improvements exceeding \$5,000 are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The District has recorded purchased capacity,

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

which is capacity in water lines and facilities that are property of the Denver Water Board, for which the District was required to pay Denver Water Board.

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

Water lines	35-40 years
Sewer lines	39-40 years
Pump stations	25-40 years
Building	15-40 years
Communication and test equipment	5-40 years
Office equipment	5-10 years
Vehicles	4-5 years

Vacation, Sick Leave, and Other Compensated Absences

Vacation leave is accrued as an expense when earned by employees. Employees may carryover vacation time into the following year; provided that an employee may never have more than 120 hours of unused vacation time that has been carried forward from any prior years. Sick leave benefits and other compensated absences are not accrued in the financial statements because they do not vest or accumulate.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Tap Fees and Contributed Lines

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair market value when received.

NOTE 3 - CASH AND INVESTMENTS

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators.

Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. 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

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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maintained by another institution or held in trust. The market value of the collateral must be at least equal to 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.

As of December 31, 2020, the District had cash deposits with a bank balance of \$9,914,368 and a carrying balance of \$9,765,378 and cash on hand of \$340.

Investments

The District has adopted an investment policy, which is more restrictive than Colorado State Statutes, that specifies investment instruments meeting defined rating and risk criteria in which the District may invest which include:

- . United States Government Securities – Treasury Bills and Treasury Notes
- . Interest Bearing Time Certificates
- . Money Market Mutual Funds (No-load Fixed Income)
- . Local Government Investment Pools

Interest Rate Risk

The District's investment policy specifies that investment maturities shall not exceed the following limits and that no maturity shall exceed three and a quarter (3 1/4) years: 1) United States Government Securities are limited to maturities not to exceed three and a quarter (3 1/4) years, however at no point in time shall more than 50% of the District's investment portfolio be invested in direct obligations of the United States Government having a maturity of three (3) years or more; 2) Interest Bearing Time Certificates are limited to maturities not to exceed three (3) years; and 3) Money Market Funds are limited to average weighted maturities not to exceed 90 days or less.

Credit Risk

The District's investment policy specifies that the approved investments above shall have a credit rating at least equal to that specified in Section 24-75-601 of the Colorado Revised Statutes.

Concentration of Credit Risk

The District's policy specifies that the District's investment portfolio may be comprised of the following concentrations: 1) 100% of United States Treasury Bills and Notes; 2) a maximum of 70% in certificates of deposit and savings accounts (individual certificates of deposits and total investment in certificates of deposit at any single institution, including all branches of one institution shall be limited to \$250,000 or the current level of FDIC insurance); 3) a maximum of 60% in fixed income money market funds; and 4) 100% of local government investment pools.

As of December 31, 2020, the District had the following investment portfolio:

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity</u>		<u>Percent of Investment Portfolio</u>
		<u>Less than one year</u>	<u>One to two years</u>	
United States Treasury Notes	\$ 3,129,860	\$ -	\$ 3,129,860	17.9%
United States Treasury Bills	1,189,468	1,189,468	-	6.8%
Wells Fargo Government Money Market Fund	1,049,690	1,049,690	-	6.0%
COLOTRUST	12,124,561	12,124,561	-	69.3%
	<u>\$ 17,493,579</u>	<u>\$ 14,363,719</u>	<u>\$ 3,129,860</u>	

Overall Portfolio Limitations

Notwithstanding any other provision contained in this Investment Policy, the District's investment portfolio shall at all times be subject to the following limitations: (i) the average weighted maturity of the District's investment portfolio shall never exceed 18 months, and (ii) the District shall at all times have available in a demand bank deposit account or authorized money market account at least \$500,000; and (iii) in addition, each calendar quarter the District shall have investments mature in an aggregate amount that approximates as best as possible in the anticipated District expenditures for the quarter.

Wells Fargo Government Money Market Fund

As of December 31, 2020, the District had invested in the Wells Fargo Government Money Market Fund (WF Govt MMF). The WF Govt MMF is a U.S. dollar-denominated money market fund that seeks to preserve the value of each share at \$1.00. The Fund invests in US Treasury bills, notes, government agency obligations issued or guaranteed as to principal and interest by the US Treasury, and variable rate demand notes. The fund is rated AAAM by Standard & Poor's.

COLOTRUST

As of December 31, 2020, the District has 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. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. COLOTRUST PLUS+ may also invest in the highest rated commercial paper. Both the COLOTRUST PRIME and COLOTRUST PLUS+ portfolios are rated AAAM by Standard and Poor's.

Investment Valuation

The District has certain investments which are measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure an asset's fair

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Districts investments in United States Treasury Notes and Bills are valued using Level 1 inputs.

The District also has investments are not measured at fair value and are therefore not categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include a money market investment and COLOTRUST. The Wells Fargo Government Money Market Fund are recorded at amortized cost. The COLOTRUST investment is measured at NAV, calculated as follows.

COLOTRUST determines the NAV of the shares of each portfolio as of the close of business of each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs in determine value in accordance with FASB guidance. It is the goal of the Trust to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by COLOTRUST and there can be no assurance that the NAV will not vary from \$1.00 per share.

Cash and Cash Equivalents and Investments

As of December 31, 2020, cash and cash equivalents and investments are reflected in the statement of net position and statement of cash flows as follows:

Cash and cash equivalents	\$ 22,939,969
Investments	<u>4,319,328</u>
	<u>\$ 27,259,297</u>

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LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 4 - CAPITAL ASSETS

Following is an analysis of the changes in capital assets for the year ended December 31, 2020:

	<u>Balance at January 1, 2020</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Balance at December 31, 2020</u>
Capital assets, not being depreciated:				
Land	\$ 20,636	\$ -	\$ -	\$ 20,636
Construction in progress	14,607	482,143	(14,607)	482,143
Total capital assets, not being depreciated	<u>35,243</u>	<u>482,143</u>	<u>(14,607)</u>	<u>502,779</u>
Capital assets, being depreciated:				
Building	492,811	30,277	-	523,088
Pump stations	458,371	-	-	458,371
Water lines	15,416,253	1,038,860	-	16,455,113
Sewer lines	8,630,401	502,160	-	9,132,561
Water meter reading equipment	655,146	-	-	655,146
Office equipment	5,185	-	-	5,185
Vehicles	129,868	32,322	-	162,190
Total capital assets being depreciated	<u>25,788,035</u>	<u>1,603,619</u>	<u>-</u>	<u>27,391,654</u>
Less accumulated depreciation for:				
Building	(271,166)	(14,824)	-	(285,990)
Pump stations	(452,256)	(349)	-	(452,605)
Water lines	(7,442,550)	(373,469)	-	(7,816,019)
Sewer lines	(3,171,738)	(204,736)	-	(3,376,474)
Water meter reading equipment	(649,307)	(4,200)	-	(653,507)
Office equipment	(5,185)	-	-	(5,185)
Vehicles	(79,251)	(18,577)	-	(97,828)
Total accumulated depreciation	<u>(12,071,453)</u>	<u>(616,155)</u>	<u>-</u>	<u>(12,687,608)</u>
Total capital assets being depreciated, net	<u>13,716,582</u>	<u>987,464</u>	<u>-</u>	<u>14,704,046</u>
Total capital assets, net	<u>\$ 13,751,825</u>	<u>\$ 1,469,607</u>	<u>\$ (14,607)</u>	<u>\$ 15,206,825</u>

NOTE 5 - NET POSITION

The District has net position consisting of two components – net investment in capital assets and unrestricted.

The net investment in capital assets consists of capital assets, net of accumulated depreciation and if applicable reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2020, the District had a net investment in capital assets of \$15,206,825, equal to its net capital assets as the District has no outstanding debt.

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

NOTE 6 – PENSION PLANS

Deferred Compensation Plan

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by the ICMA Retirement Corporation. The plan is optional for all employees and allows for the employees to defer a portion of their compensation until future years.

Under this plan, the employees may elect to defer up to 25% of the plan members' compensation which is withheld and remitted to the plan administrator along with a matching payment of up to 7.5% from the District. The plan members made contributions for the year ended December 31, 2020, of \$13,982. The District made contributions/recognized expenses for year ended December 31, 2020 of \$35,401.

All amounts deferred for the plan members are held in trust for the exclusive benefit of the participating employees and not be accessible by the District or its creditors.

Defined Contribution Plan

The employees of the District may participate in Governmental Profit-Sharing Plan created in accordance with Internal Revenue Section 401(a), which is a defined contribution plan established by the District and is maintained and administered by ICMA Retirement Corporation. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees may become plan members after twelve months of employment. Under this plan, plan members may elect to contribute a percentage of the plan members' compensation, which is withheld and remitted to the Plan Administrator along with a matching payment equal to the plan members' contribution up to a maximum contribution of 5% of the plan members' compensation from the District. On October 28, 2019 the District Board of Directors approved increasing the District's maximum contribution match to 10%, effective January 1, 2019. The District's contributions, plus earnings, become vested at a rate of 20% for each year of participation in the plan. District contributions for plan members who leave employment before they are fully vested are used to reduce the District's current period contribution requirement. There is no liability for benefits under the plan beyond the District's matching payments. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors. Contributions made by plan members for the year ended December 31, 2020 were \$37,350 and \$37,350.

NOTE 7 - 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 is a member of the Colorado Special Districts Property and Liability Pool (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

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

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 property, liability, public officials' liability, boiler and machinery, 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 8 – COMMITMENTS AND CONTINGENCIES

Service Contract - Metro Wastewater Reclamation District (MWRD)

The District has an agreement with MWRD for final treatment and disposal of the District's sewage. The agreement provides for annual estimated charges that are assessed through the application of a predetermined formula. Adjustments to the estimated charge will be based on meter flows, content, and actual costs. The adjustments are billed or credited to the District during the two succeeding years. The District retains responsibility for the maintenance and future construction costs of all public sanitary sewer lines and retains title to all public sanitary sewer lines in the District.

The composition of the charges for 2020 is as follows:

Estimate for current year	\$ 1,784,806
Preliminary adjustment for preceding year estimate	40,630
Adjustment for second preceding year estimate	<u>54,956</u>
Total annual charges	<u><u>\$ 1,880,392</u></u>

The 2021 sewer treatment estimate is \$1,698,195. The total annual charge is expected to be \$1,540,634 which includes a favorable 2019 final adjustment of \$106,268 and a favorable 2020 preliminary adjustment of \$51,293.

NOTE 9 - 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 that 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 is of the opinion that its water and sewer operations, and all activities related thereto are carried on as an Enterprise within the meaning of TABOR and the Enterprise Act, C.R.S. 37-45.;1-01, et seq. The District adopted a resolution on or about July 24, 1995 establishing and reaffirming as an "Enterprise" the business represented by the District's water and wastewater systems. The District's annual

LAKEHURST WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2020

budget and financial statements are deemed by the District to be the annual budget and financial statements of the Enterprise.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors, and qualification as an Enterprise, may require judicial interpretation.

NOTE 10 – GOVERNMENT MERGER

Pursuant to an agreement between the District and the Lochmoor Water and Sanitation District (Lochmoor), the operations of the Lochmoor were combined with the District effective January 1, 2020. The combination of the District and Lochmoor was completed to provide more efficient water and sewer service to the Lochmoor customers. Lochmoor was dissolved as of December 31, 2020.

As of January 1, 2020, the balances of the District and Lochmoor were combined as follows:

	<u>District</u>	<u>Lochmoor</u>	<u>Combined</u>
Assets			
Current Assets	\$ 26,714,478	\$ 101,293	\$ 26,815,771
Capital Assets	13,751,825	-	13,751,825
Total Assets	<u>40,466,303</u>	<u>101,293</u>	<u>40,567,596</u>
Liabilities			
Current Liabilities	<u>647,167</u>	<u>2,446</u>	<u>649,613</u>
Total Liabilities	<u>647,167</u>	<u>2,446</u>	<u>649,613</u>
Net Position			
Net Investment in Capital Assets	13,751,825	-	13,751,825
Restricted for Emergency Reserves	-	3,100	3,100
Unrestricted	<u>26,067,311</u>	<u>95,747</u>	<u>26,163,058</u>
Total Net Position	<u>\$ 39,819,136</u>	<u>\$ 98,847</u>	<u>\$ 39,917,983</u>

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

LAKEHURST WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2020

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Water sales and service charges	\$ 4,816,968	\$ 5,053,685	\$ 236,717
Sewer service charges	3,323,358	3,474,528	151,170
Net investment income	200,000	175,233	(24,767)
Legal and engineering back charges	65,000	76,071	11,071
Meter fees	5,000	26,916	21,916
Miscellaneous	20,000	36,724	16,724
Turn off, turn on, and late charges	10,000	3,300	(6,700)
Inclusion fees	1,200	800	(400)
Water tap fees	40,000	296,000	256,000
Sewer tap fees	20,375	253,900	233,525
Proceeds from disposal of capital assets	8,000	-	(8,000)
Total Revenues	8,509,901	9,397,157	887,256
EXPENDITURES			
Administration:			
Salaries and wages	492,924	479,259	13,665
Health insurance	140,400	134,508	5,892
Retirement contribution	89,093	72,167	16,926
Workmen's compensation insurance	7,800	5,827	1,973
FICA	7,200	6,844	356
Unemployment tax	1,500	1,779	(279)
Legal	55,000	74,205	(19,205)
Consultants	17,000	31,507	(14,507)
Insurance	32,000	29,891	2,109
Communication and utilities	18,600	14,958	3,642
Office operation and maintenance	17,000	14,690	2,310
Auditing and accounting	8,500	14,350	(5,850)
Billing system update	89,100	27,410	61,690
Office equipment and furniture	25,000	5,595	19,405
Meetings, training and books	9,895	671	9,224
Miscellaneous office expense	8,500	5,649	2,851
Newsletter	2,000	1,102	898
Publications, memberships and dues	3,300	2,282	1,018
Travel	700	-	700
Bank charges	2,000	2,855	(855)
Total Administration	1,027,512	925,549	101,963

(continued)

LAKEHURST WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2020
(continued)

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
EXPENDITURES			
Sewer Operations and Maintenance:			
Metro Wastewater Reclamation District			
Treatment and Distribution	1,880,392	1,880,392	-
Sewer operation and maintenance	117,117	80,326	36,791
Sewer service - Twin Shores/DWW	98,040	98,050	(10)
Engineering	30,000	36,722	(6,722)
Vehicle operation and maintenance	10,500	7,190	3,310
Communications	2,200	2,056	144
Office and field supplies	400	485	(85)
Postage	500	488	12
Small equipment	1,500	2,064	(564)
Clothing and uniforms	600	611	(11)
Building and grounds improvements	27,500	5,869	21,631
Total Sewer Operations and Maintenance	<u>2,168,749</u>	<u>2,114,253</u>	<u>54,496</u>
Water Operations and Maintenance:			
Water purchased	3,952,720	3,770,678	182,042
Water systems operations and maintenance	162,600	237,452	(74,852)
Water meter repair and replacement	80,500	112,849	(32,349)
Back bill engineering	-	57,533	(57,533)
Engineering	30,000	37,116	(7,116)
Utility service	6,000	6,676	(676)
Water meters	-	2,388	(2,388)
Vehicle operation and maintenance	10,500	6,535	3,965
Communications	2,200	2,056	144
Office and field supplies	400	749	(349)
Small equipment	1,500	2,078	(578)
Postage	500	490	10
Clothing and uniforms	600	611	(11)
Building and grounds improvements	27,500	-	27,500
Total Water Operations and Maintenance	<u>4,275,020</u>	<u>4,237,211</u>	<u>37,809</u>

(continued)

LAKEHURST WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2020
(continued)

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
EXPENDITURES			
Capital Outlay:			
Sewer:			
CIPP 24" sewer rehab	630,000	482,143	147,857
Water:			
Quincy water line	360,000	-	360,000
Fire hydrant replacements	40,000	36,300	3,700
Vehicles	36,000	32,322	3,678
Building office remodeling	-	30,277	(30,277)
Total Capital Outlay	1,066,000	581,042	484,958
Contingency	426,864	-	426,864
Total expenditures	8,964,145	7,858,055	1,106,090
REVENUES OVER (UNDER) EXPENDITURES	(454,244)	1,539,102	1,993,346
FUNDS AVAILABLE - BEGINNING OF YEAR	26,561,595	26,166,158	(395,437)
FUNDS AVAILABLE - END OF YEAR	\$ 26,107,351	\$ 27,705,260	\$ 1,597,909
Funds available is computed as follows:			
Current assets		\$ 28,072,033	
Current liabilities		(366,773)	
		\$ 27,705,260	

**LAKEHURST WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2020**

Revenue (budgetary basis)	\$ 9,397,157
Contributed capital assets	<u>1,504,720</u>
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>10,901,877</u>
Expenditures (budgetary basis)	7,858,055
Depreciation and amortization	616,155
Capital outlay	(581,042)
Loss on disposal of capital assets	<u>14,607</u>
Expenses per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>7,907,775</u>
Change in net position per Statement of Revenues, Expenses and Changes in Fund Net Position	<u><u>\$ 2,994,102</u></u>