

North Pecos Water and Sanitation District

Adams County, Colorado

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2020 and 2019

North Pecos Water and Sanitation District

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December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Pecos Water and Sanitation District
Adams County, Colorado

We have audited the accompanying financial statements of North Pecos Water and Sanitation 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 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Pecos Water and Sanitation 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 management's discussion and analysis on pages III through VI 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 management's discussion and analysis 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.

Supplemental 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 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 supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other 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
August 27, 2021

North Pecos Water and Sanitation District MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of North Pecos Water and Sanitation 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.

Financial Highlights

- Assets of the District exceeded its liabilities at the close of the fiscal year by \$11,983,924 (net position). Of this amount, \$5,299,246 (unrestricted net position) may be used to meet the government's ongoing obligations to its citizen and creditors.
- The District's total net position increased by \$465,651 from the prior fiscal year.
- The District collected \$2,107,272 in operating revenues, an increase of \$232,705 (12.4%).
- Operating expenses increased \$203,420, or 11.8%, from the prior year.
- Tap fees increased \$130,490 from 2019 to 2020, and developers contributed \$301,841 in assets.

Overview of the Financial Statements

The North Pecos Water and Sanitation District basic financial statements included in this report are those of a special-purpose government engaged in a business-type activity, providing water and sewer 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 themselves.

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between 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 compensation). The statement reports

**North Pecos Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

the District's operating and nonoperating revenue by source along with operating and nonoperating expenses and capital contributions.

The *Statement of Cash Flows* reports the District's cash flows from operating activities, investing, capital and noncapital 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 schedule has been provided in the *supplemental information* to demonstrate compliance with the budget.

Unlike the basic financial statements, the fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. The fund statements of revenues, expenditures, and changes in fund balances are reconciled to facilitate a comparison between budget-basis fund statements and the basic financial statements.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At December 31, 2020, District assets exceeded liabilities by \$11,983,924.

Statement of Net Position

	December 31,		
	2020	2019	2018
Current assets	\$ 5,454,775	\$ 5,563,612	\$ 5,498,495
Capital assets	6,684,678	6,592,578	6,438,344
Total assets	12,139,453	12,156,190	11,936,839
Current liabilities	155,529	637,917	440,389
Total liabilities	155,529	637,917	440,389
Net position:			
Net investment in capital assets	6,684,678	6,592,578	6,438,344
Unrestricted	5,299,246	4,925,695	5,058,106
Net position	\$ 11,983,924	\$ 11,518,273	\$ 11,496,450

**North Pecos Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

- The largest portion of the District's net position (56%) reflects its investment in capital assets (e.g. infrastructure, plant, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending.
- The remaining net position of \$5,299,246 is unrestricted and available for on-going obligations of the District.

Changes in Net Position

	For the Years Ended December 31,		
	2020	2019	2018
Income from water operations	\$ 190,212	\$ 89,681	\$ 157,030
Income from sewer operations	292	71,538	23,219
General and administrative expenses	(367,280)	(384,912)	(353,838)
Nonoperating revenues and expenses	642,427	245,516	436,604
Change in net position	465,651	21,823	263,015
Net position - beginning	11,518,273	11,496,450	11,233,435
Net position - ending	\$ 11,983,924	\$ 11,518,273	\$ 11,496,450

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay and debt repayment in addition to operations and nonoperating revenue and expenses and contributions. Depreciation is not reflected in the budget since it does not affect funds available. Funds available (current assets less current liabilities) increased by \$373,551 during 2020.

Capital Assets

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

**North Pecos Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Capital Assets

	December 31,		
	2020	2019	2018
Land	\$ 108,204	\$ 108,204	\$ 108,204
Construction in progress	-	261,165	261,165
Building	307,600	307,600	307,600
Water system	7,168,921	6,867,080	6,829,998
Sewer system	3,363,290	3,090,829	2,746,238
Equipment	346,431	322,837	322,837
Total assets	11,294,446	10,957,715	10,576,042
Accumulated depreciation	(4,609,768)	(4,365,137)	(4,137,698)
Net capital assets	\$ 6,684,678	\$ 6,592,578	\$ 6,438,344

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

During 2020, the District's major capital project was continuation of the sewer lining project.

Debt Administration

The District had no debt at December 31, 2020.

Economic Factors and Next Year's Budget

- Tap fees expected to be received in 2021 as growth continues in the District. Accordingly, capital improvements of \$280,000 are budgeted for 2021.
- Moderate increases in water and sewer service fees are expected in 2021.
- Any possible impact on operations caused by the coronavirus pandemic cannot be reasonably determined as of the date of these financial statements.

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:

District Manager
North Pecos Water and Sanitation District
6900 North Pecos Street
Denver, Colorado 80221

BASIC FINANCIAL STATEMENTS

North Pecos Water and Sanitation District

STATEMENTS OF NET POSITION

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 688,347	\$ 725,302
Investments	4,609,011	4,725,386
Accounts receivable - service fees	154,666	112,924
Prepaid expenses	2,751	-
Total current assets	<u>5,454,775</u>	<u>5,563,612</u>
Capital assets		
Capital assets not being depreciated	108,204	369,369
Capital assets being depreciated, net	6,576,474	6,223,209
Total capital assets	<u>6,684,678</u>	<u>6,592,578</u>
Total assets	<u>12,139,453</u>	<u>12,156,190</u>
LIABILITIES		
Current liabilities		
Accounts payable	126,158	620,886
Other accrued liabilities	29,371	17,031
Total current liabilities	<u>155,529</u>	<u>637,917</u>
Total liabilities	<u>155,529</u>	<u>637,917</u>
NET POSITION		
Net investment in capital assets	6,684,678	6,592,578
Unrestricted	5,299,246	4,925,695
Total net position	<u>\$ 11,983,924</u>	<u>\$ 11,518,273</u>

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

North Pecos Water and Sanitation District
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
For the Years December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
WATER OPERATIONS		
Operating revenue		
Service fees	\$ 1,274,253	\$ 1,136,044
Operating expenses		
Purchased water	804,028	756,835
Maintenance	12,543	16,385
Wages and related costs	98,562	105,722
Depreciation	168,908	167,421
Total water operating expenses	<u>1,084,041</u>	<u>1,046,363</u>
Operating Income (Loss) from Water Operations	<u>190,212</u>	<u>89,681</u>
SEWER OPERATIONS		
Operating revenue		
Service fees	833,019	738,523
Operating expenses		
Sewage treatment fees	555,686	462,944
Maintenance	102,756	38,301
Wages and related costs	98,562	105,722
Depreciation	75,723	60,018
Total sewer operating expenses	<u>832,727</u>	<u>666,985</u>
Operating Income (Loss) from Sewer Operations	<u>292</u>	<u>71,538</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	6,750	9,900
Director fees and expenses	8,400	6,500
Insurance	12,643	5,317
Legal	38,700	42,900
Office	36,606	31,736
Other expenses	7,022	12,356
Telephone, utilities, maintenance	18,475	20,179
Wages and related costs	238,684	256,024
Total general and administrative	<u>367,280</u>	<u>384,912</u>
OPERATING INCOME (LOSS)	<u>(176,776)</u>	<u>(223,693)</u>
NONOPERATING REVENUES		
Tap fees	154,461	23,971
Permit and plan review	2,433	1,325
Net investment income	156,186	156,111
Asset disposition and other revenue	27,506	64,109
Total nonoperating revenues	<u>340,586</u>	<u>245,516</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	<u>163,810</u>	<u>21,823</u>
CAPITAL CONTRIBUTIONS		
Contributed lines	301,841	-
CHANGE IN NET POSITION	465,651	21,823
NET POSITION - beginning of the year	<u>11,518,273</u>	<u>11,496,450</u>
NET POSITION - end of the year	<u>\$ 11,983,924</u>	<u>\$ 11,518,273</u>

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

North Pecos Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 2,089,967	\$ 1,878,155
Payments to suppliers for goods and services	(2,107,742)	(1,199,741)
Payments to employees for services	(411,312)	(473,552)
Net cash provided (used) by operating activities	(429,087)	204,862
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees, net	154,461	23,971
Disposition of capital assets	-	51,240
Acquisition of capital assets	(34,890)	(381,673)
Net cash provided (used) by capital and related financing activities	119,571	(306,462)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net receipt (purchase) of investments	116,375	105,198
Investment earnings	156,186	156,111
Net cash provided (used) by investing activities	272,561	261,309
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,955)	159,709
CASH AND CASH EQUIVALENTS - beginning of year	725,302	565,593
CASH AND CASH EQUIVALENTS - end of year	\$ 688,347	\$ 725,302
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (176,776)	\$ (223,693)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	244,631	227,439
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(41,742)	(10,606)
Increase (decrease) in:		
Accounts payable for operating expenses	(467,540)	217,806
Other accrued liabilities	12,340	(6,084)
Total adjustments	(252,311)	428,555
Net cash provided (used) by operating activities	\$ (429,087)	\$ 204,862

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

North Pecos Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020

Note 1 – Definition of reporting entity

The District, a quasi-municipal corporation and political subdivision of the State of Colorado, 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 Adams and Denver Counties, Colorado. The District was organized to provide water and sanitation services to property within the District's boundaries.

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 capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

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 and sewer services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Cash equivalents

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

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.

Property Taxes

The District did not certify a property tax mill levy for collection in 2021, 2020, or 2019.

Capital assets

Capital assets include land, water and sewer systems, equipment and vehicles. Capital assets are defined by the District as those assets with an initial, individual cost of \$5,000 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 acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

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

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

Water system lines and accessories	10 to 40 years
Sewer system lines and accessories	10 to 40 years
Building	15 to 40 years
Equipment	3 to 5 years

Compensated absences

The District, at December 31, 2020 and 2019, had no liability for accumulated unpaid vacation or sick pay.

Capital contributions

Tap fees are recorded as capital contributions when received. Water and sewer lines contributed to the District by developers are recorded as capital contribution revenue and additions to the water and sewer system 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.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that District management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Note 3 – Cash and investments

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

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 688,347	\$ 725,302
Investments	4,609,011	4,725,386
	<u>\$ 5,297,358</u>	<u>\$ 5,450,688</u>

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

Cash on hand	\$ 478	\$ 390
Deposits with financial institutions	687,869	724,912
Investments	4,609,011	4,725,386
Total cash and investments	<u>\$ 5,297,358</u>	<u>\$ 5,450,688</u>

At December 31, 2020 and 2019, the District's cash deposits had bank balances of \$737,485 and \$748,545, respectively, and carrying balances of \$687,869 and \$724,912, 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 \$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, though the District complies with state depository laws. None of the District's deposits at December 31, 2020 were exposed to credit risk. As of December 31, 2020 and 2019, the District's bank balances and carrying balances were insured or collateralized as follows:

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

	<u>2020</u>	<u>2019</u>
Bank balances		
Federally insured	\$ 250,000	\$ 250,000
Collateralized	487,485	498,545
Total bank balances	<u>\$ 737,485</u>	<u>\$ 748,545</u>
Carrying balances		
Federally insured	\$ 250,000	\$ 250,000
Collateralized	437,869	474,912
Total carrying balances	<u>\$ 687,869</u>	<u>\$ 724,912</u>

Investments

The District's investment policy restricts investments to only those permitted by state statutes. Additionally, the District's policy is to hold investments until maturity.

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

Colorado revised statutes limit investment maturities 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.

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 securities lending agreements
- Certain certificates of participation
- 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

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

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), CSAFE which is recorded at amortized cost, and COLOTRUST which is recorded at net asset value.

As of December 31, 2020 and 2019, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>2020</u>	<u>2019</u>
SIGMA Fixed Income	1 to 5 years	\$ 3,621,622	\$ 3,529,829
Colorado Liquid Assets Trust (Colostrust)	Weighted average under 60 days	987,389	1,195,557
Total investments		<u>\$ 4,609,011</u>	<u>\$ 4,725,386</u>

SIGMA Fixed Income

As of December 31, 2020, the investment in SIGMA Financial Corporation was limited to money markets and certificates of deposit and valued using Level 1 inputs.

COLOTRUST

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

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Note 4 – Capital assets

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

	Balance at December 31, 2019	Additions	Deletions	Balance at December 31, 2020
Capital assets, not being depreciated				
Land	\$ 108,204	\$ -	\$ -	\$ 108,204
Construction in progress	261,165	-	(261,165)	-
Total capital assets, not being depreciated	<u>369,369</u>	<u>-</u>	<u>-</u>	<u>108,204</u>
Capital assets being depreciated				
Building	307,600	-	-	307,600
Water system	6,867,080	301,841	-	7,168,921
Sewer system	3,090,829	272,461	-	3,363,290
Equipment	322,837	23,594	-	346,431
Total capital assets being depreciated	<u>10,588,346</u>	<u>597,896</u>	<u>-</u>	<u>11,186,242</u>
Less accumulated depreciation for:				
Building	(240,881)	(7,514)	-	(248,395)
Water system	(2,525,221)	(161,789)	-	(2,687,010)
Sewer system	(1,276,198)	(68,603)	-	(1,344,801)
Equipment	(322,837)	(6,725)	-	(329,562)
Total accumulated depreciation	<u>(4,365,137)</u>	<u>(244,631)</u>	<u>-</u>	<u>(4,609,768)</u>
Total capital assets being depreciated, net	<u>6,223,209</u>	<u>353,265</u>	<u>-</u>	<u>6,576,474</u>
Capital assets, net	<u>\$ 6,592,578</u>	<u>\$ 353,265</u>	<u>\$ -</u>	<u>\$ 6,684,678</u>

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

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

	Balance at December 31, 2018	Additions	Deletions	Balance at December 31, 2019
Capital assets, not being depreciated				
Land	\$ 108,204	\$ -	\$ -	\$ 108,204
Construction in progress	261,165	-	-	261,165
Total capital assets, not being depreciated	<u>369,369</u>	<u>-</u>	<u>-</u>	<u>369,369</u>
Capital assets being depreciated				
Building	307,600	-	-	307,600
Water system	6,829,998	37,082	-	6,867,080
Sewer system	2,746,238	344,591	-	3,090,829
Equipment	322,837	-	-	322,837
Total capital assets being depreciated	<u>10,206,673</u>	<u>381,673</u>	<u>-</u>	<u>10,588,346</u>
Less accumulated depreciation for:				
Building	(233,367)	(7,514)	-	(240,881)
Water system	(2,364,359)	(160,862)	-	(2,525,221)
Sewer system	(1,222,739)	(53,459)	-	(1,276,198)
Equipment	(317,233)	(5,604)	-	(322,837)
Total accumulated depreciation	<u>(4,137,698)</u>	<u>(227,439)</u>	<u>-</u>	<u>(4,365,137)</u>
Total capital assets being depreciated, net	<u>6,068,975</u>	<u>154,234</u>	<u>-</u>	<u>6,223,209</u>
Capital assets, net	<u>\$ 6,438,344</u>	<u>\$ 154,234</u>	<u>\$ -</u>	<u>\$ 6,592,578</u>

Depreciation expense of \$244,631 and \$227,439 for the years ended December 31, 2020 and 2019, respectively, was charged to water and sewer operations

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

Note 5 – Debt authorization

At December 31, 2020, the District had no authorized but unissued indebtedness.

Note 6 – Net Position

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

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 of \$6,684,678 and \$6,592,578, respectively.

The District had unrestricted net position of \$5,299,246 and \$4,925,695 at December 31, 2020 and 2019, respectively.

Note 7 – Intergovernmental Agreements and Contracts

The District participates in various intergovernmental agreements and contracts, the more significant agreements being as noted below.

Water Service Contract

The District is provided water under a distributor's contract with the City and County of Denver (the Water Board) through a master meter. The contract provides that the Water Board may restrict the right of the District to issue new taps.

Sewage Treatment Contract

The District is a "member municipality" of Metro Wastewater Reclamation District (Metro) which provides the treatment of sewage collected within the District. The standard service agreement between Metro and the member municipalities provides for annual charges to be assessed by formula against the members on an estimated basis. Revisions to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years.

Note 8 – Employee Retirement Plan

The District has implemented a SIMPLE IRA (Savings Incentive Match Plan for Employees) administered by American Century for the full-time employees of the District. The District may make contributions up to 3% of the eligible employees' annual salaries. Employees were allowed to contribute up to \$13,500 and \$13,000 of their compensation in 2020 and 2019. The total employee contributions amounted to

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

\$19,724 and \$19,295 for 2020 and 2019, respectively. District contributions amounted to \$9,212 and \$9,624 for 2020 and 2019, respectively. At December 31, 2020 and 2019, no amounts were due to the plan.

Note 9 – Risk management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2020 and 2019. 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. There have been no significant reductions in insurance coverage from the prior year.

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

The District continues to carry commercial insurance coverage for other risks of loss including workers' compensation. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from the prior years.

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.

North Pecos Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2020

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.

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

SUPPLEMENTAL INFORMATION

North Pecos Water and Sanitation District

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE -
BUDGET AND ACTUAL - BUDGETARY BASIS**

For the Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Water service fees	\$ 1,323,000	\$ 1,274,253	\$ (48,747)
Sewer service fees	901,000	833,019	(67,981)
Net investment income	100,000	156,186	56,186
Tap fees, District	501,548	154,461	(347,087)
Other income	23,000	29,939	6,939
Total revenues	2,848,548	2,447,858	(400,690)
Expenditures			
Purchased water	750,000	804,028	(54,028)
Sewage treatment fees	847,632	555,686	291,946
Wages and related costs	455,657	435,808	19,849
Director fees and expenses	8,000	8,400	(400)
Legal	42,000	38,700	3,300
Accounting and audit	25,000	6,750	18,250
Engineering	10,000	775	9,225
Telephone, utilities, office maintenance	8,000	18,475	(10,475)
Maintenance	93,500	115,299	(21,799)
Office	19,000	36,606	(17,606)
Other expense	2,600	6,247	(3,647)
Insurance	17,000	12,643	4,357
Contingency	200,000	-	200,000
Capital outlay	280,000	34,890	245,110
Total expenditures	2,758,389	2,074,307	684,082
Excess (deficit) of revenues over (under) expenditures	90,159	373,551	283,392
Funds available - beginning of year	4,141,003	4,925,695	784,692
Funds available - end of year	\$ 4,231,162	\$ 5,299,246	\$ 1,068,084

North Pecos Water and Sanitation District

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

For the Year Ended December 31, 2020

Revenues (budgetary basis)	\$ 2,447,858
Contributed capital assets	<u>301,841</u>
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>2,749,699</u>
Expenditures (budgetary basis)	2,074,307
Depreciation and amortization	244,631
Capital outlay	<u>(34,890)</u>
Total expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>2,284,048</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$ 465,651</u></u>