

**SILVER HEIGHTS WATER AND SANITATION DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2020**



**CPA**

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*Certified Public Accountant*

**SILVER HEIGHTS**

**WATER AND SANITATION DISTRICT**

**TABLE OF CONTENTS**

**DECEMBER 31, 2020**

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-7
FINANCIAL STATEMENTS	
Statement of Net Position	8
Statement of Revenue, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11-19
OTHER SUPPLEMENTAL INFORMATION	
Schedule of Revenue, Expenditures and Changes in Funds Available - Budget and Actual (Budgetary Basis)	21
Schedule of Administrative and General Expenses	22
Schedule of Operating Expenses	22



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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Silver Heights Water and Sanitation District  
Castle Rock, Colorado

I have audited the accompanying financial statements of the business-type activities of (the) Silver Heights Water and Sanitation District, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic 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 misstatements, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Silver Heights Water and Sanitation District as of December 31, 2020, and the respective changes in financial position and cash flows thereof 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 3 through 7 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

My audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Silver Heights Water and Sanitation District's basic financial statements. The supplemental information on pages 21 and 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

This 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 my opinion, the information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



Bruce L. Fosdick, CPA, PC.  
Castle Rock, Colorado  
September 27, 2021

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to inform the reader on the District's financial issues and activities.

The Management's Discussion and Analysis (MD & A) should be read in conjunction with the District's basic financial statements.

Management elected to adopt the provisions of a new accounting standard (GASB 63) which changed the presentation of the District's equity (now called "Net Position"). This election required the restatement of the financial statements for 2011. The change had no other material impact on cash flows, budget reporting or other compliance reporting.

**Financial Highlights**

- Net Position decreased by \$79,269 (10.91%) when compared to 2019

**Overview of the Financial Statements**

The basic financial statements of the District are presented as a special purpose government engaged only in business type activities - providing water and sewer utility services.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the 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 which reflects how the District's net position changed during the past year. All changes in the 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 the statement for some items that will only result in cash flows in future fiscal periods.

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

These financial statements distinguish functions of the District that will be principally supported by service charges. The functions of the District include effective and economical operation of water and sanitation systems within the jurisdictional boundaries of the District.

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the District's budgetary comparisons presented for legal compliance.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

**NET POSITIONS**

	Water and Sewer	
Year Ending December 31,	2020	2019
<b>ASSETS</b>		
Current Assets	\$ 113,004	\$ 147,202
Capital Assets	<u>579,324</u>	<u>620,877</u>
Total Assets	<u>687,328</u>	<u>768,079</u>
<b>LIABILITIES</b>		
Current Liabilities	22,023	19,016
Long-term liabilities	<u>70,054</u>	<u>22,491</u>
Total Liabilities	<u>92,077</u>	<u>41,507</u>
<b>NET POSITION</b>		
Net Investment in capital assets	574,324	620,877
Unrestricted	<u>20,927</u>	<u>105,695</u>
Total net position	<u>\$ 595,251</u>	<u>\$ 726,572</u>

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$595,251 for 2020. Liabilities increased by \$50,510 in the District for 2020 in comparison with 2019.

The largest portion of the district's net position reflects its investment in capital assets, 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.

**Review of Revenue, Expenses and  
Changes in Net Positions**

	Water and Sewer	
	2020	2019
<b>REVENUE</b>		
Operating revenue	\$ 164,761	\$ 165,487
Non-operating revenue	<u>27,260</u>	<u>5,841</u>
Total revenue	<u>192,021</u>	<u>171,328</u>
<b>EXPENSES</b>		
Operating expenses		
Administrative and general	60,177	56,201
Depreciation	46,553	51,570
Other operating expenses	<u>216,612</u>	<u>142,826</u>
Total expenses	<u>323,342</u>	<u>250,597</u>
<b>INCOME (LOSS) BEFORE</b>		
CONTRIBUTIONS AND TRANSFERS	<u>(131,321)</u>	<u>(79,269)</u>
<b>CAPITAL CONTRIBUTIONS AND TRANSFERS</b>	<u>0</u>	<u>0</u>
Total capital contributions and transfers	<u>0</u>	<u>0</u>
<b>CHANGE IN NET POSITION</b>	(131,321)	(79,269)
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>726,572</u>	<u>805,841</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 595,251</u>	<u>\$ 726,572</u>

Total expenses of the water and sewer operations increased \$72,745 from 2019 to 2020.

**Budgetary Highlights**

The district prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of debt issuance, sale of assets and debt repayments, as well as capital outlay in addition to operations and non-operating revenue and contributions. Capital contributions of facilities and depreciation are not reflected on the budget since they do not affect "funds available." Additionally, the budget includes the separation of the enterprise and government functions of the District.

The total budgeted revenue of the District was less than actual revenues by \$22,061. The total actual expenditures of the District were more than budgeted by \$116,902.

**Capital Asset and Debt Administration**

**Capital Assets**

The District's investment in capital assets at December 31, 2020 amounts to \$579,324 (net of accumulated depreciation). This investment in capital assets includes water system, sewer system and equipment and vehicles. Analysis of changes in capital assets were as follows:

	Water and Sewer		Percentage Change
	2020	2019	
Water System	\$1,757,187	\$1,757,187	0
Sewer System	380,103	380,103	0
Equipment	3,550	3,550	0
Landscaping	57,118	57,118	0
Furniture	1,350	1,350	0
Building	40,109	40,109	0
Land	13,969	13,969	0

Additional information on the District's capital assets can be found in Note B of this report.

#### **Long Term Debt**

On February 26, 2013, the Silver Heights Water and Sanitation District borrowed \$90,000 from FirstBank. The loan bears a 3% interest rate over ten years. The loan was to pay for well rehabilitation. A hole was discovered in the well casing which needed to be replaced. The pump was lowered due to declining water levels in the aquifer.

In November of 2020, Silver Heights Water and Sanitation District borrowed \$62,958.75 from the National Rural Water Association. The loan bears a 3% interest rate and is due over ten years.

#### **Economic Factors and Next Year's Budget and Rates**

##### **Demand**

Management observes that Douglas County is one of the fastest growing counties in the US. Nearly all of the water used in Douglas County comes from one source, underground aquifers. These aquifers are huge, stretching from Monument Hill to Fort Collins. Consequently, they serve as the primary water source of most communities in the ever growing Denver metropolitan area. There are many wells drilled into the aquifers and we expect many more to be drilled.

Castle Rock and Parker have plans to store water in the Reuter-Hess Reservoir. The reservoir will be filled in two ways. First, they will capture "excess" water (for example spring run-off) from Plum Creek and Cherry Creek. (Some water has to always flow downstream to users with senior water rights.) Water from this source is very unpredictable and could dry up during another drought. Second, they will pump water from aquifers into the reservoir during low demand periods (namely, the winter). So, Castle Rock will depend on the aquifer for a long time.

##### **Supply**

There are four aquifers beneath Silver Heights. From shallowest to deepest, they are the Dawson, Denver, Arapahoe, and Laramie-Fox Hills. The aquifers can be thought of as wet sponges (wet sandy soil) sandwiched between bowls (layers of hard rock). Nobody knows how quickly the aquifers refill, but the consensus is that we are draining the water much more quickly than they are filling. There are some plans to inject "excess" water back into the aquifers, but most experts are skeptical that it would be enough to make a difference.

The good news is that Silver Heights is near where the "bowls" are deepest, so the District should continue to have water when others are struggling. However, we have seen water levels drop by about 30 feet per year. Water experts explain that the dropping water level reflects a drop in artesian pressure. Artesian pressure is when the water higher up the sides of the bowl presses down on the water at the bottom and forces it into the well belonging to Silver Heights Water and Sanitation District and up toward the surface. Eventually, the District will be trying to pump water out of the well more quickly than it flows into the well. Management expects that to be several years in the future.

Choices at that time are all very expensive. The two most obvious choices are to dig a second well into the same aquifer and pump from each at half the prior rate. Eventually, the District will have to drill two more wells and run them all at one-quarter rate. Alternatively, the District can drill into the deepest aquifer. Unfortunately, the well would be very deep so both drilling the well and pumping the water to the surface would be expensive. Next, the water in the Laramie Fox-Hills reservoir is very brackish and would require expensive treatment to make it drinkable.

### **Rates**

Since management anticipates huge future expenses, they plan to build up financial reserves. Further, they plan to increase water rates in ways that encourage our residents to use water ever more frugally. In other words, the greater the amount of water consumed by a customer, the greater the cost per gallon. To the extent permitted by Districts financial needs, every time the District increases water and sewer rates, they will need to pay close attention to the rates charged by nearby communities so that District rates are not out of line with their rates.

There was a water rate increase effective August 1<sup>st</sup>, 2020. The last rate increase was two years prior to that. The rates were increased at higher tiers to encourage water conservation. During 2019, about 10% of residential customers consumed 50% of the water production. The new rates charge proportionately more for these consumers who drive up the peak demand, because costs per gallon increases as peak demand increases. The rates were also changed so only water used is billed as opposed to the old system that allowed up to 10,000 gallons of water for a single rate. This not only encourages conservation but customers who use a minimum amount of water saw a decrease in their water bill.

A maintenance surcharge of \$15 per billing cycle for all residential and commercial customers was effective as of January 1<sup>st</sup>, 2011. These funds are to be used for the rehabilitation of the well, and are to be segregated in a special account for that purpose. These funds are being used to repay the well rehabilitation loan.

### **Requests for Information**

This 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 information should be addressed to: Silver Heights Water and Sanitation District, 1027 Harvey Street, Castle Rock, CO 80109.

**SILVER HEIGHTS WATER AND SANITATION DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

**ASSETS**

**CURRENT ASSETS**

Cash - Note D	\$ 69,865
Accounts Receivable - Note E	41,326
Investments - Note G	<u>1,813</u>
Total Current Assets	113,004

**CAPITAL ASSETS - Notes B-1 & 3**

Water System	1,757,188
Sewer System	380,103
Equipment	3,550
Building	40,109
Furniture	1,350
Landscaping	57,118
Land	13,969
Less Accumulated Depreciation	<u>(1,679,063)</u>
Total Capital Assets	574,324

Total Assets	<u><u>687,328</u></u>
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**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	7,078
Note Payable - Current Portion	<u>14,945</u>
Total Current Liabilities	22,023

**Long-Term Liabilities**

Note Payable (net of current portion)	<u>70,054</u>
Total Liabilities	<u><u>92,077</u></u>

**NET POSITION**

Net Investment in Capital Assets	574,324
Unrestricted	<u>20,927</u>
Total Net Position	<u><u>\$ 595,251</u></u>

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

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**OPERATING REVENUE**

Service Fees (Net)	\$ 159,557
Penalties	<u>5,204</u>
Total Operating Revenue	164,761

**OPERATING EXPENSES:**

Operating Expenses	263,165
Administrative Expenses	<u>60,177</u>
Total Operating Expenses	323,342
Loss From Operations	(158,581)

**NON-OPERATING REVENUE**

Miscellaneous Income	27,309
Interest Expense	(989)
Interest and Dividend Income	<u>940</u>
Total Non-Operating Revenue	27,260
Excess (Deficiency) Before Contributions	(131,321)

**CAPITAL CONTRIBUTIONS**

Tap Fees	<u>0</u>
Total Capital Contributions	0

**CHANGE IN NET POSITION**

NET POSITION - Beginning of year	<u>726,572</u>
NET POSITION - End of year	<u><u>\$ 595,251</u></u>

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

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2020**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Customers	195,191	
Cash Payments for Goods & Services	(328,942)	
Cash Flows Provided (Required)		
by Operating Activities		(133,751)

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

New Loan	62,959	
Interest Paid	(989)	
Debt Retired	(10,073)	
Cash Flows Provided (Required) by Capital and Related Financing Activities		51,897

**CASH FLOWS FROM INVESTING ACTIVITIES**

Miscellaneous Income	27,309	
Increase in Investments	(8)	
Interest on Investments	940	
Cash Flows Provided (Required) by Investing Activities		<u>28,241</u>

Net Increase (Decrease) in Cash and Restricted Cash	(53,613)
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Cash and Restricted Cash - January 1, 2020	<u>123,478</u>
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Cash and Restricted Cash - December 31, 2020	69,865
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**RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS PROVIDED (REQUIRED) BY OPERATING ACTIVITIES:**

Loss from Operations	(158,581)	
Adjustments to Reconcile Operating Income (Loss) to Cash Flows Provided (Required) by Operating Activities - Depreciation	46,553	
Effect of Changes in Operating Assets and Liabilities Increase Accounts Receivable	(19,407)	
Decrease Accounts Payable	<u>( 2,316)</u>	
Total Adjustments	(24,830)	
CASH FLOWS PROVIDED (REQUIRED) BY OPERATING ACTIVITIES		(133,751)

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

**SILVER HEIGHTS WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE A - DEFINITION OF REPORTING ENTITY**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles applicable to local governments. A summary of the Silver Heights Water and Sanitation District's significant accounting policies consistently applied in the preparation of these financial statements follow:

**PRINCIPLES USED IN DETERMINING THE SCOPE OF THE REPORTING ENTITY**

The Silver Heights Water and Sanitation District is a quazi-municipal corporation, governed pursuant to provisions of the Colorado Special District Act. The District was established to provide water and sewer services in Douglas County, Colorado.

The District's combined financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board's (GASB) Codification of Government Accounting and Financial Reporting Standards, include whether:

- \* the organization is legally separate (can sue and be sued in their own name)
- \* the District holds the corporate powers of the organization
- \* the District appoints a voting majority of the organization's board
- \* the District is able to impose its will on the organization
- \* the organization has the potential to impose a financial benefit/burden on the District
- \* there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the Silver Heights Water and Sanitation District has no component units, nor is it a component unit of any other unit.

The District has no employees and all operations and administrative functions are contracted.

**NOTE B - 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 in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2020**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

1) Basis of Accounting

The District's accounting 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 property and equipment are shown as increases in assets and redemption of notes is recorded as a reduction in liabilities. Tap fees are recorded as capital contributions when received.

For the purposes of the Statement of Cash Flows, the District considers all highly liquid assets that are readily converted to cash or have a maturity of three months or less to be cash equivalents. Interest of \$989 was paid in 2020. As a governmental agency, no income taxes were paid.

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.

2) 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 District's Board of Directors can modify the budget line items within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end.

The following is a reconciliation of generally accepted accounting principles (GAAP) to the budgetary basis (actual).

Net Income (Loss) (GAAP Basis)	(131,321)
Depreciation (not Budgeted)	46,553
Principal Payments	(10,073)
Inception of Debt	<u>62,959</u>
Net Income (Budget Basis)	(31,882)

SILVER HEIGHTS WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3) Capital Assets

Capital Assets are recorded at cost. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives.

<u>Type</u>	<u>Useful Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Water System	40-50 years	1,757,188	1,306,583
Sewer System	40 years	380,103	271,824
Equipment	5-10 years	3,550	3,550
Landscaping		57,118	55,647
Land		13,969	-
Buildings		40,109	40,109
Furniture	3-7 years	<u>1,350</u>	<u>1,350</u>
		2,253,387	1,679,063

Depreciation expense for the year ended December 31, 2020 was \$46,553. This amount is included in Operating Expenses.

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Deletions &amp;</u> <u>Adjustments</u>	<u>Balance</u> <u>12/31/20</u>
Capital assets not being depreciated:				
Land	13,969	-	-	13,969
Capital assets being depreciated:				
Water System	1,757,188	-	-	1,757,188
Sewer System	380,103	-	-	380,103
Equipment	3,550	-	-	3,550
Landscaping	57,118	-	-	57,118
Buildings	40,109	-	-	40,109
Furniture	<u>1,350</u>	<u>-</u>	<u>-</u>	<u>1,350</u>
Total Capital assets				
Being depreciated	2,239,418	-	-	2,239,418
Less Accumulated Depreciation	<u>1,632,510</u>	<u>46,553</u>	<u>-</u>	<u>1,679,063</u>
Capital Assets being Depreciated, net	<u>606,908</u>	<u>(46,553)</u>	<u>-</u>	<u>560,355</u>
Total capital assets, net	<u>620,877</u>	<u>(46,553)</u>	<u>-</u>	<u>574,324</u>

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE C - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Material Violations of Financial related, legal and contractual provisions**

Silver Heights Water and Sanitation District's total expenditures have exceeded the budgeted expenditures. This may be a violation of state statutes.

**NOTE D - CASH**

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 specified by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The fair value of the collateral must be at least equal to 100% of the uninsured deposits.

The State Regulatory Commissions for banks and savings and loan associations are required by Statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2020, the District had cash balances on deposit as follows:

		Insured	Collateralized
Money Market Account	\$ 44,837	44,837	-
Savings Account	1,056	1,0956	-
Checking Account	21,718	21,718	-
Savings Account	<u>2,254</u>	<u>2,254</u>	<u>-</u>
	69,865	69,865	-

**NOTE E - ACCOUNTS RECEIVABLE**

Accounts receivable include amounts due from customers for water and sewage treatment operations and refunds that are due. A total reserve for uncollectible accounts has been set up at \$180.

**SILVER HEIGHTS WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE F - OPERATING REVENUE**

Operating revenues are those revenues derived from daily operations. Non-operating revenues are derived from other sources, i.e. grants, taxes, and earnings on investments.

The District collects a maintenance surcharge of \$15 per billing cycle for all residential and commercial customers. As these funds are to be used for rehabilitation of the well.

**NOTE G - INVESTMENTS**

**CREDIT RISK**

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

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

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

As of December 31, 2020, the Silver Heights Water and Sanitation District has the following investments:

Colorado Local Government Liquid Assets Trust	<u>\$ 1,813</u>
	\$ 1,813

The Colorado Local Government Liquid Assets Trust is a pooled asset trust which appears to meet the requirements of Colorado Statutes. It has been rated AAAm by Standard & Poor's. It's cost equals it's market value as the basis changes daily due to interest and dividend transactions.

Investments in Local Government investment pools are not categorized to level of credit risk because they are not evidenced by securities that exist in physical or book entry form.

The investments carry no guarantees, except for the total assets of the trust pools.

**SILVER HEIGHTS WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE G - INVESTMENTS (continued)**

**INTEREST RATE RISK**

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.

**NOTE H - SEGMENT REPORTING**

The Silver Heights Water and Sanitation District may be responsible for segment reporting.

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Current Assets	20,985	91,019	113,004
Capital Assets, Net	<u>479,606</u>	<u>94,718</u>	<u>574,324</u>
Total Assets	500,593	186,735	687,328
Current Liabilities	17,418	4,605	22,023
Long Term Liabilities	<u>70,054</u>	<u>-</u>	<u>70,054</u>
Total Liabilities	87,472	4,605	92,077
Interfund Loan	(1,727,435)	1,727,435	-
Net Position			
Net Investment in			
Capital Assets	479,606	94,718	574,324
Unrestricted	<u>(1,793,915)</u>	<u>1,814,849</u>	<u>20,934</u>
Total Net Position	<u>(1,314,309)</u>	<u>1,909,567</u>	<u>595,258</u>
Operating Revenue	97,710	67,227	164,937
Operating Expenses	200,432	76,357	276,789
Depreciation	<u>37,170</u>	<u>9,383</u>	<u>46,553</u>
Operating Income (Loss)	(139,892)	(18,513)	(158,405)
Non-Operating Revenue	26,145	939	27,084
Contributed Capital	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	(113,747)	(17,574)	(131,321)
Beginning Net Position	<u>(1,200,563)</u>	<u>1,927,139</u>	<u>726,572</u>
Ending Net Position	(1,314,309)	1,909,565	595,251
Net Cash Provided (used) by			
Operating Activities	(113,732)	(20,019)	(133,751)
Capital and Related Financing			
Activities:	51,897	-	51,897
Investing Activities:	27,309	932	28,241
Beginning Cash	<u>0</u>	<u>123,478</u>	<u>123,478</u>
Ending Cash	(34,526)	104,391	69,865

Previous segment reporting has been corrected to show correct balances for water and sewer. The water segment has used \$1,727,435 to fund water improvements and operations from the sewer segment.

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE I - CHANGES IN LONG TERM DEBT**

The following is a summary of changes in long term debt for the district.

	Balance at December 31 <u>2019</u>	New Issue	Refunding/ Retirements	Balance at December 31 <u>2020</u>
<b>FirstBank</b>				
Promissory Note - 2013	\$ 41,451	0	9,622	\$ 22,491
<b>National Rural Water</b>				
Loan		62,959	451	62,508
	<u>\$ 41,451</u>	<u>\$62,959</u>	<u>\$ 10,073</u>	<u>\$ 84,999</u>

The following represents the debt service requirements to maturity of the debt of the district.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Rate</u>	<u>Total</u>
2021	14,945	2,196	3.0%	17,141
2022	15,864	1,895	3.0%	17,749
2023	8,180	1,486	3.0%	9,666
2024	5,996	1,298	3.0%	7,291
2025	6,179	1,116	3.0%	7,295
beyond 2026	33,835	2,613	3.0%	36,448

Total interest costs incurred for the year was \$989.

**NOTE J - COMPENSATED ABSENCES**

The District has no employees and consequently is not liable for any employee benefits or taxes on these benefits.

**NOTE K - TABOR AMENDMENT (TABOR)**

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

**SILVER HEIGHTS WATER AND SANITATION DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020**

**NOTE K - TABOR AMENDMENT (TABOR) (continued)**

The amendment excludes from its provision Enterprises. Enterprises, defined as government owned businesses authorized to issue revenue bonds and receiving less than ten (10) percent of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the amendment.

The District believes it is an exempt enterprise under the definitions of TABOR and as such, the terms of TABOR do not apply for the year ended December 31, 2020.

TABOR does not affect the District's 2020 financial statements; however, the limitations contained in TABOR may impact future financial activity.

**NOTE L - 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 has elected to manage its risk of losses through an Intergovernmental Agreement with the Special District Association of Colorado. Premiums are based on revenues with surcharges and assessments being available to the Risk Management Pool for Excessive Claims. During 2020 the pool provided liability coverage in the amounts of \$150,000/\$400,000 with a one million dollar maximum.

The District is one of 1,392 special districts which are members 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, general liability, public officials liability, employee dishonesty and crime, equipment breakdown and workers' compensation coverage to its members. The Pool provides coverage for property claims up to \$50,000,000 and liability coverage for claims up to \$1,000,000. Workers' compensation claims are covered up to statutory limits, with claims related to employer's liability up to \$2,000,000. Settled claims have not exceeded this coverage during 2020. Settled claims have not exceeded policy coverage in any of the years prior to 2019.

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

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020**

**NOTE M - NET POSITION**

Beginning with fiscal year 2012 the District implemented GASB Statement No.63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." The requirements of this statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

The impact on the District's financial statements has been to replace the term "net assets" with "net position".

Net position represents the difference between all other elements in a statement of financial position and is displayed in three components - net investment in capital assets; restricted; and unrestricted.

SILVER HEIGHTS WATER AND SANITATION DISTRICT

OTHER SUPPLEMENTAL INFORMATION

DECEMBER 31, 2020

SILVER HEIGHTS WATER AND SANITATION DISTRICT  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2020

	ORIGINAL & FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
<b>REVENUE</b>			
Water Service Fees	\$95,500	\$ 89,335	\$ (6,165)
Sewer Service Fees	59,298	58,851	(447)
Maintenance Fees	11,376	11,371	(5)
Other Charges	2,775	5,379	2,604
Interest Income	2,000	940	(1,060)
Miscellaneous Income	<u>0</u>	<u>27,134</u>	<u>27,134</u>
Total Revenue	170,949	193,010	22,061
<b>EXPENSES</b>			
Operating Expenses	114,980	216,612	(101,632)
Administrative Expenses	45,550	60,177	(14,627)
Debt Service	10,419	11,062	(643)
Capital Expenditures	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	170,949	287,851	(116,902)
Excess (Deficiency) of Revenue over (under) Expenditures	0	(94,841)	(94,841)
<b>Sources and Uses of Funds</b>			
Inception of Debt	<u>0</u>	<u>62,959</u>	<u>62,959</u>
Total Sources and Uses	0	62,959	62,959
Excess (Deficiency) of Revenues and Other Sources over Expenses and uses of Funds	0	(31,882)	(31,882)
Funds Available - Beginning of year		<u>53,590</u>	
Funds Available - End of year		<u><u>21,708</u></u>	

**SILVER HEIGHTS WATER AND SANITATION DISTRICT  
SCHEDULE OF ADMINISTRATIVE AND GENERAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>WATER</u>	<u>SEWAGE</u>	<u>TOTAL</u>
Accounting and Auditing	\$ 9,712	\$ 9,712	\$19,424
Directors' Fees and meetings expense	4,950	4,950	9,900
Legal	9,614	9,614	19,228
Office Supplies and Expense	3,211	3,211	6,422
Conferences	515	515	1,030
Computer	1,467	1,466	2,933
Meter Reading	<u>1,240</u>	<u>-</u>	<u>1,240</u>
Total administrative and general expenses	\$30,709	\$29,468	\$60,177

**SCHEDULE OF OPERATING EXPENSES**

Sewage Treatment	-	27,071	27,071
Repairs and Maintenance	117,176	2,000	119,176
Utilities	23,470	-	23,470
Depreciation Expense	37,170	9,383	46,553
Engineering	7,825	7,825	15,650
Operator Fees	8,936	1,000	9,936
Chemicals	1,831	-	1,831
Water Testing	1,491	-	1,491
Insurance	8,934	8,933	17,867
Consulting	<u>60</u>	<u>60</u>	<u>120</u>
	\$206,893	\$ 56,272	\$263,165

**DEBT SERVICE**

Interest	989	-	989
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