

STRATMOOR HILLS WATER DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
With Independent Auditors' Report

December 31, 2021 and 2020

**STRATMOOR HILLS WATER DISTRICT
TABLE OF CONTENTS
DECEMBER 31, 2021 AND 2020**

	Page
FINANCIAL SECTION	
Independent Auditors' Report	<i>ii</i>
Management Discussion and Analysis	<i>v</i>
Basic Financial Statements:	
Statements of Net Position	1
Statements of Revenues, Expenses and Changes in Fund Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	5
Supplementary Information:	
Schedules of Expenses	20
Schedule of Revenues, Expenditures and Change in Fund Net Position Budget and Actual (Non-GAAP Budgetary Basis)	21
COMPLIANCE SECTION	
Single Audit:	
Schedule of Expenditures of Federal Awards	24
Notes to Schedule of Expenditures of Federal Awards	25
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	26
Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by <i>Uniform Guidance</i>	28
Schedule of Findings and Questioned Costs	30
Summary Schedule of Prior Audit Findings	33
Corrective Action Plan	34



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Stratmoor Hills Water District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of net position and the related statements of revenue, expenses and changes in net position, and cash flows of the Stratmoor Hills Water District, as of and for the year ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Stratmoor Hills Water District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of net position and the related statements of revenue, expenses and changes in net position, and cash flows of the Stratmoor Hills Water District, as of December 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Stratmoor Hills Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stratmoor Hills Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Stratmoor Hills Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stratmoor Hills Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stratmoor Hills Water District's basic financial statements. The accompanying schedule of expenses, schedule of revenues, expenditures and change in fund net position budget and actual, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 schedule of expenses, schedule of revenues, expenditures and change in fund net position budget and actual, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2022 on our consideration of the Stratmoor Hills Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Stratmoor Hills Water District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stratmoor Hills Water District's internal control over financial reporting and compliance.

Hoelting & Company Inc.

Colorado Springs, Colorado
June 15, 2022

STRATMOOR HILLS WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2021

As management of Stratmoor Hills Water District (the District) we offer readers of the District’s annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2021. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District’s assets of \$9,489,936 exceeded its liabilities at the close of the most recent fiscal year by \$5,934,124 (*net position*). Of this amount, \$1,179,687 represents unrestricted net position, which may be used to meet the District’s ongoing obligations.
- The District’s total net position increased during the year by \$797,908.
- Capital assets net of depreciation increased \$2,876,417 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District’s basic financial statements. The District’s basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenue, Expenses and Changes in Fund Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets), obligations (liabilities), and deferred inflows and outflows. The difference between assets, liabilities, and deferred inflows and outflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Fund Net Position - All revenue and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District’s rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows – This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2021, the District's assets exceeded liabilities by \$5,934,124 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2021</u>	<u>2020</u>
Current and other assets	\$ 2,780,050	\$ 4,907,442
Capital assets, net	<u>6,703,886</u>	<u>3,827,469</u>
Total assets	<u>9,489,936</u>	<u>8,734,911</u>
Long-term liabilities	2,803,033	2,897,886
Other liabilities	<u>752,779</u>	<u>700,809</u>
Total liabilities	<u>3,555,812</u>	<u>3,598,695</u>
Net position:		
Investment in capital assets	4,754,437	3,813,786
Unrestricted	<u>1,179,687</u>	<u>1,322,430</u>
Total net position	<u>\$ 5,934,124</u>	<u>\$ 5,136,216</u>

Unrestricted net position of the District at the end of the year was \$1,179,687, a \$142,743 decrease from the prior year.

Condensed Statements of Revenue, Expenses, and Changes in Net Position

	<u>2021</u>	<u>2020</u>
Operating revenues	\$ 1,920,006	\$ 1,969,095
Operating expenses	<u>(1,778,248)</u>	<u>(1,950,488)</u>
Operating income (loss)	141,758	18,607
Non-operating revenue and expenses, net	<u>32,485</u>	<u>146,021</u>
Income (loss) before contributions	174,243	164,628
Capital contributions	<u>623,665</u>	<u>950,564</u>
Change in net position	797,908	1,115,192
Net position, beginning	<u>5,136,216</u>	<u>4,021,024</u>
Net position, ending	<u>\$ 5,934,124</u>	<u>\$ 5,136,216</u>

BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with state law. An analysis of budget results in the following observations:

- Water sales came in \$65,295 less than anticipated in 2021 due primarily to lower usage during the year.
- Operating expenses were \$271,571 less than anticipated in 2021. Most significant reasons for this were lower maintenance expenses than planned.
- Capital outlays were \$508,074 less than anticipated in 2021.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2021 amounts to \$6,703,886. This investment in capital assets includes land and easements, water rights, plant, office building, equipment and vehicles, and construction in progress.

	<u>2021</u>	<u>2020</u>
Capital assets, not being depreciated	\$ 3,965,028	\$ 1,483,788
Capital assets, being depreciated	6,727,355	6,120,669
Less accumulated depreciation	<u>(3,988,497)</u>	<u>(3,776,988)</u>
Total capital assets, net	<u>\$ 6,703,886</u>	<u>\$ 3,827,469</u>

Water treatment plant improvements increased the District's assets.

Long-Term Debt

At December 31, 2021, the District had a \$2,897,886 loan outstanding for completion of water facilities projects. The District paid debt payments during in compliance with debt agreements.

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – Water assessments were lower than expect. However, the District received a substantial amount of tap fees for the new Eldorado Apartment complex. Construction of the treatment plant started in early 2021 and was completed in Spring 2022. The District will Implement a 10% rate increase across the board for water services. The SRF loan will be 100% utilized and the District will be making payments on the loan. The District will also apply for ARPA grant funding and Grant funding from CDPHE

Economic and Environmental Factors - More stringent drinking water regulations and water delivery expenses will continue to drive up the costs for providing drinking water. The District is committed to providing the necessary treatment to improve water quality and the District has completed the treatment facility for PFAS removal.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers, creditors and other financial users with a general overview of the District's finances. If you have questions about this report or need additional financial information, please contact the District's Manager, Kevin Niles, at 719-576-0311 or 1811 B Street, Colorado Springs, CO 80906.

BASIC FINANCIAL STATEMENTS

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,351,694	\$ 1,150,104
Cash with fiscal agent	948,437	2,978,583
Accounts receivable, users	180,158	200,050
Accounts receivable, Air Force	57,409	331,471
Accounts receivable, other	7,500	12,500
Inventory	193,309	85,334
Prepaid water	-	92,456
Other prepaid expenses	47,543	56,944
Total current assets	<u>2,786,050</u>	<u>4,907,442</u>
Noncurrent assets:		
Capital assets, not being depreciated	3,965,028	1,483,788
Capital assets being depreciated, net	2,738,858	2,343,681
Total noncurrent assets	<u>6,703,886</u>	<u>3,827,469</u>
Total assets	<u>9,489,936</u>	<u>8,734,911</u>
LIABILITIES		
Current liabilities:		
Accounts payable, trade	466,242	373,223
Accounts payable, Stratmoor Hills Sanitation District	101,013	170,010
Accrued interest	2,415	2,494
Escrow deposits	4,561	4,561
Payroll taxes payable	7,931	6,592
Compensated absences	23,593	19,781
Customer deposits	29,680	27,625
Unearned revenue	22,491	2,143
Current portion, notes payable	94,853	94,380
Total current liabilities	<u>752,779</u>	<u>700,809</u>
Noncurrent liabilities:		
Notes payable, less current portion	2,803,033	2,897,886
Total liabilities	<u>3,555,812</u>	<u>3,598,695</u>
NET POSITION		
Net investment in capital assets	4,754,437	3,813,786
Unrestricted	1,179,687	1,322,430
Total net position	<u>\$5,934,124</u>	<u>\$ 5,136,216</u>

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
OPERATING REVENUE		
Water sales	\$ 1,434,705	\$ 1,504,119
Water lease income	30,794	22,621
Maintenance contract income	240,000	240,000
Billing fees	173,923	178,844
Late fees	36,570	22,848
Other income	4,014	663
Total operating revenue	1,920,006	1,969,095
OPERATING EXPENSES		
Water operations	1,391,429	1,520,165
General administration	171,310	171,801
Depreciation	215,509	258,522
Total operating expenses	1,778,248	1,950,488
Operating income (loss)	141,758	18,607
NON-OPERATING REVENUE (EXPENSES)		
Investment income	579	6,755
Rental income	60,042	70,312
Grants	-	88,706
Interest expense	(14,858)	(3,915)
Fountain Valley Authority debt service	(13,278)	(15,756)
Gain (loss) on disposal of fixed assets	-	(81)
Total non-operating revenue (expenses)	32,485	146,021
Income (loss) before capital contributions	174,243	164,628
Capital contributions - tap fees	511,100	318,240
Capital contributions - Air Force	112,565	632,324
Total capital contributions	623,665	950,564
Change in net position	797,908	1,115,192
Net position-beginning	5,136,216	4,021,024
Net position-ending	\$ 5,934,124	\$ 5,136,216

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,946,954	\$ 1,976,010
Cash payments to suppliers for goods and services	(998,707)	(1,084,241)
Cash payments to employees for services	(625,522)	(590,707)
Cash received from other governments	55,155	50,000
Cash received from miscellaneous income	60,042	70,312
	<u>437,922</u>	<u>421,374</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions	531,448	41,608
Capital grants	-	88,706
Cash received from other governments	331,471	250,853
Purchase of capital assets	(3,007,381)	(894,692)
Fountain Valley Authority debt service	(13,278)	(15,756)
Loan principal payments	(94,380)	(7,734)
Interest paid	(14,937)	(1,421)
	<u>(2,267,057)</u>	<u>(538,436)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	579	6,755
	<u>579</u>	<u>6,755</u>
Net increase (decrease) in cash and cash equivalents	(1,828,556)	(110,307)
Cash and cash equivalents at beginning of year	4,128,687	4,238,994
	<u>4,128,687</u>	<u>4,238,994</u>
Cash and cash equivalents at ending of year	<u>\$2,300,131</u>	<u>\$4,128,687</u>

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 1,351,694	\$ 1,150,104
Cash with fiscal agent	948,437	2,978,583
 Total cash and cash equivalent at end of year	 \$ 2,300,131	 \$ 4,128,687
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 141,758	\$ 18,607
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	215,509	258,522
Miscellaneous income	60,042	70,312
Cash received from other governments	55,155	50,000
Change in assets and liabilities:		
<i>(Increase) decrease in:</i>		
Accounts receivable, users	19,892	19,085
Accounts receivable, other	5,000	(12,500)
Inventory	(107,975)	(9,228)
Prepaid water	92,456	-
Other prepaid expenses	9,401	6,838
<i>Increase (decrease) in:</i>		
Accounts payable	(60,523)	20,765
Compensated absences payable	3,812	769
Payroll taxes payable	1,339	(2,126)
Customer deposits	2,055	330
 Total Adjustments	 296,163	 402,767
 Net Cash Provided (Used) by Operating Activities	 \$ 437,921	 \$ 421,374
 Non cash investing, capital and financing activities	 None	 None

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

NOTES TO FINANCIAL STATEMENTS

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Stratmoor Hills Water District (the District) was organized under the laws of the State of Colorado to operate and maintain a special district for the purpose of transmission and distribution of water to the residents of the Stratmoor Hills subdivision located adjacent to the City of Colorado Springs, Colorado.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

The District is a special district governed by an elected five-member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts receivable, users

The accounts receivable are due from a large number of customers for the purchase of water and for sanitation assessments. An allowance for doubtful accounts is not required as the District can place a lien on property for unpaid water sales.

Inventory

Inventory consists of materials and supplies and is valued at cost, which approximates market, using the first-in, first-out method.

Prepaid water

This account represents the conveyance service charges for water to be delivered in the next fiscal year by the Fountain Valley Authority.

Other prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items are recorded as expenses when consumed rather than when purchased.

Water rights

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

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION
(CONTINUED)*

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method over the estimated useful lives of the depreciable property. The estimated useful lives are as follows:

Plant:	
Transmission and distribution lines	5 to 45 years
Storage facilities	10 to 60 years
Equipment	10 to 45 years
Office building:	
Building and improvements	5 to 25 years
Land improvements	5 years
Equipment and vehicles:	
Office equipment	5 to 7 years
Other equipment	5 to 12 years
Vehicles	5 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION
(CONTINUED)*

Deferred outflows/inflows of resources (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Compensated Absences

Employees earn two weeks of paid time off after one year of service, three weeks after two or more years of service and four weeks after ten or more years of service. Paid time off is earned on an employee's anniversary. Employees can accrue a maximum of 110 days of paid time off and carry it over from year to year. Upon termination, employees with accrued but unused paid time off shall be paid at their current regular hourly rate for such time. A liability is recorded in the amount of the earned accumulated rights to receive paid time off benefits.

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and sanitation assessments, late and reconnect charges, and inspection fees. Operating expenses include all expenses incurred to provide water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Budgets are adopted on a comprehensive basis of accounting other than generally accepted accounting principles. The primary differences are that bond and note proceeds are treated as a budget source and capital expenditures and bond and note principal payments are treated as a budget use. Depreciation expense is not considered a budget expense. An annual appropriated budget is adopted for the proprietary fund. All annual appropriations lapse at fiscal year-end. The budgeted revenues and expenses represent the original budget adopted or as amended by the Board.

Expenditures may not legally exceed budgeted appropriations.

The District follows these procedures in establishing the budgetary data reflected in the Financial Statements.

1. Prior to October 15, administrative personnel submit to the Board of Directors a proposed operating budget for the following fiscal year (calendar) beginning January 1. The operating budget includes proposed expenses and the means for financing them.
2. The proposed budget is advertised as available for inspection and comment by the electorate of the District.
3. Prior to December 15, the Board legally adopts the budget.
4. In December, the Board certifies the mill levy to El Paso County.
5. During the year, formal budgetary integration is employed as a management control device.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

As of December 31, 2021 and 2020, the carrying amounts of the District’s deposits were \$448,053 and \$996,639, respectively and the bank balances were \$528,895 and \$1,146,384, respectively. Of the total bank balances, \$250,000 were covered by FDIC insurance for the year ended December 31, 2021 and 2020. The remaining balances of \$278,895 and \$896,384 at December 31, 2021 and 2020, respectively, fall under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools.

Investments

The District is authorized by Colorado State Statutes to invest in the following:

- ◆ Bonds and other interest-bearing obligations of the United States government.
- ◆ Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- ◆ Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- ◆ Notes or bonds issued to the “National Housing Act”.
- ◆ Repurchase agreements.
- ◆ Local government investment pools.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Credit Risk: The State law limits investments as described above. The District does not have an investment policy that would further limit its investment choices. As of December 31, 2021, the District’s investments were rated AAA by Standard & Poor’s.

As of December 31, 2021 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
CSAFE	\$ 750,102	\$ 750,102	\$ -	\$ -	\$ -
COLOTRUST	<u>153,539</u>	<u>153,539</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 903,641</u>	<u>\$ 903,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
COLOTRUST	<u>\$ 153,465</u>	<u>\$ 153,465</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

The designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the District does not categorize investments with COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

Colorado Surplus Asset Fund Trust (CSAFE) is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes by state statutes. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. Designated custodial banks provide safekeeping and depository services to CSAFE in connection with the direct investment and withdrawal functions of CSAFE. All securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by CSAFE. Investments of CSAFE consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury notes

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

The District’s restricted and unrestricted deposits and investments consist of the following at December 31, 2021:

	<u>Unrestricted Assets</u>	<u>Restricted Assets</u>	<u>Total</u>
Demand accounts	\$ 448,053	\$ -	\$ 448,053
Cash with Escrow Agent	-	948,437	948,437
CSAFE	750,102	-	750,102
COLOTRUST	<u>153,539</u>	<u>-</u>	<u>153,539</u>
Total deposits and investments	<u>\$ 1,351,694</u>	<u>\$ 948,437</u>	<u>\$ 2,300,131</u>

The District’s restricted and unrestricted deposits and investments consist of the following at December 31, 2020:

	<u>Unrestricted Assets</u>	<u>Restricted Assets</u>	<u>Total</u>
Demand accounts	\$ 996,639	\$ -	\$ 996,639
Cash with Escrow Agent	-	2,978,583	2,978,583
COLOTRUST	<u>153,465</u>	<u>-</u>	<u>153,465</u>
Total deposits and investments	<u>\$ 1,150,104</u>	<u>\$ 2,978,583</u>	<u>\$ 4,128,687</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and easements	\$ 215,424	\$ -	\$ -	\$ 215,424
Water rights	210,863	-	-	210,863
Construction in progress	<u>1,057,501</u>	<u>2,481,240</u>	<u>-</u>	<u>3,538,741</u>
Total capital assets, not being depreciated	<u>1,483,788</u>	<u>2,481,240</u>	<u>-</u>	<u>3,965,028</u>
Capital assets, being depreciated:				
Plant	5,304,570	419,391	-	5,723,961
Office building	291,841	-	-	291,841
Equipment and vehicles	<u>524,258</u>	<u>191,295</u>	<u>(4,000)</u>	<u>711,553</u>
Total capital assets, being depreciated	6,120,669	610,686	(4,000)	6,727,355
Less accumulated depreciation	<u>(3,776,988)</u>	<u>(215,509)</u>	<u>4,000</u>	<u>(3,988,497)</u>
Total capital assets, being depreciated, net	<u>2,343,681</u>	<u>395,177</u>	<u>-</u>	<u>2,738,858</u>
Total capital assets, net	<u>\$ 3,827,469</u>	<u>\$ 2,876,417</u>	<u>\$ -</u>	<u>\$ 6,703,886</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and easements	\$ 215,424	\$ -	\$ -	\$ 215,424
Water rights	210,863	-	-	210,863
Construction in progress	<u>297,015</u>	<u>760,486</u>	<u>-</u>	<u>297,015</u>
Total capital assets, not being depreciated	<u>723,302</u>	<u>760,486</u>	<u>-</u>	<u>1,483,788</u>
Capital assets, being depreciated:				
Plant	4,859,193	458,903	(13,526)	5,304,570
Office building	291,841	-	-	291,841
Equipment and vehicles	<u>558,536</u>	<u>29,780</u>	<u>(64,058)</u>	<u>524,258</u>
Total capital assets, being depreciated	5,709,570	488,683	(77,584)	6,120,669
Less accumulated depreciation	<u>(3,595,969)</u>	<u>(258,522)</u>	<u>77,503</u>	<u>(3,776,988)</u>
Total capital assets, being depreciated, net	<u>2,113,601</u>	<u>230,161</u>	<u>(81)</u>	<u>2,343,681</u>
Total capital assets, net	<u>\$ 2,836,903</u>	<u>\$ 990,647</u>	<u>\$ (81)</u>	<u>\$ 3,827,469</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 - WATER RIGHTS

Water rights were composed of the following as of December 31, 2021 and 2020:

Acquired from the J. Fred Abrahamson Trust in 1986:

Rights to successive use water - up to 40 acre feet annually	\$ 9,000
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Acquired from the Hassler and Bates Company:

38.7961% ownership of water rights for 5.616 cubic feet per second of Laughlin Ditch and 1.736 cubic feet per second of Laughlin Ditch Enlargement	<u>201,863</u>
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Total Water Rights	<u>\$ 210,863</u>
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NOTE 6 - OPERATING LEASE

The District has entered into an agreement to lease up to 61.2039% of water rights for 5.616 cubic feet per second of Laughlin Ditch and 1.736 cubic feet per second of Laughlin Ditch Enlargement. The lease may be terminated by either party, lessor or lessee, upon 30 days written notice to the other party. The District has the first right of refusal upon the sale of this water. The District will be assessed a lease rental of \$75 per acre-foot for water used for municipal purposes under this lease agreement. The District has no obligation to lease any water under this lease agreement.

NOTE 7 - LONG-TERM DEBT

Loan Payable

On December 3, 2019, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA) in the amount of \$3,000,000. The loan is payable semiannually with payments of \$54,612 beginning May 1, 2021 and an initial payment of \$8,984 due November 1, 2020, including interest at 0.5%. This loan is to be repaid from and secured by a pledge of net revenues.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize the CWRPDA loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2022	\$ 94,853	\$ 14,371
2023	95,327	13,896
2024	95,805	13,419
2025	96,284	12,939
2026	96,766	12,457
2027 – 2031	491,148	54,971
2032 – 2036	503,565	42,553
2037 – 2041	516,297	29,822
2042 – 2046	529,351	16,768
2047 – 2050	<u>378,490</u>	<u>3,795</u>
Total	<u>\$ 2,897,886</u>	<u>\$ 214,991</u>

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2021:

	<u>Balance 12/31/20</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Balance 12/31/21</u>	<u>Due Within One year</u>
Loans	\$ 2,992,266	\$ -	\$ 94,380	\$ 2,897,886	\$ 94,853

NOTE 8 - NET POSITION

Net position is reported in three separate categories—net investment in capital assets; net position-restricted; and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2021 and 2020, net investment in capital assets was as follows:

	<u>2021</u>	<u>2020</u>
Net investment in Capital Assets:		
Capital assets, net of depreciation	\$ 6,703,886	\$ 3,827,469
Related debt	(2,897,886)	(2,992,266)
Cash with fiscal agent	<u>948,437</u>	<u>2,978,583</u>
Total	<u>\$ 4,754,437</u>	<u>\$ 3,813,786</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 8 - NET POSITION (CONTINUED)

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). The District had no restricted balances for the years ended December 31, 2021 and 2020.

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted. The District utilizes net position-unrestricted before using net position-restricted.

NOTE 9 - TRANSACTIONS WITH RELATED DISTRICTS

The District provides substantially all maintenance operations for the Stratmoor Hills Sanitation District. In exchange for these services, the Sanitation District paid \$240,000 to the Stratmoor Hills Water District for the years ended December 31, 2021 and 2020.

The District also bills and collects the Sanitation District's user charges each month, issuing a joint billing to the customers. The District paid the Sanitation District 85% of the sanitation assessments in 2021 and 2020. For the amount remaining, the District prepares and mails the monthly bills, pays postage, and bears all losses from uncollectible amounts. The totals received by the District for 2021 and 2020 were \$173,923 and \$178,844, respectively.

The District's five-member board is the same as that of the Stratmoor Hills Sanitation District. As a matter of expedience, the Stratmoor Hills Sanitation District pays all members of the board for director's fees and related payroll taxes for both districts. The Sanitation District then bills Stratmoor Hills Water District for their share of the director's fees and related payroll taxes.

As of December 31, 2021 and 2020 the District had accounts payable to the Stratmoor Hills Sanitation District of \$101,013 and \$170,010, respectively.

NOTE 10 – JOINTLY GOVERNED ORGANIZATION

The District owns a 2.99% share in the Fountain Valley Authority (the Authority) which was established on July 10, 1979, for the primary purpose of construction and operating a water treatment plant for its five customers, each of which owns and operates a water system.

The Authority is empowered to acquire, operate, manage, and maintain all facilities required to deliver treated potable water to its customers. Customers include the City of Colorado Springs, the City of Fountain, the Security Water District, the Stratmoor Hills Water District, and the Widefield Water and Sanitation District.

The United States Department of Interior, Bureau of Reclamation (Bureau), has agreed to supply to these five customers, up to 20,100 acre-feet of water annually from the Frying Pan Arkansas Project. The District has been allocated 2.99% of this total.

In addition, the Bureau constructed a pipeline (the Fountain Valley Conduit) to transport this water from the Pueblo Reservoir, approximately 25 miles north, to the site of each system.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 10 – JOINTLY GOVERNED ORGANIZATION (CONTINUED)

The Bureau’s pipeline is operated by the Authority which pays all operating expenses plus a conveyance charge. The conveyance charge is designed to amortize the cost of the pipeline over a forty-year period. At the end of this period, title to the pipeline may be transferred by Congress to the Authority. The conveyance charge is to be allocated among the governments, based on their participation percentage and scheduled water deliveries.

The Authority has constructed an 18,000,000 gallon-per-day water treatment plant located approximately 17 miles south of the City of Colorado Springs. The purpose of this treatment plant is to treat water obtained by the customers from the Frying Pan Arkansas Project. All water transmitted through the Fountain Valley Conduit is treated at this plant. All costs incurred by the Authority will be recovered through charges to be paid by the member governments.

The water treatment and delivery charges paid by the District to the Authority are recorded as operating expenses in the accompanying financial statements while debt service charges are budgeted and recorded separately.

The following payments were made by the District to the Authority during the years ended December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Conveyance and treatment	\$ 369,117	\$ 358,605
Debt service	<u>13,278</u>	<u>15,756</u>
Total	<u>\$ 382,395</u>	<u>\$ 374,361</u>

The joint venture summary financial information as of December 31, 2021 and 2020 (most recent available) is as follows:

	<u>2021</u>	<u>2020</u>
Assets and Deferred outflows	<u>\$ 61,094,604</u>	<u>\$ 61,396,109</u>
Liabilities	5,808,482	13,979,981
Net Position (deficit)	<u>55,286,122</u>	<u>47,416,128</u>
Total Liabilities and Net Position	<u>\$ 61,094,604</u>	<u>\$ 61,396,109</u>
Revenues	\$ 15,064,782	\$ 16,677,599
Expenditures	<u>(7,194,788)</u>	<u>(7,631,853)</u>
Change in Net Position	<u>\$ 7,869,994</u>	<u>\$ 9,045,746</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 10– JOINTLY GOVERNED ORGANIZATION (CONTINUED)

Long-term liability activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Loans payable	\$ 722,818	\$ -	\$ 168,098	\$ 554,720	\$ 173,700
Obligations under capital lease	<u>7,320,465</u>	<u>-</u>	<u>5,917,171</u>	<u>1,403,294</u>	<u>1,403,294</u>
Total	<u>\$ 8,043,283</u>	<u>\$ -</u>	<u>\$ 6,085,269</u>	<u>\$ 1,958,014</u>	<u>\$ 1,576,994</u>

NOTE 11 - 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 carries commercial insurance for these risks of loss, including worker’s compensation. No settled claims resulting from these risks exceeded commercial insurance coverage during the last three fiscal years.

NOTE 12 – EMPLOYEE IRA

The District has set up a Simple IRA for substantially all employees. Employees contribute at least 3% of compensation and the District contributes 3% of compensation. The employer’s contributions for 2021 and 2020 were \$15,280 and \$13,700, respectively.

NOTE 13 - AMENDMENT TO COLORADO CONSTITUTION

Colorado’s voters passed an amendment to the State Constitution, Article X, Section 20 (“Amendment”), which has several limitations, including raising revenue, spending abilities and other specific requirements of state and local governments. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10.0% of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The District is of the opinion that it qualifies for this exclusion. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment. However, the District has made certain interpretations of the Amendments’ language in order to determine its compliance.

SUPPLEMENTAL INFORMATION

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Water operations:		
Cost of water	\$ 38,627	\$ 40,254
Fountain Valley Authority - water conveyance, operations, etc.	369,117	358,605
Salaries and wages	615,392	575,650
Outside labor	24,902	13,788
Employee health insurance	141,680	139,849
FICA expense	46,911	43,867
Unemployment insurance	1,819	1,708
Workers compensation insurance	16,302	15,765
Retirement expense	15,280	13,700
Plant maintenance	(27,530)	175,115
Vehicle and equipment maintenance	22,133	21,303
Office building maintenance	4,571	12,753
Utilities	43,962	41,801
Engineering	17,717	6,000
Gas and oil	27,160	13,007
Supplies	6,492	17,187
Small tools	3,351	6,697
Uniforms	3,544	3,676
Testing and analysis	10,670	11,370
Equipment leases	4,995	3,934
Personnel expenses	775	539
Trash and recycling	3,559	3,597
Total water operations	\$ 1,391,429	\$ 1,520,165
General administration:		
Insurance	\$ 47,328	\$ 45,036
Billing	13,150	26,130
Postage	9,503	9,426
Meeting	7,290	8,245
Telephone	6,956	6,938
Audit	10,100	9,750
Legal	1,353	-
Office supplies	10,657	6,752
Dues and subscriptions	8,783	8,231
Training and education	2,348	2,246
Miscellaneous	1,030	1,723
Election expense	-	1,344
Bank/service charges	50,348	43,377
Other utilities	2,464	2,603
Total general administration	\$ 171,310	\$ 171,801

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2021

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Water sales	\$ 1,500,000	\$ 1,434,705	\$ (65,295)
Water lease income	25,000	30,794	5,794
Maintenance contract income	240,000	240,000	-
Billing fees	170,000	173,923	3,923
Investment income	15,000	579	(14,421)
Rental income	75,000	60,042	(14,958)
Late charges	30,000	36,570	6,570
Miscellaneous income	1,300	4,014	2,714
Operating contributions - Air Force	250,000	112,565	(137,435)
Capital contributions - tap fees	-	511,100	511,100
Loan proceeds	3,000,000	-	(3,000,000)
Beginning fund balance	-	4,301,013	4,301,013
TOTAL REVENUES	5,306,300	6,905,305	1,599,005
EXPENDITURES			
Operating expenditures:			
Cost of water	30,000	38,627	(8,627)
Fountain Valley Authority - water conveyance, treatment, operating, etc.	380,000	369,117	10,883
Salaries and wages	624,000	615,392	8,608
Outside labor	25,000	24,902	98
Employee health insurance	140,000	141,680	(1,680)
FICA expense	45,000	46,911	(1,911)
Unemployment insurance	2,000	1,819	181
Workers compensation insurance	16,000	16,302	(302)
Retirement expense	16,000	15,280	720
Plant maintenance	35,000	(27,530)	62,530
Vehicle and equipment maintenance	25,000	22,133	2,867
Office building maintenance	10,000	4,571	5,429
Repairs and maintenance	15,000	-	15,000
Utilities	55,000	43,962	11,038
Engineering	20,000	17,717	2,283
Gas and oil	18,000	27,160	(9,160)
Supplies	17,000	6,492	10,508
Small tools	10,000	3,351	6,649
Uniforms	5,000	3,544	1,456
Testing and analysis	\$ 20,000	\$ 10,670	\$ 9,330

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2021

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)			
Equipment leases	\$ 5,000	\$ 4,995	\$ 5
Distribution system maintenance	150,000	-	150,000
Personnel expenses	-	775	(775)
Trash and recycling	-	3,559	(3,559)
TOTAL OPERATING EXPENDITURES	<u>1,663,000</u>	<u>1,391,429</u>	<u>271,571</u>
General and administrative expenditures:			
Insurance	44,000	47,328	(3,328)
Billing	15,000	13,150	1,850
Postage	12,000	9,503	2,497
Meeting	5,000	7,290	(2,290)
Telephone	11,000	6,956	4,044
Audit	10,000	10,100	(100)
Legal	10,000	1,353	8,647
Office supplies	6,000	10,657	(4,657)
Dues and subscriptions	10,000	8,783	1,217
Licenses and fees	1,500	-	1,500
Training and education	5,000	2,348	2,652
Miscellaneous	1,000	1,030	(30)
Bank/service charges	32,000	50,348	(18,348)
Other utilities	-	2,464	(2,464)
TOTAL GENERAL AND ADMINISTRATIVE EXPENDITURES	<u>162,500</u>	<u>171,310</u>	<u>(8,810)</u>
INTEREST EXPENSE	7,481	-	7,481
LOAN PRINCIPAL PAYMENT	47,131	94,380	(47,249)
LOAN INTEREST EXPENSE	200	14,858	(14,658)
FOUNTAIN VALLEY AUTHORITY DEBT SERVICE	55,000	13,278	41,722
CAPITAL EXPENDITURES	<u>3,600,000</u>	<u>3,091,926</u>	<u>508,074</u>
TOTAL EXPENDITURES	<u>\$ 5,535,312</u>	<u>\$ 4,777,181</u>	<u>\$ 758,131</u>

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2021

	<u>Actual</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 2,128,124
Less:	
Beginning fund balance	(4,301,013)
Depreciation	(215,509)
Add:	
Capital expenditures	3,091,926
Loan principal payment	94,380
CHANGE IN NET POSITION	<u><u>\$ 797,908</u></u>

Ending fund balance is calculated as follows:

Current assets	\$ 2,786,050
Current liabilities	(752,779)
Loan payable, current portion	94,853
	<u><u>\$ 2,128,124</u></u>

See the accompanying independent auditors' report.

SINGLE AUDIT

**STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Environmental Protection Agency				
<i>Drinking Water State Revolving Fund Cluster</i>				
Passed Through Colorado Water Resources & Power Development Authority				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	D19F423	\$ -	<u>\$ 1,607,748</u>
Total Federal Awards				<u><u>\$ 1,607,748</u></u>

See the accompanying independent auditors' report.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Stratmoor Hills Water District under programs of the federal government for the year ended December 31, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Stratmoor Hills Water District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Stratmoor Hills Water District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

Stratmoor Hills Water District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Stratmoor Hills Water District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Stratmoor Hills Water District, which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Stratmoor Hills Water District’s basic financial statements, and have issued our report thereon dated June 15, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stratmoor Hills Water District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stratmoor Hills Water District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Stratmoor Hills Water District’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stratmoor Hills Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoelting & Company Inc.

Colorado Springs, Colorado
June 15, 2022



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Stratmoor Hills Water District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Stratmoor Hills Water District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Stratmoor Hills Water District's major federal programs for the year ended December 31, 2021. Stratmoor Hills Water District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Stratmoor Hills Water District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Stratmoor Hills Water District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Stratmoor Hills Water District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Stratmoor Hills Water District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Stratmoor Hills Water District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Stratmoor Hills Water District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Stratmoor Hills Water District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Stratmoor Hills Water District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Stratmoor Hills Water District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2021-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Stratmoor Hills Water District's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Stratmoor Hills Water District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in

internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-003 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Stratmoor Hills Water District's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Stratmoor Hills Water District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hoelting & Company, Inc.

Colorado Springs, Colorado
June 15, 2022

**STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Section I—Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? x yes ___ no
- Significant deficiency(ies) identified? x yes ___ none reported

Noncompliance material to financial statements noted? ___ yes x no

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? x yes ___ no
- Significant deficiency(ies) identified? ___ yes x none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes ___ no

Identification of major programs:

<u>ALN Number(s)</u>	<u>Name of Federal Program or Cluster</u>
ALN 66.468	Capitalization Grants for Drinking Water State Revolving Funds
Dollar threshold used to distinguish between type A and type B programs?	\$750,000
Auditee qualified as low-risk auditee?	<u> ___ </u> yes <u> x </u> no

**STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Section II—Financial Statement Findings

2021-001 Recording Accruals and Reconciling Balances

Criteria: Prior to the start of audit procedures, year end balances should be reviewed and agreed to supporting documentation.

Condition: Certain procedures involving the recording, reconciliation and review of financial information related to accounts receivable and payable did not agree between the two districts. Also, accounts receivable from customers was not being reconciled to system reports. It was also noted that certain payables and prepaid items were not recorded.

Context: This finding was noted during audit procedures related to the substantive testing of year end balances.

Effect: Risk of misstatement due to error or fraud.

Cause: Limitations of staffing resources.

Recommendation: We recommend management implement procedures that include a review of all balance sheet line items so that all transactions are recorded in the proper accounting period and balance sheet accounts are properly stated.

Management response: As staffing resources allow; management will implement procedures that include a review of all balance sheet line items so that all transactions are recorded in the proper accounting period and balance sheet accounts are properly stated.

2021-002 Segregation of Duties

Criteria: Financial reporting duties involving the recording, reconciliation and review of financial information should be segregated between staff members.

Condition: Certain procedures involving the recording, reconciliation and review of financial information were not completely segregated during the year.

Context: This finding was noted during procedures to understand and test control procedures.

Effect: Risk of misstatement due to error or fraud.

Cause: Limitations of staffing resources.

Recommendation: We recommend management continue their efforts to ensure that an appropriate individual, other than the individual responsible for preparing reconciliations, review and sign off on bank reconciliations, verifying that outstanding items are regularly cleared and that the reconciled balance agrees to the general ledger.

Management response: Management will segregate duties where possible and will consider implementing compensating controls where segregation is not possible.

**STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Section III—Findings and Questioned Costs for Federal Awards

2021-003 Allowable Costs/Cost Principles for Clean Water State Revolving Funds Cluster Grant Funding

Federal program: ALN 66.468

Drinking Water State Revolving Fund
Cluster

*Capitalization Grants for Drinking
Water State Revolving Funds*

Federal agency:

U.S. Environmental Protection Agency

Pass-through entity:

Colorado Water Resources & Power
Development Authority (CWRPDA)

Criteria: A District must not include as a cost any other federally financed program cost in either the current or a prior period.

Condition: The District received reimbursement from both the United States Air Force and the Drinking Water State Revolving Funds.

Questioned costs: \$124,950.

Context: 6 of the 21 items that were tested were reimbursed by both the United States Airforce and the Clean Water State Revolving Fund.

Effect: The District received reimbursement for expenses from both funding sources.

Cause: Controls to detect duplicate payment requests are not properly designed or operating effectively.

Recommendation: Management should implement procedures that include a closer review of reimbursement requests to ensure that duplicate requests are not present.

Views of responsible officials and planned corrective action: Management agrees with this finding and has taken steps to implement a more detailed review of 2022 reimbursement requests. Questioned costs of \$124,950 were subtracted from the \$1,732,698 of federal funds included in 2021 reimbursements. This resulted in \$1,607,748 of federal funds reported in the SEFA. Per discussion with CWRPDA personnel, those \$124,950 of questioned costs may be spent as allowed project costs in 2022 or 2023 and will be included in subsequent years' SEFA.



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021**

The Summary Schedule of Prior Audit Findings (the Summary) summarizes the status of the audit findings reported in the Stratmoor Hills Water District Schedule of Findings and Questioned Costs for the year ended December 31, 2020. If the prior audit finding was fully addressed, the Summary indicates that the corrective action described in the prior audit report was taken or that corrective action is no longer needed. Otherwise, the Summary references the page number of the December 31, 2021 single audit report where a repeat recommendation, description of the planned corrective action, or reason for not implementing the recommendation is presented.

None.



Stratmoor Hills Water & Sanitation Districts

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2021

2021-003 Allowable Costs/Cost Principles for Clean Water State Revolving Funds Cluster Grant Funding

Federal program: ALN 66.468

Drinking Water State Revolving Fund Cluster
Capitalization Grants for Drinking Water State Revolving Funds
U.S. Environmental Protection Agency
Colorado Water Resources & Power Development Authority

Federal agency:

Pass-through entity:

Criteria: A District must not include as a cost any other federally financed program cost in either the current or a prior period.

Condition: The District received reimbursement from both the United States Air Force and the Drinking Water State Revolving Funds.

Views of responsible officials and planned corrective action: Management agrees with this finding and has taken steps to implement a more detailed review of 2022 reimbursement requests. Questioned costs of \$124,950 were subtracted from the \$1,732,698 of federal funds included in 2021 reimbursements. This resulted in \$1,607,748 of federal funds reported in the SEFA. Per discussion with CWRPDA personnel, those \$124,950 of questioned costs may be spent as allowed project costs in 2022 or 2023 and will be included in subsequent years' SEFA.

Responsibility for Corrective Action: Kevin Niles, District Manager

Anticipated Completion Date: Fall of 2022.