

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT

Arapahoe, Jefferson, and Douglas Counties, Colorado

**FINANCIAL STATEMENTS
December 31, 2021 and 2020**

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Independent Auditor's Report

Board of Directors
Southwest Metropolitan
Water and Sanitation District
Arapahoe, Jefferson and Douglas Counties, Colorado

Opinions

We have audited the financial statements of the Southwest Metropolitan Water and Sanitation District (District) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Southwest Metropolitan Water and Sanitation District, as of December 31, 2021 and 2020, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 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 opinions.

Responsibility of Management 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, 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 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 Responsibility 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 GAAS 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 GAAS, 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 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 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 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 District's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 supplemental information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
March 25, 2022

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED December 31, 2021 and 2020**

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 financial statements.

Financial Highlights

- Net Position decreased \$1,291,542 (or 2.1%) from 2020 to 2021.
- In 2021, charges for services amounted to \$1,947,316 representing 67.2% of the District's total revenue and capital contributions.
- Total capital contributions during 2021 amounted to \$1,099,433.
- Net Position decreased \$950,208 (or 1.5%) from 2019 to 2020.
- In 2020, charges for services amounted to \$1,544,569 representing 48.8% of the District's total revenue and capital contributions.
- Total capital contributions during 2020 amounted to \$1,311,491.

Overview of the Financial Statements

The financial statements of the District are presented as a special purpose government engaged in business type activities – providing water and sewer 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 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, noncapital financing, capital and investing activities.

These financial statements distinguish functions of the District that will be principally supported by investment income, service fees and tap fees. The functions of the District include effective and economical operation of water distribution and wastewater collection systems within the jurisdictional boundaries of the District. The *notes to the financial statements* provide additional

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

NET POSITION

December 31,	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS			
Current assets	<u>\$ 9,953,616</u>	<u>\$ 22,754,118</u>	<u>\$ 9,854,710</u>
Noncurrent assets:			
Long-term cash deposits and investments	14,809,780	1,978,680	15,181,270
Capital assets, net	<u>36,629,300</u>	<u>38,081,531</u>	<u>38,475,818</u>
Total noncurrent assets	<u>51,439,080</u>	<u>40,060,211</u>	<u>53,657,088</u>
Total assets	<u>61,392,696</u>	<u>62,814,329</u>	<u>63,511,798</u>
LIABILITIES			
Current liabilities	<u>307,209</u>	<u>437,300</u>	<u>184,561</u>
Total liabilities	<u>307,209</u>	<u>437,300</u>	<u>184,561</u>
NET POSITION			
Investment in capital assets	36,629,300	38,081,531	38,475,818
Restricted - Emergency reserve	87,000	65,100	102,700
Unrestricted	<u>24,369,187</u>	<u>24,230,398</u>	<u>24,748,719</u>
Total net position	<u>\$61,085,487</u>	<u>\$ 62,377,029</u>	<u>\$63,327,237</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 \$61,085,487, \$62,377,029, and \$63,327,237 at December 31, 2021, 2020, and 2019 respectively. The largest portion of the District’s Net Position reflects its investment in capital assets. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Unrestricted Net Position may be used to meet the District’s ongoing obligations to maintain the water and sewer systems within the jurisdictional boundaries.

Comparing 2020 and 2021, Current assets decreased \$12,800,502 while long-term cash deposits and investments increased 12,831,100 due to the shift from liquid cash holdings to longer term investment holdings. Investment in capital assets decreased \$1,452,231 due to annual depreciation and amortization exceeding capital replacements and contributions of water and sewer facilities. The decrease in total liabilities of \$130,091 is due to an amount due a contractor for emergency sewer maintenance performed at the end of 2020. There was no such repair in 2021.

Comparing 2019 to 2020, Current assets increased \$12,899,408 and long-term cash deposits and investments decreased \$13,202,590. These changes are due to the declining investment market and shift to more liquid cash holdings during 2020. As the District does not levy property taxes, the District relies heavily on its cash and investment reserves to fund operations as well as its investment in capital. This funding explains the overall decrease in assets. With the steady decline in cash and investment reserves, the District’s imposition of a service charge on District customers has become necessary to continue to effectively maintain the District facilities.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ending December 31,	2021	2020	2019
REVENUE			
OPERATING REVENUE			
Charges for services	\$ 1,947,316	\$ 1,544,569	\$ 1,369,916
Total operating revenue	<u>1,947,316</u>	<u>1,544,569</u>	<u>1,369,916</u>
NONOPERATING REVENUE			
Net investment income	<u>(147,741)</u>	308,259	768,936
Total nonoperating revenue	<u>(147,741)</u>	<u>308,259</u>	<u>768,936</u>
CAPITAL CONTRIBUTIONS			
Tap fees	1,093,933	315,947	1,283,458
Contributed capital assets from developers	5,500	995,544	2,034,561
Total capital contributions	<u>1,099,433</u>	<u>1,311,491</u>	<u>3,318,019</u>
Total revenue	<u>2,899,008</u>	<u>3,164,319</u>	<u>5,456,871</u>
EXPENSES			
OPERATING EXPENSES			
Water operations	2,033,766	1,810,310	1,768,062
Sewer operations	1,213,361	1,411,052	1,180,735
General and administrative	941,791	859,974	806,412
Total operating expenses	<u>4,188,918</u>	<u>4,081,336</u>	<u>3,755,209</u>
NONOPERATING EXPENSES			
Loss on disposal of property and equipment	<u>1,632</u>	33,191	1,186
Total nonoperating expenses	<u>1,632</u>	<u>33,191</u>	<u>1,186</u>
Total expenses	<u>4,190,550</u>	<u>4,114,527</u>	<u>3,756,395</u>
CHANGE IN NET POSITION	(1,291,542)	(950,208)	1,700,476
NET POSITION - BEGINNING OF YEAR	<u>62,377,029</u>	<u>63,327,237</u>	<u>61,626,761</u>
NET POSITION - END OF YEAR	<u>\$61,085,487</u>	<u>\$ 62,377,029</u>	<u>\$63,327,237</u>

Total revenue decreased \$265,311 or 8.4% from 2020 to 2021. The increase in charges for services of \$402,747 is primarily due to the District obtaining reimbursement from a contractor for damages to a sewer interceptor line in the amount of \$342,108. Net investment income is reported at a negative \$147,741 due to fair market value adjustments to investment holdings at December 31, 2021 compared to positive net investment income of \$308,259 reported in 2020. Capital contributions decreased \$212,058 due to the progress of various developments within the District and the timing of tap fee revenue collections.

Total revenue decreased \$2,292,552 or 42.0% from 2019 to 2020. The District's charges for services increased \$174,653. This change is attributed to the increase in service fee from \$7.00 to

\$8.00 per month per ¾” equivalent water tap. The increases in the service fee imposed over the last few years is necessary to contribute to the shortfall in the funding of District operations, maintenance and rehabilitation of District facilities. Net investment income decreased by \$460,677 or 60.0% due to significant overall market declines experienced during 2020 and the placement of maturing and called investment securities into more liquid account holdings. Total capital contributions decreased \$2,006,528 due to the progress of various developments within the District and the timing of tap fee revenue collections.

Total expenses increased \$76,023 or 0.2% from 2020 to 2021. District contracts with Platte Canyon Water & Sanitation District to provide administrative and maintenance services under an Intergovernmental Agreement (See Note 6 – Intergovernmental Agreement – Management and Maintenance). The cost of labor and overhead is allocated to the District based on the administrative and maintenance hours devoted to water operations, sewer operations, and general and administrative activities.

The increase in total expenses from 2019 to 2020 amounted to \$358,132 or 9.5%. This increase is attributed to the repair of a sewer interceptor line that was damaged by a boring contractor in November of 2020. As mentioned above, the District submitted claims for damages and received reimbursement of \$342,108 by the contractor during 2021.

Budgetary Highlights

The District prepares its budget on a non-GAAP budgetary basis of accounting to recognize the fiscal impact of sale of assets, capital outlay, in addition to operations and nonoperating revenues and contributions. Capital contributions of facilities and depreciation are not reflected on the budget as they do not affect “funds available”. This budgetary accounting is required by State statutes.

Actual revenue for the District was more than amended budgeted revenues by \$1,024,918. Actual net investment income amounted to a negative \$147,741 resulting in a negative budget variance of \$269,561. A fair value mark down of investments at December 31, 2021 amounted to \$281,894. Actual water and sewer tap fees collected during 2021 was more than the budgeted amounts by \$653,000 and \$270,573, respectively. As mentioned above, the District received reimbursement in the amount of \$342,108 from a boring contractor for damages to a sewer interceptor. Most of the costs to repair the interceptor were expended at the end of 2020 except for the UV lining that was performed during 2021.

Amended budgeted expenditures exceeded actual expenditures by \$140,885. In addition to budgeting for emergency reserve, the District budgeted an additional 20% of the projected water capital expenses to cover unanticipated increases in construction costs. The percentage applied fluctuates from year to year depending on the predictability of the construction industry. The amount budgeted for contingencies and emergency reserves was \$110,271. The actual cost for the water distribution replacement project was \$107,775 less than the budgeted amount. Actual total operating expenditures exceeded the budget amount by \$105,824. The largest negative variance relates to general office administration which includes administrative services provided by Platte Canyon (See Note 6 – Intergovernmental Agreement – Management and Maintenance). The variance is due to the District’s share of the benefit payout resulting from the retirement of the District Manager.

The budget was amended during the year increasing the total appropriation by \$349,500 from \$2,524,204 to \$2,873,704. The budget amount for repair and maintenance for water operations was increased by \$295,000 due to significant costly water system failures requiring emergency repair and the budget amount for the sewage collection system was increased by \$54,500 to account for the installation of the UV lining to complete the rehabilitation of the interceptor that was damaged in 2020.

Capital Assets

The District’s investment in capital assets at December 31, 2021, 2020, and 2019 amounted to \$36,629,300, \$38,081,531, and \$38,475,818, (net of accumulated depreciation/amortization), respectively.

Analysis of changes in capital assets from 2020 to 2021 is as follows:

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
Land and easements	\$ 64,819	\$ 64,819	0.0%
Construction in progress	37,882	22,346	69.5%
Water distribution systems	17,474,460	18,176,693	-3.9%
Sewage collection system	17,958,653	18,741,704	-4.2%
Office building	1,093,486	1,073,557	1.9%
Other	-	2,412	-100.0%
Total net capital assets	<u>\$ 36,629,300</u>	<u>\$ 38,081,531</u>	

The District completed one major water capital project replacing 300 feet of 12-inch cast iron pipe amounting to \$228,229. The engineering design of this projects began during 2020. As a result of the damage to the sewer interceptor by the boring contractor during 2020, the District rehabilitated 141 feet of the interceptor with the installation of a UV lining which amounted to \$54,497. Improvements to the office building amounted to \$111,340 and included a new roof and skylights as well the replacement of the second-floor deck and stairs. Total depreciation and amortization expense for 2021 amounted to \$1,865,701.

Analysis of changes in capital assets from 2019 to 2020 is as follows:

	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>
Land and easements	\$ 64,819	\$ 64,819	0.0%
Construction in progress	22,346	25,548	-12.5%
Water distribution systems	18,176,693	18,170,864	0.0%
Sewage collection system	18,741,704	19,066,872	-1.7%
Office building	1,073,557	1,144,452	-6.2%
Other	2,412	3,263	-26.1%
Total net capital assets	<u>\$ 38,081,531</u>	<u>\$ 38,475,818</u>	

The District completed three major water capital projects replacing 356 feet of 6-inch asbestos-cement pipe, 376 feet of 12-inch ductile iron pipe, and 788 feet of 12-inch PVC pipe amounting to \$484,711. The engineering design of these projects began during 2019. Water and sewer facilities contributed to the District by developers during 2020 amounted to \$481,092 and \$514,452, respectively. Total depreciation and amortization expense for 2020 amounted to \$1,903,277.

Additional information on the District’s capital assets can be found in NOTE 4 of this report.

Economic Factors and Next Year’s Budget

- Total revenue is budgeted at \$3,010,038, 61.1% more than 2021 budget revenue of \$1,868,590. Investment income is budgeted at \$98,930 which is based on a projected average yield of 0.4%.
- The District will continue to impose a service fee to customers. In 2022, the fee will increase from \$8.00 to \$12.00 per month per ¾” equivalent. Service fee revenue budgeted for 2022 is \$2,214,860 based on 15,381 ¾” equivalents.
- The budget for operating expenditures and capital expenditures is \$2,174,443 and \$1,453,560, respectively.
- Total expenditures for 2022 are projected to exceed revenue by \$617,965 which will be funded by the District’s current funds available.

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: Financial Administrator, Southwest Metropolitan Water and Sanitation District, 8739 W. Coal Mine Ave., Littleton, Colorado 80123.

FINANCIAL STATEMENTS

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,397,791	\$ 13,985,525
Cash deposits and investments	395,000	8,549,010
Accounts receivable	133,535	123,946
Accrued interest receivable	25,788	83,146
Prepaid expenses	1,502	12,491
Total current assets	9,953,616	22,754,118
NONCURRENT ASSETS		
Long-term cash deposits and investments	14,809,780	1,978,680
Capital assets:		
Land and easements	64,819	64,819
Construction in progress	37,882	22,346
Water distribution system	45,382,218	45,153,298
Sewage collection system	36,086,792	36,032,295
Office building	2,686,334	2,574,994
Other	6,995	37,955
Less accumulated depreciation	(47,635,740)	(45,804,176)
Total capital assets (net of accumulated depreciation)	36,629,300	38,081,531
Total noncurrent assets	51,439,080	40,060,211
Total assets	61,392,696	62,814,329
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	172,610	397,095
Deposits from developers	134,599	40,205
Total current liabilities	307,209	437,300
NET POSITION		
Investment in capital assets	36,629,300	38,081,531
Restricted for emergencies	87,000	65,100
Unrestricted	24,369,187	24,230,398
TOTAL NET POSITION	\$ 61,085,487	\$ 62,377,029

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

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2021 and 2020

	2021	2020
OPERATING REVENUE		
Charges for services	\$ 1,605,208	\$ 1,544,569
Contractor reimbursement for facility damages	342,108	-
Total operating revenue	1,947,316	1,544,569
OPERATING EXPENSES		
Water operations	2,033,766	1,810,310
Sewer operations	1,213,361	1,411,052
General and administrative	941,791	859,974
Total operating expenses	4,188,918	4,081,336
(LOSS) FROM OPERATIONS	(2,241,602)	(2,536,767)
NONOPERATING REVENUE		
Investment income	134,153	354,291
Net increase (decrease) in fair value of investments	(281,894)	(46,032)
Total nonoperating revenue	(147,741)	308,259
NONOPERATING EXPENSES		
Loss on disposal of property and equipment	(1,632)	(33,191)
Total nonoperating expenses	(1,632)	(33,191)
(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(2,390,975)	(2,261,699)
CAPITAL CONTRIBUTIONS		
Tap fees	1,093,933	315,947
Contributed capital assets	5,500	995,544
Total capital contributions	1,099,433	1,311,491
CHANGE IN NET POSITION	(1,291,542)	(950,208)
NET POSITION - BEGINNING OF YEAR	62,377,029	63,327,237
NET POSITION - END OF YEAR	\$ 61,085,487	\$ 62,377,029

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

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,032,121	\$ 1,645,883
Cash payments to suppliers for goods and services	(2,562,872)	(1,930,380)
Cash flows used for operating activities	(530,751)	(284,497)
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed capital - Tap and annexation fees	1,093,933	315,947
Acquisition of property, plant and equipment	(383,443)	(547,926)
Cash flows provided (used) by capital and related financing activities	710,490	(231,979)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	191,707	422,248
Purchase of investments	(12,959,180)	(2,000,000)
Matured investments	8,000,000	8,000,000
Cash provided (used) by investing activities	(4,767,473)	6,422,248
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,587,734)	5,905,772
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	13,985,525	8,079,753
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 9,397,791	\$ 13,985,525

(Continued)

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

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

(Continued)

	2021	2020
Reconciliation of (loss) from operations to net cash used for operating activities		
(Loss) from operations	\$ (2,241,602)	\$ (2,536,767)
Adjustments to reconcile (loss) from operations to net cash used for operating activities		
Depreciation and amortization	1,865,701	1,903,277
Effects of changes in operating assets and liabilities:		
Accounts receivable	(9,589)	95,480
Prepaid expenses	10,989	(515)
Accounts payable	(250,644)	248,194
Deposits from developers	94,394	5,834
Total adjustments	1,710,851	2,252,270
Cash flows used for operating activities	\$ (530,751)	\$ (284,497)
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Contributions of capital assets from developers	\$ 5,500	\$ 995,544
Loss on disposal of capital assets	\$ (1,632)	\$ (33,191)
Fair Value decrease of investments	\$ (281,894)	\$ (46,032)

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

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 – DEFINITION OF REPORTING ENTITY

Southwest Metropolitan Water and Sanitation District (the District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson, Arapahoe and Douglas Counties, Colorado. The District was established to provide water and sanitation services.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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:

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation and amortization are computed and recorded as operating expenses. Expenditures for property and equipment are shown as increases in assets. Tap fees, inclusion fees and contributed water and sewer lines are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes between operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Charges to customers for services provided are performed by a third-party (see Note 5 - Denver Water Board). Operating expenses include cost of service, administrative

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

expenses, and depreciation and amortization of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses or capital contributions.

Budgets

In accordance with the State Budget Law, the District’s Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District’s Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. A budget is legally adopted for the District and is presented on a Non-GAAP budgetary basis.

For the year ended December 31, 2021, the District Board of Directors approved the amendment of the budget increasing total appropriations from \$2,524,204 to \$2,873,704.

Restricted Resources

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.

Cash Equivalents and Investments

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

Capital Assets

Capital assets which include property, equipment, and infrastructure are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution or at developer’s cost. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Depreciation and amortization expense has been computed using the straight-line method over the estimated economic useful lives:

Distribution and collection systems	20 – 40 years
Office building and improvements	15 – 40 years
Other	3 – 5 years

Net Position

Net Position is categorized as investment in capital assets, restricted and unrestricted. Investment in capital assets is intended to reflect the portion of Net Position which are associated with non-liquid, capital assets. Restricted Net Position are liquid assets, which have third party limitations

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
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on their use. Unrestricted Net Position represent assets that do not have any third party limitations on their use.

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

At December 31, the District had the following cash and investments:

	<u>2021</u>	<u>2020</u>
Deposits	\$ 627,058	\$ 522,606
Investments	23,975,513	23,990,609
Total	<u>\$ 24,602,571</u>	<u>\$ 24,513,215</u>

Cash deposits and investments are reflected on the December 31, Statement of Net Position as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 9,397,791	\$ 13,985,525
Cash deposits and investments	395,000	8,549,010
Long-term cash deposits and investments	14,809,780	1,978,680
	<u>\$ 24,602,571</u>	<u>\$ 24,513,215</u>

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires deposits of all units of local government to be made 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 institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the 102% of the uninsured deposits.

Investments

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

- . Obligations of the U.S. and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market mutual funds

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
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- . Guaranteed investment contracts
- . Local government investment pools

The investment policy adopted by the Board of Directors of the District establishes additional restrictions to the requirements specified by state statutes.

At December 31, the District had the following investments:

Investment	Rating	Investment Maturities (in Years)			2021
		1 or less	1 - 5	More than 5	Total
U.S. Government Instrumentalities	AAA/AA+	\$ -	\$ 3,938,680	\$ 1,924,300	\$ 5,862,980
U.S. Treasury Notes	N/A	-	8,847,800	-	8,847,800
Local Government Investment Pool - COLOTRUST PLUS+	AAAm	1,484,394			1,484,394
Local Government Investment Pool - COLOTRUST EDGE	AAAf/S1	4,297,621			4,297,621
Local Government Investment Pool - CSAF Core	AAAf/S1	3,482,718	-	-	3,482,718
		<u>\$ 9,264,733</u>	<u>\$ 12,786,480</u>	<u>\$ 1,924,300</u>	<u>\$ 23,975,513</u>

Investment	Rating	Investment Maturities (in Years)			2020
		1 or less	1 - 5	More than 5	Total
U.S. Government Instrumentalities	AAA/AA+	\$ 2,016,040	\$ -	\$ 1,978,680	\$ 3,994,720
U.S. Treasury Notes	N/A	6,038,970	-	-	6,038,970
Local Government Investment Pool - COLOTRUST PLUS+	AAAm	7,960,749			7,960,749
Local Government Investment Pool - CSAF Core	AAAf/S1	5,996,170	-	-	5,996,170
		<u>\$ 22,011,929</u>	<u>\$ -</u>	<u>\$ 1,978,680</u>	<u>\$ 23,990,609</u>

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting investments in U.S. Treasuries and U.S. Agencies to an original maturity of ten years or less.

Credit risk – The District’s investment policy limits investments to U.S. Treasury obligations and U.S. Government agency securities, local government investment pools, and certain money market mutual funds approved by the Board of Directors. At the time of purchase, investments must have a credit rating equal to or greater than that specified by state statutes.

Concentration of Credit Risk – It is the policy of the District to diversify its investment portfolio to eliminate risk of loss resulting from over concentration of assets in a specific maturity, a specific class, and specific issuer of securities. The District policy includes cash deposits in the total portfolio when determining concentration of investments. The policy provides that the total portfolio of the District may be comprised of 100% U.S. Treasury Notes. However, investment in U.S. agency and instrumentalities may not exceed 50% of the District’s total portfolio and investment in any one issuer may not exceed 20% of the total portfolio. Investments in local government investment pools as well as money market mutual funds may not exceed 50%, of the District’s total portfolio. A maximum of 35% of the District’s total portfolio may be invested in any one local government investment pool. A maximum of 25% of the District’s total portfolio may be invested in approved fixed income money market mutual funds. The policy provides for

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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variances in the stated maximum percentage limitations not to exceed 10% at any given time and the Board may ratify exceptions as deemed necessary. At December 31, 2021, the District's investments in the Federal Home Loan Bank, Federal Farm Credit Banks, and Federal Home Loan Mortgage Corp were 8.28%, 8.15%, and 8.03%, respectively, of the District's total investments and 8.07%, 7.94%, and 7.82%, respectively, of the District's total portfolio. At December 31, 2020, the District's investments in the Federal National Mortgage Association and Federal Home Loan Mortgage Corp were 8.40% and 8.25%, respectively, of the District's total investments and 8.22% and 8.07%, respectively, of the District's total portfolio.

Local Government Investment pools:

COLOTRUST – As of December 31, 2021 and 2020, the District has invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. It operates similarly to a money market fund. COLOTRUST offers shares in three portfolios: PRIME, PLUS+, and EDGE. All portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. Both PLUS+ and EDGE may also invest in the highest rated commercial paper. The PRIME and PLUS portfolios are restricted to a weighted average maturity (WAM) of 60 days or less while the EDGE portfolio incorporates longer-dated securities with a WAM of 60 days or more. Both PRIME and PLUS+ portfolios are rated AAAM by Standard and Poor's and the EDGE portfolio is rated AA Af/S1 by FitchRatings. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. Each share of PRIME and PLUS is equal in value to \$1.00 and the redemption frequency is daily with no redemption notice period. EDGE's net asset value is managed to approximate a \$10.00 transactional share price and the redemption frequency is five business days. The principal value of an EDGE investment may fluctuate and could be greater or less than \$10.00 per share at time of purchase, prior to redemption, and at the time of redemption. There are no unfunded commitments.

CSAFE – As of December 31, 2021 and 2020, the District has invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established by State statute for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces the requirements of creating and operating CSAFE. CSAFE operates similarly to money market funds, and each share of CSAFE Cash is equal in value to \$1.00 and each share of CSAFE Core is equal in value to \$2.00. The District's investment is in the CSAFE Core fund. Fitch Ratings rates CSAFE AA Af/S1. Investments are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments. CSAFE Core calculates the net asset value on a fair value basis as provided for by GASB Statements 31 and 72, and the District records its investment in CSAFE Core at this net asset value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District also has certain investments not categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST and CSAFE which are not categorized within the fair value hierarchy. As of December 31, 2021 and 2020 fair value and NAV measurements of the District's investments are as follows:

	Carrying Amount	
	2021	2020
Investment measured at fair value:		
U.S. Government Instrumentalities (Level 1 inputs)	\$ 5,862,980	\$ 3,994,720
U.S. Treasury Notes (Level 1 inputs)	8,847,800	6,038,970
Total investments by fair value level	<u>14,710,780</u>	<u>10,033,690</u>
Investments measured at NAV		
Local Government Investment Pool - COLOTRUST PLUS+	1,484,394	7,960,749
Local Government Investment Pool - COLOTRUST EDGE	4,297,621	-
Local Government Investment Pool - CSAFE Core	3,482,718	5,996,170
Total investments at NAV	<u>9,264,733</u>	<u>13,956,919</u>
Total investments at carrying amount	<u>\$ 23,975,513</u>	<u>\$ 23,990,609</u>

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SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

	Balance at December 31, 2020	Additions	Deletions	Balance at December 31, 2021
Capital assets, not being depreciated:				
Land and easements	\$ 64,819	\$ -	\$ -	\$ 64,819
Construction in progress	22,346	37,882	22,346	37,882
Total capital assets not being depreciated	<u>87,165</u>	<u>37,882</u>	<u>22,346</u>	<u>102,701</u>
Capital assets, being depreciated:				
Water distribution system	45,153,298	233,729	4,809	45,382,218
Sewage collection system	36,032,295	54,497	-	36,086,792
Office building	2,574,994	111,340	-	2,686,334
Other	37,955	-	30,960	6,995
Total capital assets being depreciated	<u>83,798,542</u>	<u>399,566</u>	<u>35,769</u>	<u>84,162,339</u>
Less accumulated depreciation/amortization:				
Water distribution system	(26,976,605)	(935,962)	(4,809)	(27,907,758)
Sewage collection system	(17,290,591)	(837,548)	-	(18,128,139)
Office building	(1,501,437)	(91,411)	-	(1,592,848)
Other	(35,543)	(780)	(29,328)	(6,995)
Total accumulated depreciation	<u>(45,804,176)</u>	<u>(1,865,701)</u>	<u>(34,137)</u>	<u>(47,635,740)</u>
Total capital assets, being depreciated, net	<u>37,994,366</u>	<u>(1,466,135)</u>	<u>1,632</u>	<u>36,526,599</u>
Net Capital Assets	<u>\$38,081,531</u>	<u>\$ (1,428,253)</u>	<u>\$ 23,978</u>	<u>\$36,629,300</u>

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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An analysis of the changes in capital assets for the year ended December 31, 2020 follows:

	Balance at December 31, 2019	Additions	Deletions	Balance at December 31, 2020
Capital assets, not being depreciated:				
Land and easements	\$ 64,819	\$ -	\$ -	\$ 64,819
Construction in progress	25,548	22,346	25,548	22,346
Total capital assets not being depreciated	<u>90,367</u>	<u>22,346</u>	<u>25,548</u>	<u>87,165</u>
Capital assets, being depreciated:				
Water distribution system	44,232,036	1,012,782	91,520	45,153,298
Sewage collection system	35,517,843	514,452	-	36,032,295
Office building	2,556,845	18,149	-	2,574,994
Other	37,955	-	-	37,955
Total capital assets being depreciated	<u>82,344,679</u>	<u>1,545,383</u>	<u>91,520</u>	<u>83,798,542</u>
Less accumulated depreciation/amortization:				
Water distribution system	(26,061,172)	(973,762)	(58,329)	(26,976,605)
Sewage collection system	(16,450,971)	(839,620)	-	(17,290,591)
Office building	(1,412,393)	(89,044)	-	(1,501,437)
Other	(34,692)	(851)	-	(35,543)
Total accumulated depreciation	<u>(43,959,228)</u>	<u>(1,903,277)</u>	<u>(58,329)</u>	<u>(45,804,176)</u>
Total capital assets, being depreciated, net	<u>38,385,451</u>	<u>(357,894)</u>	<u>33,191</u>	<u>37,994,366</u>
Net Capital Assets	<u>\$38,475,818</u>	<u>\$ (335,548)</u>	<u>\$ 58,739</u>	<u>\$38,081,531</u>

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 were charged to the following operations:

	<u>2021</u>	<u>2020</u>
Water	\$ 935,962	\$ 973,762
Sewer	837,548	839,620
Administration	92,191	89,895
	<u>\$ 1,865,701</u>	<u>\$ 1,903,277</u>

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 – CONTRACTS

Denver Water Board

The District has a distributor contract with the Denver Water Board (Denver) whereby Denver provides water in the District's service area and charges the users directly ("read and bill" type of distributor's contract). The District is responsible for maintenance and replacement of the water mains owned by the District.

During 2014, under the distributor contract with Denver, the District entered into an Intergovernmental Agreement with Denver to impose a service fee of \$1.00 per month per ¾" equivalent to District customers. The service fee is to be used for operations, maintenance, and rehabilitation, of the District facilities. The fee is imposed on customers' Denver Water bills, with the revenue collected by Denver Water and remitted to the District less a collection fee. The District increased the service fee from \$1.00 to \$3.00 in 2017, \$3.00 to \$5.00 in 2018, \$5.00 to \$7.00 in 2019. The service fee imposed in 2020 and 2021 was \$8.00. Service fee revenue amounted to \$1,482,909 and \$1,458,841 in 2021 and 2020, respectively.

In 1975, the District entered into an agreement with Denver whereby the District constructed water mains and conveyed them to Denver in exchange for a water supply of 5,500,000 gallons per day. Denver is responsible for the operation, maintenance and replacement of these mains.

The District participated in the cost to construct facilities owned by Denver (agreement date 1977). The District acquired the right to sufficient capacities in the water line to serve taps reserved to the District for \$6,742,264. This amount is included in the water distribution system and is being amortized over 40 years using the straight-line method. Accumulated amortization at December 31, 2021 and 2020 is \$5,875,913 and, \$5,818,164 respectively.

The District has additional contracts with Denver for its participation costs in facilities. These facilities were deemed complete during 2005 and the District has no further commitments under the contracts. The District's participation amounted to \$4,484,958, which reserves additional capacity in the Denver system for the District. This amount has been included in the water distribution system and is being amortized over 40 years using the straight-line method. Accumulated amortization at December 31, 2021 and 2020 is \$1,793,983 and \$1,681,859, respectively.

City of Littleton

The District has a contract with the City of Littleton (the City) whereby the City provides sewage treatment for the District and bills users directly. The District is responsible for maintenance and replacement of the sewer mains within the District and will retain title to them.

Meadowbrook-Fairview

In 1976, the District agreed to reserve for Meadowbrook-Fairview Metropolitan District (Meadowbrook-Fairview) sewer capacity for 1,550 single family or equivalent sanitary sewer

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

taps in its facilities. The agreement provides that sewer lines described as outfalls “A” & “B” that were constructed by Meadowbrook-Fairview remain the property of Meadowbrook-Fairview until its bonded indebtedness incurred in construction is fully paid.

During 1997, the agreement was amended and the outfall lines “A” & “B” and all easements relating thereto were conveyed to the District as provided in the original agreement. The amendment extended the contract for twenty years and for an additional period of time the outfall lines are being utilized. During 1999, the contract was again amended, increasing the total allowable taps by 336 to 1,886.

A third amendment to the agreement was made during 2019 increasing the total allowable taps by 114 to 2,000. Meadowbrook-Fairview must pay the sum of \$227 for each single-family residential equivalent together with Southwest’s applicable tap fee at the time of connection. As of December 31, 2021 and 2020, remaining taps to be issued under the contract amounted to 134 and 185, respectively.

Grant Water and Sanitation District

On August 14, 1962, the District entered into an agreement with Grant Water and Sanitation District (Grant) to accommodate the future transmission of sewage from 5,000 single family equivalent taps. Grant agreed to pay the District \$50 at the time each individual tap is connected.

During 1983, an additional agreement provided for an alternate point of connection to the Districts sewer system for 300 single family equivalent taps, within Grant at \$450 per individual tap. The 300 sewer taps are part of, and not in addition to the 5,000 sewer taps allowed under the 1962 Agreement. At December 31, 2021 and 2020 the remaining taps to be issued under the agreements amounted to 999.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Intergovernmental Agreement – Management and Maintenance

In 1986, the District entered into an agreement with Platte Canyon Water and Sanitation District (Platte Canyon) wherein Platte Canyon provides management, maintenance, inspection and clerical services to the District. Under the agreement, Platte Canyon bills the District monthly for its proportionate share of costs. During 2014, the contract was renewed for ten years with an option for the District to renew for successive five-year periods after December 31, 2024. During 2021 and 2020 the District reimbursed Platte Canyon \$1,320,332 and \$1,206,681, respectively for services provided.

Intergovernmental Agreement – Joint Office and Garage Facility

On March 27, 1998, the District entered into an intergovernmental agreement with Platte Canyon, which provides for cost sharing of a new office and garage facility. The cost of the new facility was \$1,816,148, of which, the District paid 70% or \$1,271,303. Upon termination of the

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

agreement, Platte Canyon will be entitled to 30% of the appraised replacement value of the joint facility excluding land value.

In accordance with the agreement, Platte Canyon pays the District a monthly rent and a proportionate share of the operation and maintenance expense as well as approved capital improvements determined on a quarterly basis. The Intergovernmental Agreement was amended on January 1, 2019 and will be effective until December 31, 2029. Reimbursement of operation, maintenance, and capital improvement costs received from Platte Canyon during 2021 and 2020 amounted to \$59,771 and \$33,689, respectively.

Water Tap Deposit Agreement

Advance deposits for the purchase of future water taps were received during 1978. At December 31, 2021, remaining advance deposits amounted to \$552,750, which represents the District's intention to issue 737 water taps. This amount was recorded as contributions when received. No advance deposits were used or refunded in 2021 and 2020.

NOTE 7 – LEASES

In 1969, the District entered into an agreement with the City of Littleton whereby the City is allowed to connect with the District's sewer lines for \$15,000 per year. The agreement is subject to renewal annually. The District recorded lease income of \$15,000 for each of the years ended December 31, 2021 and 2020.

NOTE 8 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as amended from time to time, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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

The District maintains commercial insurance for injuries to employees (worker's compensation). Settled claims have not exceeded this coverage in any of the past three fiscal years.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 9 – TAX, SPENDING AND DEBT LIMITATIONS

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

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District’s management believes a significant portion of its operations qualifies for this exclusion.

Spending and revenue limits are determined based on the prior year’s Fiscal Year Spending 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.

On November 4, 2003, a majority of the District’s electors authorized the District to collect, retain and spend all revenues and other funds received from District rates, fees, tolls, charges, fines, penalties and investments commencing January 1, 2004, for general operations, maintenance, and capital improvements as a voter approved revenue change and exception to the limits which would otherwise apply under Article X, Section 20.

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

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. At December 31, 2021 and 2020, the District’s reserve of \$87,000 and \$65,100 was recorded as a restriction of Net Position.

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

SUPPLEMENTAL INFORMATION

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended December 31, 2021 and 2020

	2021	2020
WATER OPERATIONS		
Repair and maintenance	\$ 960,980	\$ 778,063
Utilities	48,801	47,806
Engineering and legal	88,023	10,679
Depreciation	766,089	748,501
Amortization	169,873	225,261
Total water operations	2,033,766	1,810,310
SEWER OPERATIONS		
Repair and maintenance	355,704	548,744
Utilities	15,706	12,074
Engineering and legal	4,403	10,614
Depreciation	835,392	830,031
Amortization	2,156	9,589
Total sewer operations	1,213,361	1,411,052
GENERAL AND ADMINISTRATIVE		
General office administration		
Administration	647,904	575,746
Office supplies	1,969	1,154
Other	16,851	16,094
Public Relations	27,155	26,226
Professional and consulting		
Accounting and audit	5,700	5,700
Legal	38,774	28,778
Other	3,750	3,750
Insurance	15,647	14,586
Building maintenance and utilities	85,391	92,124
Miscellaneous	6,459	5,921
Depreciation	92,191	89,895
Total general and administrative	941,791	859,974
Total operating expenses	\$ 4,188,918	\$ 4,081,336

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (Non-GAAP BUDGETARY BASIS)
Year Ended December 31, 2021

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
REVENUE				
Net investment income	\$ 121,820	\$ 121,820	\$ (147,741)	\$ (269,561)
Tap fees - water	140,000	140,000	793,000	653,000
Tap fees - sewer	30,360	30,360	300,933	270,573
Reimbursement from contractor	-	-	342,108	342,108
Charges for services	1,576,410	1,576,410	1,605,208	28,798
Total revenue	1,868,590	1,868,590	2,893,508	1,024,918
EXPENDITURES				
OPERATIONS AND ADMINISTRATION				
Operations and maintenance - water				
Repair and maintenance	649,500	944,500	960,980	(16,480)
Utilities	52,100	52,100	48,801	3,299
Engineering and legal	70,550	70,550	88,023	(17,473)
Operations and maintenance - sewer				
Repair and maintenance	348,000	348,000	355,704	(7,704)
Utilities	14,000	14,000	15,706	(1,706)
Engineering and legal	14,950	14,950	4,403	10,547
General office administration	597,813	597,813	666,724	(68,911)
Public Relations	26,200	26,200	27,155	(955)
Professional and consulting	45,750	45,750	48,224	(2,474)
Insurance	16,090	16,090	15,647	443
Office maintenance	43,000	43,000	53,841	(10,841)
Office utilities	36,410	36,410	31,550	4,860
Other	8,030	8,030	6,459	1,571
Total operations and maintenance	1,922,393	2,217,393	2,323,217	(105,824)
CAPITAL OUTLAY				
Water distribution system	351,540	351,540	243,765	107,775
Sewage collection system	25,000	79,500	54,497	25,003
Other	115,000	115,000	111,340	3,660
Contingency	110,271	110,271	-	110,271
Total capital outlay	601,811	656,311	409,602	246,709
Total expenditures	2,524,204	2,873,704	2,732,819	140,885
EXCESS OF REVENUE (UNDER) EXPENDITURES	(655,614)	(1,005,114)	160,689	1,165,803
FUNDS AVAILABLE - BEGINNING OF YEAR	24,363,634	24,363,634	24,295,498	(68,136)
FUNDS AVAILABLE - END OF YEAR	\$ 23,708,020	\$ 23,358,520	\$ 24,456,187	\$ 1,097,667
Funds available is computed as follows:				
Current assets			\$ 9,953,616	
Long-term cash deposits and investments			14,809,780	
Current liabilities			(307,209)	
			\$ 24,456,187	

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
RECONCILIATION OF ACTUAL (Non-GAAP BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2021**

REVENUE (BUDGETARY BASIS)	\$ 2,893,508
Contributed capital assets	5,500
Total revenue per statement of revenues, expenses, and changes in net position	<u>2,899,008</u>
 EXPENDITURES (BUDGETARY BASIS)	 2,732,819
Depreciation	1,693,672
Amortization	172,029
Loss on asset disposition	1,632
Capital outlay	<u>(409,602)</u>
Total expenses per statement of revenues, expenses, and changes in net position	<u>4,190,550</u>
 Change in net position per statement of revenues, expenses, and changes in net position	 <u><u>\$ (1,291,542)</u></u>