

Kiowa Water and Wastewater Authority

Financial Statements

December 31, 2021

Kiowa Water and Wastewater Authority
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rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

Board of Directors
Kiowa Water and Wastewater Authority

Opinion

We have audited the financial statements of the business-type activities of Kiowa Water and Wastewater Authority (the "Authority"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of the Authority as of December 31, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Authority 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.

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 Authority's ability to continue as a going concern for one year after the date that the financial statements are issued.

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 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 Authority'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 Authority'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.

Management has elected to omit the management's discussion and analysis. The omission of this information does not affect our opinion.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, including the Schedule of Revenues and Expenses Budget & Actual is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary 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. Such 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

rfarmer, llc

September 1, 2022

Kiowa Water and Wastewater Authority
Statement of Net Position
Proprietary Fund
December 31, 2021

ASSETS

Current assets:	
Cash and cash equivalents	\$ 385,166
Restricted Cash	38,150
Accounts Receivable, net	68,512
Total current assets	491,828
Non-current assets:	
Capital Assets:	
Land and improvements	9,290
Enterprise System Assets	5,648,935
Buildings	13,169
Equipment and Furniture	26,666
Less Accumulated depreciation	(1,481,899)
Total non-current assets	4,216,161
Total assets	4,707,989

LIABILITIES

Current Liabilities:	
Accounts payable	8,618
Customer deposits	28,029
Bonds payable, current portion	86,602
Total current liabilities	123,249
Non-current liabilities:	
Bonds payable, net of current portion	5,052,572
Total non-current liabilities	5,052,572
Total liabilities	5,175,821

NET POSITION

Net investment in capital assets	(923,012)
Unrestricted	455,180
Total net position	\$ (467,832)

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

Kiowa Water and Wastewater Authority
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended December 31, 2021

REVENUES	
Charges for services	\$ 660,630
Total operating revenues	<u>660,630</u>
 OPERATING EXPENSES	
Contractual services	135,252
Miscellaneous expenses	13,047
Utilities	34,338
Repairs and maintenance	33,234
Other supplies and expenses	6,999
Insurance claims and expenses	17,035
Depreciation	<u>157,363</u>
Total Operating Expenses	<u>397,268</u>
Operating income (loss)	<u>263,362</u>
 NON-OPERATING REVENUES (EXPENSES)	
Interest expense	<u>(181,760)</u>
Total non-operating revenue (expenses)	<u>(181,760)</u>
Income (loss) before contributions and transfers	<u>81,602</u>
Change in net position	81,602
Total net position - beginning	<u>(549,434)</u>
Total net position - ending	<u>\$ (467,832)</u>

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

Kiowa Water and Wastewater Authority
Statement of Cash Flows
Proprietary Fund
For the year ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Charges for Services	\$ 668,528
Cash Payments to Suppliers for Goods & Services	(240,232)
NET CASH PROVIDED BY	428,296
OPERATING ACTIVITIES	428,296

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Customer Deposits Increase (Decrease)	(1)
NET CASH PROVIDED BY	(1)
NONCAPITAL FINANCING ACTIVITIES	(1)

**CASH FLOWS FROM CAPITAL & RELATED
FINANCING ACTIVITIES:**

Principle Payment on Bonds	(83,580)
Interest Paid on Long-Term Debt	(181,760)
NET CASH (USED) FOR CAPITAL	(265,340)
AND RELATED FINANCING ACTIVITIES	(265,340)

NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	162,955
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CASH & CASH EQUIVALENTS:

Beginning of Year	260,361
End of Year	\$ 423,316

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

Kiowa Water and Wastewater Authority
Statement of Cash Flows
Proprietary Funds
For the year ended December 31, 2021
(Continued)

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Income (Loss)	\$ 263,362
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities:	
Depreciation & Amortization	157,363
Change in Assets and Liabilities:	
(Increase) Decrease in Receivables	7,898
Increase (Decrease) in Accounts Payable	<u>(327)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 428,296</u></u>

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

Kiowa Water and Wastewater Authority
Notes to Financial Statements
December 31, 2021

Note 1 **Summary of Significant Accounting Policies**

The Kiowa Water and Wastewater Authority (the Authority) provides water and wastewater services to the residents of the Town of Kiowa. The Authority is governed by a five-member Board. The five-member board was appointed by the Town of Kiowa Board of Trustees. The Town of Kiowa Board of Trustees will also appoint future board members. The appointment does not create any legal or financial responsibility on behalf of the Town of Kiowa.

On March 10, 2014, the Kiowa Water and Wastewater Authority of Elbert County, Colorado Board of Directors established, under provision of Title 37, Article 45.1, Colorado Revised Statutes (the Water Activity Law), the Water Enterprise and Wastewater Enterprise of the Kiowa Water and Wastewater Authority which is authorized: (i) to establish or continue to maintain water activity enterprises for the purpose of pursuing or continuing water activities, including water acquisition or water projects or facility activities including the construction, operation, repair and replacement of water or wastewater facilities; and (ii) to issue or reissue bonds, notes or other obligations payable from the revenues derived or to be derived from the function, service, benefits or facility or from any other available funds of the enterprise, the terms and conditions of such bonds or other obligations to be set forth in the resolution authorizing the same.

The Authority has the power to set water and wastewater rates, to sue and be sued and to conduct all required business activity as needed to continue to provide water and wastewater services to the residents of the Town of Kiowa.

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

Reporting Entity

The Authority has no component units for which either discrete or blended presentation is required. The inclusion or exclusion of component units is based on a determination of the elected officials' financial accountability to their constituents, and whether the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units, which are in substance, part of the primary government) and discretely presented component units. The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to fiscal dependency, imposition of will, legal standing and the primary recipient services.

Fund Financial Statements

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority applies all Governmental Accounting Standards Board (GASB) pronouncements.

All activities are accounted for in two proprietary (enterprise) funds. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority reports the following major proprietary fund:

- The *Water and Wastewater Fund* provides production, treatment, and distribution of water and for the collection and treatment of wastewater.

The fund is used to account for those operations financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The intent of the Authority is that the costs of providing goods and services to the Town of Kiowa residents on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise funds are charges for services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Position or Equity

Cash and Investments

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The Authority does not have an allowance account as all receivables are deemed to be collectible.

Restricted Cash and Investments

The use of certain cash and investments of the Authority is restricted. These cash and investment items are classified as restricted assets on the balance sheet because their use is limited.

Capital Assets

Capital assets, which include land, buildings, vehicles, water and wastewater systems and equipment, are reported in the applicable enterprise fund financial statements. 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 valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed. The Authority adopted a \$3,500 capitalization policy.

If proprietary fund assets are constructed, interest is capitalized on the assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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.

Buildings, improvements, vehicles, and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20 to 25 years
Water System	20 to 50 years
Wastewater System	30 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement, and the related costs including accumulated depreciation are removed from the accounts, with any gain or loss reflected in the statement of revenue, expenses, and changes in fund net position.

The Authority does not have any infrastructure.

Long-term Liabilities

In the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

Estimates

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

Budget Information

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In October, Management submits to the Board a proposed budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted by the Authority to obtain public comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. Authorization to transfer budgeted amounts between funds and revisions that alter the total expenditures of any fund must be approved by the Board.
5. Formal budgetary integration is employed as a management control device during the year for the Funds.
6. The budgets for the Proprietary Funds are adopted on a comprehensive basis of accounting other than GAAP. The main differences between the budget and the statement of operations is that depreciation is included in the statement of operations but is not included as a budgeted item and debt service, principal payments, are budgeted but are not an expense of the proprietary funds.

All annual appropriations lapse at the end of the year. Supplemental budgets were not adopted during the year.

Note 2

Cash and Investments

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.

At December 31, 2021, the carrying amount of the Authority's deposits was \$423,316, including restricted cash of \$29,439. The total amount was covered by FDIC insurance and, if applicable, under the provision of the PDPA, which is collateralized in single institution pools.

Note 3 Capital Assets

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

	12/31/2020	Additions	Deletions	12/31/2021
Business type activities:				
Land	\$ 9,290	\$ -	\$ -	\$ 9,290
Total	9,290	-	-	9,290
Buildings	13,169	-	-	13,169
Wastewater System	2,153,845	-	-	2,153,845
Water System	3,495,090	-	-	3,495,090
Equipment	26,666	-	-	26,666
Total	5,688,770	-	-	5,688,770
Less: accumulated deprec	(1,324,482)	(157,416)	-	(1,481,898)
Total being deprec	4,364,288	(157,416)	-	4,206,872
Total business type activities	\$ 4,373,578	\$ (157,416)	\$ -	\$ 4,216,162

Note 4 Long-term Liabilities

Revenue Bonds

The Authority issued Water Revenue Bond Series 2014 in the amount of \$3,522,085 and Wastewater Revenue Bond Series 2014 in the amount of \$2,177,915 in 2014. The Authority has pledged the net revenues of the Water and Wastewater Funds to retire the debt.

The principal and interest payments are due quarterly with an annual interest rate of approximately 3.5%. The Water Revenue Bond and the Wastewater Revenue Bond and the interest thereon constitute a lien (but not necessarily an exclusive such lien) on the new revenue of each fund, and the net revenue is hereby pledged to the payment of the bonds. The bonds do not constitute a debt or other obligation of the Town of Kiowa.

The debt service requirements for the Water Revenue Bond are:

Year Ending	Business-Type Activities		
	Principal	Interest	Total
31-Dec			
2022	\$ 53,514	\$ 110,478	\$ 163,992
2023	55,413	108,579	163,992
2024	57,379	106,613	163,992
2025	59,415	104,577	163,992
2026	61,522	102,470	163,992
2027-2031	341,945	478,015	819,960
2032-2036	407,060	412,900	819,960
2037-2041	484,576	335,384	819,960
2042-2046	576,856	243,104	819,960
2047-2051	686,706	133,254	819,960
2052-2054	391,148	19,049	410,197
Total	\$ 3,175,534	\$ 2,154,423	\$ 5,329,957

The debt service requirements for the Wastewater Revenue Bond are:

Business-Type Activities			
Year Ending 31-Dec	Principal	Interest	Total
2022	\$ 33,088	\$ 68,316	\$ 101,404
2023	34,262	67,142	101,404
2024	35,478	65,926	101,404
2025	36,737	64,667	101,404
2026	38,040	63,364	101,404
2027-2031	211,426	295,594	507,020
2032-2036	251,688	255,332	507,020
2037-2041	299,618	207,402	507,020
2042-2046	356,674	150,346	507,020
2047-2051	424,596	82,424	507,020
2052-2054	242,032	11,790	253,822
Total	<u>\$ 1,963,639</u>	<u>\$ 1,332,303</u>	<u>\$ 3,295,942</u>

Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities:					
Water Revenue Bond	\$ 3,227,216	\$ -	\$ (51,681)	\$ 3,175,535	\$ 53,514
Wastewater Revenue Bond	1,995,594	-	(31,955)	1,963,639	33,088
Total Business-Type	<u>\$ 5,222,810</u>	<u>\$ -</u>	<u>\$ (83,636)</u>	<u>\$ 5,139,174</u>	<u>\$ 86,602</u>

Note 5 Risk Management

The Authority 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 Authority carries commercial insurance for these risks of loss, including worker's compensation insurance.

All losses, if any, in the past three years have been covered by commercial insurance.

Note 6 Amendment to Colorado Constitution

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

The Amendment excludes from its provision Enterprises. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10 percent of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The Authority is of the opinion that the operations of the Water and Wastewater Funds qualify for this exclusion.

The Amendment is complex and subject to judicial interpretation. The Authority believes it is in compliance with the requirements of the Amendment. However, the Authority has made certain interpretations in the Amendment's language in order to determine its compliance.

Note 7

Contingencies

The bond covenants require the Authority to charge fees at a high enough amount to pay all costs of operations and maintenance and have net revenues at least equal to 120% of the annual debt service amount. During 2021 the Authority did not meet the 120% requirement, which may be a violation of the covenant.

Kiowa Water and Wastewater Authority
Budget and Actual
Proprietary Fund
For the year ended December 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>
	<u>Original</u>	<u>Final</u>	
REVENUES			
Charges for Services	\$ 580,000	\$ 580,000	\$ 660,630
Total revenues	<u>580,000</u>	<u>580,000</u>	<u>660,630</u>
EXPENSES			
Contractual services	171,094	171,094	135,252
Utilities	49,800	49,800	34,338
Repairs and maintenance	15,500	15,500	33,234
Other supplies and expenses	-	-	6,999
Administration	32,925	32,925	17,035
Debt Service-principal	83,636	83,636	83,636
Interest	181,760	181,760	181,760
Miscellaneous	10,000	10,000	13,047
Total Expenditures	<u>544,715</u>	<u>544,715</u>	<u>505,301</u>
Revenues over (under) expenditures	<u>35,285</u>	<u>35,285</u>	<u>155,329</u>
Change in net position	35,285	35,285	155,329
Net Position - beginning	180,317	180,317	(549,434)
ADJUSTMENTS:			
Depreciation	-	-	(157,363)
Debt Service-principal	-	-	83,636
Net Position - ending	<u>\$ 215,602</u>	<u>\$ 215,602</u>	<u>\$ (467,832)</u>