

**Kremmling Sanitation District
Kremmling, Colorado**

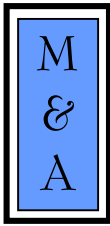
Financial Statements

December 31, 2022 and 2021

**Kremmling Sanitation District
Financial Statements
December 31, 2022 and 2021**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Kremmling Sanitation District (the "District"), as of and for the years ended December 31, 2022 and 2021, which collectively comprise the District's basic financial statements as listed in the Table of Contents, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2022 and 2021 and the 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 one year after the date that the financial statements are issued.

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado**

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 U.S. 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 U.S. 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

U.S. GAAP require that the Management's Discussion and Analysis in section B 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 U.S. GAAP, 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.

INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
Kremmling Sanitation District
Kremmling, Colorado

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule in section E is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule in section E 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 U.S. GAAS. In our opinion, the information in section E is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

McMahan and Associates, L.L.C.

McMahan and Associates, L.L.C.
Avon, Colorado
September 29, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

Kremmling Sanitation District Management's Discussion and Analysis December 31, 2022 and 2021

We, the financial managers of Kremmling Sanitation District (the "District"), offer readers of the District's financial statements this narrative summary of the financial activities of the District for the fiscal years ended December 31, 2022 and 2021.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) financial statements; and 2) notes to the financial statements. These components are discussed below.

Financial Statements: The financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all the District's assets, liabilities (both short-term and long-term), and deferred inflows with the difference between the three reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position shows how the government's net position changed during the years presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned revenue that will be received in subsequent years).

The Statement of Cash Flows shows the District's sources of cash inflows and outflows for the years presented. Cash flows are categorized among operating, non-capital financing, capital and related financing and investing activities, and unlike items reported in the Statement of Revenues, Expenses and Changes in Fund Net Position, these amounts are reported on the cash basis of accounting.

The business-type activity of the District relates to sanitation services. There are currently no governmental-type activities occurring at the District.

The District's basic financial statements can be found in Section C of this report.

Proprietary Fund: The District maintains a proprietary fund commonly known as an enterprise fund. Enterprise funds are used to report business-type activities. The District uses an enterprise fund to account for its sanitation services.

Notes to the Financial Statements: The notes provide a background of the entity, certain required statutes, and accounting policies utilized by the District. They also provide additional information that will aid in the interpretation of the financial statements. The Notes to the Financial Statements can be found in Section D of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also contains certain supplementary information. The Schedule of Revenues and Expenditures - Budget (Non-GAAP Basis) and Actual with Reconciliation to GAAP Basis provides a detailed comparison of the District's actual revenues and expenditures to budgeted amounts. As the District's budget was adopted in a manner that is not consistent with Generally Accepted Accounting Principles ("GAAP"), this statement is presented on a non-GAAP basis with a reconciliation to GAAP basis. This supplementary information can be found in Section E of this report.

Overview of the Financial Statements (continued)

Financial Analysis of the District: The following table shows the District's assets, liabilities and net position at the end of 2022 and 2021:

Kremmling Sanitation District - Net Position

	<u>2022</u>	<u>2021</u>
Assets:		
Current and other assets	\$ 1,064,527	958,065
Capital assets	3,104,551	3,441,931
Total Assets	<u>4,169,078</u>	<u>4,399,996</u>
Liabilities:		
Current liabilities	173,347	164,806
Long - term liabilities	136,066	196,468
Total Liabilities	<u>309,413</u>	<u>361,274</u>
Deferred Inflows of Resources	<u>44,465</u>	<u>45,080</u>
Net Position:		
Net investment in capital assets	2,916,872	3,195,910
Restricted	106,554	105,943
Unrestricted	791,774	691,789
Total Net Position	<u>\$ 3,815,200</u>	<u>3,993,642</u>

In 2022, the District's total assets decreased by \$230,918. Amounts due from other governments increased by \$12,564 due to a higher receivable balance between the District and the Town. Net capital assets decreased between 2022 and 2021, as total additions of \$9,897 were less than depreciation expense of \$347,277.

The District's total liabilities and deferred inflows of resources at the end of the 2022 fiscal year were \$52,476 lower than at the end of the preceding year. Non-current liabilities, which are comprised of long-term capital loans and accrued vacation pay, decreased \$51,861 due to scheduled debt payments. Current liabilities, which consist primarily of amounts due for trade, construction, and retainage, were higher by \$8,541 due to timing of payments. Deferred inflows of resources, which consist of unavailable property tax revenue, was \$615 lower at December 31, 2022.

Traditionally, the largest portion of any special district's net position is its investment in capital assets used to deliver or provide services to its constituents and other users. The District's investment in capital assets accounted for approximately 76% of its total net position at the end of 2022. This portion of the District's net position is not available for future spending. Of the remaining \$898,328 of net position at December 31, 2022, \$106,554 has been restricted for an operations and maintenance reserve for the wastewater system, as required by CWRPDA loan covenants. The remaining net position balance of \$791,774 may be used to meet the District's ongoing costs of operations.

At the end of the 2022 fiscal year, the District is able to report positive balances in all three categories of net position. Overall, the District's net position decreased \$178,442 during 2022 and decreased \$118,502 during 2021. These changes are further analyzed on the following pages.

Overview of the Financial Statements (continued)

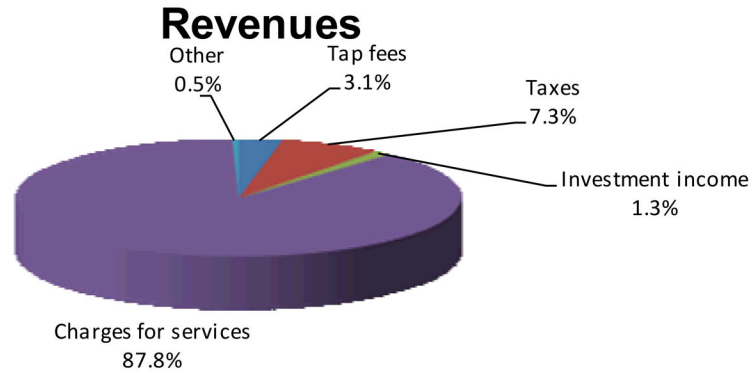
Financial Analysis of the District (continued): The following table summarizes information from the District's Statement of Revenues, Expenses and Changes in Fund Net Position:

Kremmling Sanitation District - Change in Net Position

	<u>2022</u>	<u>2021</u>
Revenues:		
Program revenues:		
Charges for services	\$ 654,785	681,922
General revenues:		
Property taxes	45,077	38,285
Specific ownership taxes	2,765	2,951
Investment income	8,205	1,852
Other revenues	3,095	2,353
Tap fees	20,200	10,000
Total Revenues	<u>734,127</u>	<u>737,363</u>
Expenses:		
Administration	74,754	66,969
Sewage collection and treatment	480,348	421,436
Depreciation	347,277	354,566
Treasurer's fees	2,254	1,914
Interest expense	7,936	10,980
Total Expenses	<u>912,569</u>	<u>855,865</u>
Change in Net Position	(178,442)	(118,502)
Net Position - Beginning of Year	<u>3,993,642</u>	<u>4,112,144</u>
Net Position - End of Year	<u>\$ 3,815,200</u>	<u>3,993,642</u>

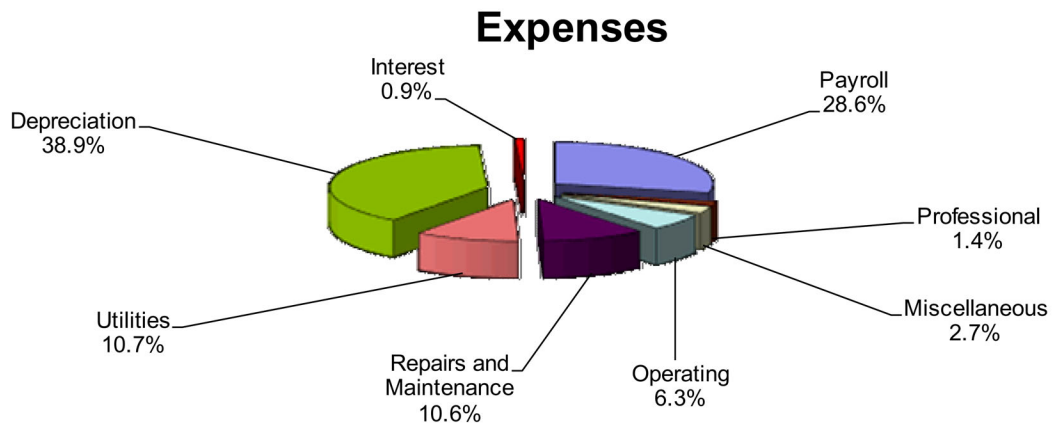
Overview of the Financial Statements (continued)

Financial Analysis of the District (continued): The following chart summarizes the District's revenue sources in 2022:



The District's total revenues decreased by \$3,236 between 2021 and 2022 due to decreased septage receiving station fees, offset by higher sewer fees and tap fees.

The following chart summarizes the District's expenses, by natural classification, during 2022:



Total expenses for the District increased by \$56,704 between 2021 and 2022 due to increased sewage collection and treatment expenses.

Budget Variances

2022 revenues were \$41,387 higher than budgeted for the year, while actual 2022 expenditures for the District were \$94,246 lower than expected. Significant budget variances were as follows:

<u>Account</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>	<u>Reason</u>
<u>Expenditures:</u>				
<i>Sewage collection and treatment:</i>				
Repairs and maintenance	19,000	95,991	(76,991)	Emergency repairs for reclaim pumps, manhole, lift station pump, air blowers and piping. Unplanned jetting and camera work contracted out due to short staffing.
Capital outlay	187,000	9,897	177,103	Expected projects delayed.

Capital Asset and Debt Administration

Capital Assets: The District's net capital assets decreased by \$337,380 in 2022 and decreased by \$328,066 in 2021. A detailed classification of the District's capital assets activity can be found in Note III.B to the 2022 financial statements.

Long-term Debt: The District's long-term debt obligations at December 31, 2022 consist of a loan with CWRPDA. Additional information about the District's long-term debt can be found in Note III.C of this report.

Next Year's Budget and Rates

The District's net position at the end of 2022 was \$3,815,200. The District's 2023 budget anticipates a decrease in net position for the upcoming year, with revenues of \$708,310 and expenditures of \$885,725.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Kremmling Sanitation District
P.O. Box 538
Kremmling, Colorado 80459

FINANCIAL STATEMENTS

**Kremmling Sanitation District
Statement of Net Position
December 31, 2022 and 2021**

	2022	2021
Assets:		
Current assets:		
Cash and investments - Unrestricted	920,000	825,487
Receivables, net:		
Property taxes	44,465	45,080
Other governments	100,062	87,498
Total - Current assets	1,064,527	958,065
Non-current assets:		
Capital assets:		
Non-depreciable capital assets	103,576	103,576
Depreciable capital assets, net of accumulated depreciation	3,000,975	3,338,355
Total - Non-current assets	3,104,551	3,441,931
Total Assets	4,169,078	4,399,996
Liabilities:		
Current liabilities:		
Trade payables	108,519	102,566
Payroll liabilities	3,160	2,463
Interest payable	1,266	1,435
Current portion of long-term debt	60,402	58,342
Total - Current liabilities	173,347	164,806
Non-current liabilities:		
Accrued compensated absences - Due in more than one year	8,789	8,789
Loans payable, net of current portion	127,277	187,679
Total - Non-current liabilities	136,066	196,468
Total Liabilities	309,413	361,274
Deferred Inflows of Resources:		
Property taxes	44,465	45,080
Net Position:		
Net investment in capital assets	2,916,872	3,195,910
Restricted for operations and maintenance	106,554	105,943
Unrestricted	791,774	691,789
Total Net Position	3,815,200	3,993,642

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

Kremmling Sanitation District
Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues:		
Charges for services - Sewer fees	571,881	560,983
Charges for services - Septage receiving station fees	82,904	120,939
Shared employee reimbursement	2,233	92
Miscellaneous	862	2,261
Total Operating Revenues	657,880	684,275
Operating Expenses:		
Administration	74,754	66,969
Sewage collection and disposal	480,348	421,436
Depreciation	347,277	354,566
Total Operating Expenses	902,379	842,971
Operating Income (Loss)	(244,499)	(158,696)
Non-operating Revenues (Expenses):		
Property taxes	45,077	38,285
Specific ownership taxes	2,765	2,951
Investment income	8,205	1,852
Interest expense	(7,936)	(10,980)
Treasurer's fees	(2,254)	(1,914)
Total Non-operating Revenues (Expenses)	45,857	30,194
Income (Loss) Before Capital Contributions	(198,642)	(128,502)
Capital Contributions:		
Tap fees	20,200	10,000
Total Capital Contributions	20,200	10,000
Change in Net Position	(178,442)	(118,502)
Net Position - Beginning of Year	3,993,642	4,112,144
Net Position - End of Year	3,815,200	3,993,642

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

Kremmling Sanitation District
Statement of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities:		
Cash received from customers and others	645,316	765,496
Cash paid for goods and services	(294,487)	(216,148)
Cash paid to employees for salaries and benefits	(253,966)	(267,918)
Net Cash Provided (Used) by Operating Activities	96,863	281,430
Cash Flows From Non-capital Financing Activities:		
Cash received from property and specific ownership taxes, net	45,589	39,323
Net Cash Provided (Used) by Non-capital Financing Activities	45,589	39,323
Cash Flows From Capital and Related Financing Activities:		
Cash received from tap fees	20,200	10,000
Cash paid for loan principal	(58,342)	(122,324)
Cash paid for loan interest	(8,105)	(11,309)
Cash paid for capital acquisitions	(9,897)	(26,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	(56,144)	(150,133)
Cash Flows From Investing Activities:		
Interest received	8,205	1,852
Net Cash Provided (Used) by Investing Activities	8,205	1,852
Net Increase (Decrease) in Cash and Cash Equivalents	94,513	172,472
Cash and Cash Equivalents - Beginning of Year	825,487	653,015
Cash and Cash Equivalents - End of Year	920,000	825,487
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	(244,499)	(158,696)
Adjustments:		
Depreciation	347,277	354,566
(Increase) decrease in accounts receivable	(12,564)	81,221
Increase (decrease) in accounts payable	5,952	2,406
Increase (decrease) in payroll liabilities	697	1,933
Total Adjustments	341,362	440,126
Net Cash Provided (Used) by Operating Activities	96,863	281,430

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

NOTES TO THE FINANCIAL STATEMENTS

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021**

I. Summary of Significant Accounting Policies

Kremmling Sanitation District (the "District") is a quasi-municipal corporation organized and operated pursuant to provisions set forth in the Colorado Special District Act. The District's service area is located in Grand County, Colorado, and was formed to provide sanitation services. The District is governed by an elected, five-member Board of Directors (the "Board")

The District's financial statements are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as applied to government units. 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 by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

B. Financial Reporting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its sole activity, providing wastewater treatment services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and 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.

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Measurement Focus and Basis of Accounting

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

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

D. Financial Statement Accounts

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within 3 months of the date acquired by the District.

Investments are stated at fair value or net asset value. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The District follows Colorado state statutes as an investment policy, which permits investments in the following type of obligations which corresponds with state statutes:

- U.S. Treasury obligations (maximum maturity of 60 months)
- Federal instrumentality securities (maximum maturity of 60 months)
- FDIC-insured certificates of deposit (maximum maturity of 18 months)
- Corporate bonds (maximum maturity of 36 months)
- Prime commercial paper (maximum maturity of 9 months)
- Eligible banker's acceptances
- Repurchase agreements
- General obligations and Revenue obligations
- Local government investment pools
- Money market mutual funds

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. As of December 31, 2022 and 2021, the District established an allowance for uncollectible accounts of \$7,661 and \$4,460 respectively.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable and a deferred inflow of resources.

4. Capital Assets

Capital assets, which include land, sewer collection systems and related improvements and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is expensed as incurred.

Sewer collection systems and improvements, equipment, and lagoons are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Sewer collection system/improvements - Existing system	30
Equipment	5 - 15
Sewer collection system/improvements - New combined system	20 - 50
Lagoons	30 - 50

5. Idle Capital Assets

The District held certain lagoon equipment at December 31, 2017 which had not been placed into productive use, and for which no depreciation had been taken. During 2018, these assets were tested for impairment and are now being depreciated using the straight-line method over a five-year estimated useful life.

6. Compensated Absences

Earned but unused vacation and sick leave benefits are accrued when incurred in the financial statements.

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

7. Deferred Inflows and Outflows 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 assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District does not have any item that qualifies for reporting in this category.

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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category. Accordingly, the item – unavailable property taxes – is deferred and recognized as an inflow of resources in the period that the amount becomes available.

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

9. Net Position

Governments report reservations of net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. At December 31, 2022 and 2021, the District reported \$106,554 and \$105,943, respectively, of restricted net position for an operation and maintenance reserve required by debt covenants, as discussed in Note III.C.1.

10. Restricted and Unrestricted 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.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the Board formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. Annual appropriations are adopted for all funds. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

A. Budgetary Information (continued)

The budget for the District's sole proprietary fund is adopted on a non-GAAP basis. A reconciliation to GAAP basis is included in the budgetary comparison schedule on page E1.

As required by Colorado statutes, the District followed the timetable noted below in preparing, approving, and enacting its budget for 2022.

1. For the 2022 budget year, prior to August 25, 2021, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The Manager of the District submitted, on or before October 15, 2021, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
3. Prior to December 15, 2021, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

The District also followed the required budget timeline in preparing, approving, and enacting its budget for 2022.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2021 were collected in 2022, and taxes certified in 2022 will be collected in 2023. Taxes are due on January 1 in the year of collection; however, they may be paid in either one installment (no later than April 30) or two equal installments (not later than February 28 and June 15) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

The District's voters approved the following TABOR ballot question on November 5, 1997:

Without any increase in the property tax mill levy, which is currently 2.273, shall the Kremmling Sanitation District, be authorized to collect, retain and expend all revenue and other funds from any source effective January 1, 1996, and continuing thereafter, notwithstanding the limitation of Article X, Section 20 of the Colorado Constitution or any other law?

District management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

III. Detailed Notes on All Funds

A. Deposits and Investments

The District held the following deposits and investments at December 31, 2022 and 2021:

	2022	2021
Deposits	\$ 213,482	558,274
Local government investment pools	706,518	267,213
Total	\$ 920,000	825,487

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances for accounts over \$250,000 are collateralized as required by PDPA.

The District measures and records its investments using fair value measurement guidelines established by GAAP. At December 31, 2022 and 2021, the District had the following investments measured at net asset value:

Investments Measured at Net Asset Value	2022	2021
<i>Local government investment pools:</i>		
COLOTRUST	\$ 706,518	267,213

The local government investment pool represents an investment in the Colorado Government Liquid Asset Trust ("COLOTRUST"), which is a 2a7-like pool. The fair value of the pool is determined by the pool's share price. The District has no regulatory oversight for the pool.

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. As a result of the limited length of maturities, the District has limited its interest rate risk.

Credit Risk. The District limits its investments to those authorized by Colorado statutes, as outlined in Note I.D.1. The District's general investment policy is to apply the "prudent person rule: investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

At December 31, 2022 and 2021, the District's deposits and investments had the following maturities:

	2022			
	Standard & Poor's Rating	Carrying Amounts	Maturities	
			Less than one year	One to five years
<i>Deposits:</i>				
Interest-bearing checking	Not rated	\$ 131,956	131,956	-
Money market	Not rated	81,526	81,526	-
Total deposits		<u>213,482</u>	<u>213,482</u>	<u>-</u>
<i>Investments:</i>				
Investment pools	AAAm	706,518	706,518	-
		<u>\$ 920,000</u>	<u>920,000</u>	<u>-</u>
2021				
	Standard & Poor's Rating	Carrying Amounts	Maturities	
			Less than one year	One to five years
<i>Deposits:</i>				
Interest-bearing checking	Not rated	\$ 28,129	28,129	-
Money market	Not rated	530,145	530,145	-
Total deposits		<u>558,274</u>	<u>558,274</u>	<u>-</u>
<i>Investments:</i>				
Investment pools	AAAm	267,213	267,213	-
		<u>\$ 825,487</u>	<u>825,487</u>	<u>-</u>

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets

The District's capital asset activity for 2021 and 2022 was as follows:

	<u>1/1/21</u> <u>Beginning</u> <u>Balance</u>	<u>Additions</u> <u>and</u> <u>Transfers</u>	<u>12/31/21</u> <u>Ending</u> <u>Balance</u>	<u>Additions</u> <u>and</u> <u>Transfers</u>	<u>Disposals</u> <u>and</u> <u>Transfers</u>	<u>12/31/22</u> <u>Ending</u> <u>Balance</u>
Capital assets, not being depreciated:						
Land	\$ 103,576	-	103,576	-	-	103,576
Idle lagoon equipment	31,706	(31,706)	-	-	-	-
Total capital assets, not being depreciated	<u>135,282</u>	<u>(31,706)</u>	<u>103,576</u>	<u>-</u>	<u>-</u>	<u>103,576</u>
Capital assets, being depreciated:						
New wastewater system	5,500,733	-	5,500,733	-	-	5,500,733
Buildings	44,885	-	44,885	-	-	44,885
Sewer lines	562,163	-	562,163	-	-	562,163
Lagoons	322,660	31,706	354,366	-	-	354,366
Furniture and equipment	461,628	26,500	488,128	9,897	-	498,025
Total capital assets being depreciated	<u>6,892,069</u>	<u>58,206</u>	<u>6,950,275</u>	<u>9,897</u>	<u>-</u>	<u>6,960,172</u>
Less accumulated depreciation for:						
New wastewater system	(2,460,683)	(298,891)	(2,759,574)	(288,456)	-	(3,048,030)
Buildings	(14,792)	(2,244)	(17,036)	(2,245)	-	(19,281)
Sewer lines	(388,947)	(5,803)	(394,750)	(5,803)	-	(400,553)
Lagoons	(134,233)	(17,673)	(151,906)	(17,673)	-	(169,579)
Furniture and equipment	(258,699)	(29,955)	(288,654)	(33,100)	-	(321,754)
Total accumulated depreciation	<u>(3,257,354)</u>	<u>(354,566)</u>	<u>(3,611,920)</u>	<u>(347,277)</u>	<u>-</u>	<u>(3,959,197)</u>
Total capital assets, being depreciated, net	<u>3,634,715</u>	<u>(296,360)</u>	<u>3,338,355</u>	<u>(337,380)</u>	<u>-</u>	<u>3,000,975</u>
Total capital assets, net	<u><u>\$3,769,997</u></u>	<u><u>(328,066)</u></u>	<u><u>3,441,931</u></u>	<u><u>(337,380)</u></u>	<u><u>-</u></u>	<u><u>3,104,551</u></u>

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

III. Detailed Notes on All Funds (continued)

C. Long-term Liabilities

1. Colorado Water Resources and Power Development Authority (“CWRPDA”) Loan

On September 13, 2005, the District executed a \$950,000 loan agreement, with interest accruing at 3.5% per annum, with CWRPDA, the proceeds of which were utilized to upgrade and expand the District’s wastewater system.

Starting in 2006, principal, interest, and administrative surcharge (included with interest expense) payments totaling \$33,223 are due May 1 and November 1, through 2025. As set forth in the loan agreement, the District received a credit against interest payments for the amount of capitalized interest and investment income available to be applied. This one-time credit in the amount of \$14,218 was used to reduce interest payments in 2006.

The loan constitutes an irrevocable and first lien on the District’s wastewater system revenues (excluding ad valorem property taxes, capital grant revenues, and other funds borrowed and used to provide capital improvements to the wastewater system). The loan is not a general obligation debt of the District.

The loan agreement contains various restrictive covenants and requirements, including maintenance of a three-month operating and maintenance reserve. The District has restricted \$106,554 and \$105,943 of net position at December 31, 2022 and 2021, respectively, for this purpose, which are the approximate required reserves. If the operations and maintenance reserve falls below this requirement, the shortfall must be made up in 24 substantially equal monthly installments beginning the second month after such shortfall. In addition, the loan agreement requires the District to establish service rates at a level sufficient to cover operating expenses, as defined in the agreement, 110% of the current year debt service costs on this loan, debt service for the current year on any subordinated debt, and any other amounts to be paid out of current year operations. The District may prepay the loan, in whole or in part without penalty, upon prior written notice to CWRPDA.

Aggregate remaining annual debt service requirements at December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Administrative Surcharge</u>	<u>Total</u>
2023	\$ 60,402	4,045	2,000	66,447
2024	62,535	2,412	1,500	66,447
2025	64,742	1,204	500	66,446
Total	<u>\$ 187,679</u>	<u>7,661</u>	<u>4,000</u>	<u>199,340</u>

**Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)**

III. Detailed Notes on All Funds (continued)

C. Long-term Liabilities (continued)

2. Capital Lease – Septage Receiving Station

On September 16, 2019, the District entered into a two-year lease-to-own agreement for a septage receiving station. The total amount financed was \$154,718 with implied interest of 4%. Monthly payments of \$6,718 are due beginning in November 2019. As of December 31, 2021, the lease was paid in full and are no payments due.

3. Long-term Liability Activity

Long-term liability activity for 2022 and 2021 was as follows:

	<u>CWRPDA Loan</u>	<u>Lease Purchase</u>	<u>Compensated Absences</u>	<u>Total</u>
January 1, 2021 balance	\$ 302,374	65,971	8,789	377,134
Reductions	(56,353)	(65,971)	-	(122,324)
December 31, 2021 balance	246,021	-	8,789	254,810
Reductions	(58,342)	-	-	(58,342)
December 31, 2022 balance	<u>187,679</u>	<u>-</u>	<u>8,789</u>	<u>196,468</u>
Due within one year - 2021	<u>58,342</u>	<u>-</u>	<u>-</u>	<u>58,342</u>
Due within one year - 2022	<u>\$ 60,402</u>	<u>-</u>	<u>-</u>	<u>60,402</u>

Kremmling Sanitation District
Notes to the Financial Statements
December 31, 2022 and 2021
(Continued)

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and general liability. The District carries commercial coverage for these risks and does not expect claims to exceed their coverage. There have been no reductions in coverage in 2021 and 2022, settlements have not exceeded coverage during the past two years.

B. Deferred Compensation Plan – Section 457

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code section 457 (the “Plan”). The Plan permits employees to defer a portion of the salary until future years. The deferred compensation is not available to employees until termination, retirement, or death.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are to be held in trust for the exclusive benefit of the Plan participants and their beneficiaries.

The accrual basis of accounting is used for the Plan. Revenues are recognized when earned and expenditures are recognized when incurred. Investments are recorded at market value.

The District has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The Plan is administered by Mission Square Retirement.

In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, since the District is not a trustee of the deferred compensation plan, it does not report the plan as a fund in the financial statements.

In addition to Social Security, the District matches a six percent (6%) payroll deduction. District employees contributed \$7,722 and \$5,347 to the Plan for 2022 and 2021 respectively. These amounts were matched by the District, equal to its required contribution for these years.

Permanent full-time (budgeted for forty (40) hours per week) employees participate in the Plan. Employees may contribute additional amounts, up to maximum allowable limits as established under IRC, but these amounts are not matched by the District.

C. Intergovernmental Agreement – Town of Kremmling

On January 13, 2003, the District entered into an Intergovernmental Agreement with the Town of Kremmling, Colorado for mutually beneficial cooperative use of personnel and equipment. The agreement has an initial one-year term, but renews automatically unless otherwise terminated by the parties. Under the terms of the agreement, each entity is to invoice the other, on a monthly basis, for hours worked and equipment used.

SUPPLEMENTARY INFORMATION

Kremmling Sanitation District
Schedule of Revenues and Expenditures
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2022
(With Comparative Actual Amounts for 2021)

	2022			Final Budget Variance: Positive / (Negative)	2021
	Original Budget	Final Budget	Actual		Actual
Revenues:					
Charges for services - Sewer fees	555,400	555,400	571,881	16,481	560,983
Charges for services - Septage receiving station fees	75,000	75,000	82,904	7,904	120,939
Tap fees	10,000	10,000	20,200	10,200	10,000
Property taxes	45,080	45,080	45,077	(3)	38,285
Specific ownership taxes	2,500	2,500	2,765	265	2,951
Investment income	2,000	2,000	8,205	6,205	1,852
Shared employee reimbursements	1,760	1,760	2,233	473	92
Miscellaneous	1,000	1,000	862	(138)	2,261
Total Revenues	692,740	692,740	734,127	41,387	737,363
Expenditures:					
Administration:					
Payroll expenses	36,050	36,050	35,777	273	32,278
Audit and legal	12,500	12,500	12,903	(403)	11,463
Insurance	18,670	18,670	17,901	769	18,713
Miscellaneous	1,970	1,970	1,890	80	1,401
Operating supplies and expenses	3,500	3,500	3,535	(35)	1,469
Repairs and maintenance	1,500	1,500	941	559	51
Utilities	1,715	1,715	1,808	(93)	1,593
Treasurer's fees	2,255	2,255	2,254	1	1,914
Total - Administration	78,160	78,160	77,009	1,151	68,882
Sewage Collection and Treatment:					
Payroll expenses	229,270	229,270	218,886	10,384	237,573
Miscellaneous	2,500	2,500	1,594	906	1,560
Operating supplies and expenses	44,125	44,125	53,511	(9,386)	37,306
Repairs and maintenance	19,000	19,000	95,991	(76,991)	69,260
Utilities	88,040	88,040	93,312	(5,272)	74,492
Engineering and technical services	10,200	10,200	13,852	(3,652)	2,864
Capital outlay	187,000	187,000	9,897	177,103	42,032
Total - Sewage Collection and Treatment	580,135	580,135	487,043	93,092	465,087
Debt Service:					
Principal and interest	66,450	66,450	66,447	3	133,635
Total Expenditures	724,745	724,745	630,499	94,246	667,604
Excess (Deficiency) of Revenues Over Expenditures - Budget Basis	(32,005)	(32,005)	103,628	135,633	69,759
Reconciliation to GAAP Basis:					
Depreciation expense			(347,277)		(354,566)
Accrued interest change			169		329
Debt principal payments			58,342		122,324
Change in allowance for doubtful accounts			(3,201)		17,152
Capitalized assets			9,897		26,500
Change in Net Position - GAAP Basis			(178,442)		(118,502)

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