

Palmer Lake Sanitation District

**Financial Statements and Supplementary Information
For the Year Ended December 31, 2022**



Certified Public Accountants

Palmer Lake Sanitation District

December 31, 2022

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Palmer Lake Sanitation District

Opinion

We have audited the accompanying financial statements of Palmer Lake Sanitation District, which comprise the statement of net position as of December 31, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, 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 Palmer Lake Sanitation District as of December 31, 2022, and the results of its operations and its cash flows 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. 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 Palmer Lake Sanitation District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palmer Lake Sanitation District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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Independent Auditor's Report

Auditor's Responsibilities for 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, 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 Palmer Lake Sanitation 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 Palmer Lake Sanitation 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.



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Independent Auditor's Report

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States requires that the management discussion and analysis on pages 5-8 and budgetary comparison information on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Auditing Standards Board (GASB), who considers it to be an essential part of the 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 GAAP, which considered 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information provided 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 an opinion on the financial statements that collectively comprise Palmer Lake Sanitation District's basic financial statements. The accompanying schedule of expenditures of federal awards on page 31, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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Independent Auditor's Report

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2023 on our consideration of Palmer Lake Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Palmer Lake Sanitation District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Palmer Lake Sanitation District's internal control over financial reporting and compliance.

Olson, Reyes & Sauerwein, LLC
Centennial, Colorado
June 14, 2023

Palmer Lake Sanitation District

Management Discussion and Analysis

Palmer Lake Sanitation District's (the "District") management discussion and analysis (MD&A) is generally intended to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the District's financial activities, (3) identify changes in the District's financial position (its ability to meet future financial demands and conditions), (4) identify any material deviations from the governmental unit's financial plan (approved budget), and (5) identify individual fund issues or concerns. The MD&A is provided at the beginning of the report to provide an overview of the District's financial position at December 31, 2022, and the results of operations for the year. This summary should not be taken as a replacement for the audit report, which consists of the basic financial statements, notes to the financial statements, and required supplementary information.

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

Overview of the Financial Statements

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

The Statement of Net Position presents information on all of the District's assets deferred outflows, liabilities and deferred inflows, 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 represents information which reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

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

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements.

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

Palmer Lake Sanitation District

Management Discussion and Analysis

Condensed Statements of Net Position

<i>As of December 31,</i>	2022	2021
Current Assets	\$ 5,921,537	\$ 3,527,934
Capital Assets - Net	4,918,772	1,423,660
Other Assets	39,030	39,030
Investment in Joint Use Facility	2,179,235	2,249,982
Total Assets	\$ 13,058,574	\$ 7,240,606
Current Liabilities	\$ 1,772,661	\$ 35,481
Long-term Liabilities	2,901,857	-
Total Liabilities	4,674,518	35,481
Net Position		
Invested in Capital Assets - Net of Related Debt	4,918,772	1,423,660
Restricted	27,307	27,307
Unrestricted	3,437,977	5,754,158
Total Net Position	8,384,056	7,205,125
Total Liabilities and Net Position	\$ 13,058,574	\$ 7,240,606

The net position may serve over time as a useful indicator of the District's financial position. The net position at December 31, 2021, was restated due to incorrect recording of the District's investment in the Tri-Lakes Wastewater Facility. The above table reflects the assets, liabilities and net position of the District after being restated.

The largest portion of the District's net position is its investment in capital assets. The District uses these capital assets to provide services to citizens. The District's assets increased by approximately \$5.8 million over the prior year. The increase is attributable to the improvements being made to the wastewater system. The District capitalized over \$3.5M of costs relating to the construction in progress in 2022. Additionally, to help fund the improvements, the District obtained a grant from El Paso County for \$1 million which was accrued and included in current assets at year end.

The investment in the joint use facility is the District's interest in the Tri-Lakes Wastewater Treatment Facility, which is operated as a joint venture under the Amended Joint Use of Facilities Agreement dated June 6, 1996.

The District's liabilities increased by approximately \$4.6 million over the prior year. The District entered into a note agreement in the amount \$3.0 million to supplement the costs of the capital improvements and had approximately \$1.7M of outstanding contractor invoices relating to the capital improvements at year end.

Palmer Lake Sanitation District

Management Discussion and Analysis

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

<i>Years Ended December 31,</i>	2022	2021
Operating Revenues	\$ 836,455	\$ 824,506
Operating Expenses	707,605	694,731
Operating Income	128,850	129,775
Non-Operating Revenues	965,085	19,135
Income Before Capital Contributions	1,093,935	148,910
Capital Contributions - Tap Fees	84,995	201,330
Change in Net Position	\$ 1,178,930	\$ 350,240

The 2021 activity reflected in the above table represents the restated balances of the District for 2021. As previously discussed, the net position of the District was restated to correctly account for the District's investment in the Tri-Lakes Wastewater Treatment facility and related activity.

There were no changes in the quarterly user fee from 2021 to 2022.

In 2022, the District was awarded a grant from El Paso County in the amount of \$1.0M which is included in non-operating revenues

Operating expenses of the District were not significantly changed from 2021.

Budgetary Highlights

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

The total budgeted revenue of the District was less than actual revenues by \$924,717 due to the District budgeting \$4.0M for loan proceeds, but subsequently cancelled a \$1.0M loan due to not needing the funding. The total actual expenditures of the District were less than budget by \$1.6M, primarily due to capital expenditures being under budget by \$1.4M.

Palmer Lake Sanitation District

Management Discussion and Analysis

Capital Asset and Debt Administration

Capital Assets

	2022	2021
Construction in progress	\$ 3,547,862	\$ -
Building and land	383,598	383,598
Sewer system	2,207,393	2,191,046
Equipment and vehicles	106,770	106,775
Total Capital Assets	\$ 6,245,623	\$ 2,681,419
Less: Accumulated Depreciation	1,326,851	1,257,759
Capital Assets - Net	\$ 4,918,772	\$ 1,423,660

The District's investment in capital assets at December 31, 2022 amounts to \$4,918,772 (net of accumulated depreciation). This investment in capital assets includes sewer system, the office building and related land costs, equipment and vehicles. In 2022, the District commenced substantial improvements to the sewer system to expand the flow capacity. The District incurred approximately \$3.5M of costs associated with the improvements. The improvements are expected to be completed in 2023.

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: Palmer Lake Sanitation District Board of Directors, PO Box 687, Palmer Lake, CO 80133.

Palmer Lake Sanitation District

Statement of Net Position

December 31, 2022

	2022
Current Assets	
Cash and cash equivalents	\$ 1,096,868
Investments in marketable securities	2,663,703
Receivables:	
Accounts receivable	58,971
Grant receivable	1,000,000
Loan funds available for draw	1,091,343
Prepaid expenses	10,652
Total Current Assets	5,921,537
Capital Assets	
Sewer system	2,207,393
Land and building	383,598
Equipment and tools	24,727
Office equipment	55,543
Vehicles	26,500
Construction in progress	3,547,862
	6,245,623
Less: accumulated depreciation	1,326,851
Capital Assets - Net	4,918,772
Other Non-Current Assets	
Investment in joint use facility	2,179,235
Other noncurrent assets	39,030
Total Other Non-Current Assets	2,218,265
TOTAL ASSETS	\$ 13,058,574

See Notes to Financial Statements

Palmer Lake Sanitation District

Statement of Net Position (continued)

December 31, 2022

	2022
Current Liabilities	
Accounts payable	\$ 1,640,034
Accrued liabilities	34,485
Notes payable - due within one year	98,143
Total Current Liabilities	1,772,662
Non-Current Liabilities	
Notes payable - due after one year	2,901,857
Total Liabilities	4,674,519
Net Position	
Invested in capital assets - net of related debt	1,918,772
Restricted	27,307
Unrestricted	6,437,976
Total Net Position	8,384,055
TOTAL LIABILITIES AND NET POSITION	\$ 13,058,574

See Notes to Financial Statements

Palmer Lake Sanitation District

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2022

	2022
Operating Revenues	
User fees	\$ 836,455
Operating Expenses	
Depreciation	69,096
Engineering fees	8,016
Insurance	10,340
Office and other expenses	34,813
Payroll taxes and employee benefits	45,332
Professional fees	79,818
Repairs and maintenance	15,133
Salaries	156,547
Sanitary sewer cleaning and video	31,323
Sewage treatment - joint use facility	211,544
Sludge removal	45,643
Total Operating Expenses	707,605
Income From Operations	128,850
Non-Operating Revenues	
Grant revenue	1,000,000
Interest and investment income, net	33,520
Other revenue	2,313
(Loss) from investment in joint use facility	(70,748)
Non-Operating Revenues	965,085
Income Before Capital Contributions	1,093,935
Capital Contributions - Tap Fees	84,995
Change in Net Position	1,178,930
Net Position - Beginning of Year - As Originally Reported	6,342,064
Prior Period Adjustment (Note 9)	863,062
Net Position - Beginning of Year - As Restated	7,205,125
NET POSITION - END OF YEAR	\$ 8,384,055

See Notes to Financial Statements

Palmer Lake Sanitation District

Statement of Cash Flows

For the Year Ended December 31, 2022

	2022
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 816,630
Cash payments to suppliers for goods and services	(417,863)
Cash payments to employees for services	(200,414)
Net Cash Flows from Operating Activities	198,353
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions - sewer tap fees	84,995
Proceeds from note payable	1,908,657
(Purchase) of capital assets	(1,943,401)
Net Cash Flows From Capital and Related Financing Activities	50,251
CASH FLOWS FROM INVESTING ACTIVITIES	
(Purchase) of investments in marketable securities	(32,725)
Interest and dividends received, net of fees	41,905
Net Cash Flows from Investing Activities	9,180
Change in Cash and Cash Equivalents	257,784
Cash and cash equivalents - beginning of year	839,084
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,096,868
Reconciliation of Operating (Loss) to Net Cash From Operating Activities:	
Income from operations	\$ 128,850
Depreciation	69,096
Changes in Assets and Liabilities	
Change in accounts receivable	(19,825)
Change in prepaid expenses	(312)
Change in accounts payable	19,079
Change in accrued liabilities	1,465
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 198,353

See Notes to Financial Statements

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 1 - Significant Accounting Policies

Introduction

The financial statements of the Palmer Lake Sanitation District (the "District") have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below.

Reporting Entity

The District is a sanitation district established on October 29, 1971 and is governed pursuant to the provisions of the Colorado Special District Act. The District provides public sanitary sewer services to the residents of Palmer Lake, Colorado.

The District follows 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.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District has no component units and is not financially accountable for any other organizations.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District's fund is classified as a proprietary fund type, specifically an enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The District's records are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 1 - Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include 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. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and unrestricted resources as they are needed.

Budgets

Budgets are adopted on a non-GAAP basis for the funds. In accordance with the State Budget Law, the District's Board of Directors holds public hearing 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 total appropriation can only be modified upon completion of notification and publication requirements. Encumbrance accounting (open purchase orders and other commitments for the expenditures of funds in future periods) is not used by the District for financial reporting purposes, but is used for budgetary purposes.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from the estimates.

Financial Instruments

The District's financial instruments include cash, investments, receivables, accounts payable, and short-term borrowings. The fair value of these financial instruments approximates their carrying amounts based on current market indicators such as prevailing interest rates and/or their nearness to maturity.

Cash Equivalents

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.

Investments in Marketable Securities

Investments in marketable securities are carried at their fair value.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 1 - Significant Accounting Policies (continued)

Receivables

Accounts receivable consists primarily of sewer user fees which are billed monthly. No provision is made for uncollectible accounts as the District has tax lien authority against the specific properties for collection of amounts due.

The grant receivable is due from El Paso County. The District considers the grant receivable to be fully collectible and has not established an allowance for uncollectible amounts.

Capital Assets

Capital assets are recorded at historical cost. The cost of maintenance and repairs, as well as minor replacements and improvements, is charged against income as incurred. Depreciation is provided on the straight-line basis over the estimated useful life of the property as follows:

Collection System	40 years
Vehicles and Equipment	5 years
Building	40 years

Investment in Joint Use Facility

The District holds a 33.33% interest in the Tri-Lakes Wastewater Facility (TLWWTF) and accounts for its investment in the facility using the equity method.

Property Taxes

For the year ended December 31, 2022, no property taxes were levied.

Capital Contributions from Developers

Developers of new subdivisions within the District are required to construct the necessary sewer lines in accordance with District specifications. The District charges a tap fee for collections in the new subdivisions. The amount of tap fees to be retained by the District is recorded as a capital contribution.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 1 - Significant Accounting Policies (continued)

Net Position

The financial statements utilize a net position presentation. Net position is categorized into three components: Invested in capital assets- net of related debt, restricted net position, and unrestricted net position.

- **Invested in Capital Assets-Net of Related Debt.** This component of net position consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Net Position.** This component of net position consists of liquid assets which have third-party limitations on their use.
- **Unrestricted Net Position.** This component consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.
- **Operating and Non-Operating Revenue and Expenses.** Operating revenues result from user fees. Expenses associated with providing wastewater treatment services are considered operating. Non-operating revenues result from rental income and non-exchange transactions, such as gains and losses on the joint use facility and interest income, as well as property tax revenues.

Subsequent Events

In preparing its financial statements, the District has evaluated subsequent events through June 14, 2023, which is date the financial statements were available to be issued. Management of the District has not identified any material subsequent events that require reporting or disclosure.

Note 2 - Cash and Investments

At December 31, 2022, the District's cash and investments consisted of the following:

	2022
Cash on hand	\$ 200
Deposits with financial institutions	1,096,668
Investments in fixed income mutual funds	2,663,703
	<u>\$ 3,760,571</u>

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 2 - Cash and Investments (continued)

Investment income consists of the following for the year ended December 31, 2022:

	2022
Interest and dividends, net of fees	\$ 41,905
Unrealized (losses)	(8,385)
Interest and Investment Income - Net	\$ 33,520

Custodial Credit Risk

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. The statute specifies eligible depositories for public cash deposits, which must be Colorado institutions and must maintain Federal insurance (FDIC) on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held-in-trust. The market value of the collateral must be at least equal to the aggregate uninsured deposit. The State Regulatory Commissions for banks and financial services are required by statutes to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. As of December 31, 2022, none of the District's bank deposits were exposed to credit risk.

Concentration of Credit Risk

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments. State statutes do not limit the amount the District may invest in one issuer. The District generally limits its investments to those which are believe to have minimal credit or interest rate risk.

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

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

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 2 - Cash and Investments (continued)

The District's investments are held by Integrity Bank and Trust. At December 31, 2022, all of the District's investments are invested in the Government Obligations Tax Managed Fund, a mutual fund which invests primarily in US Treasury and government securities with a maturity of one year or less. The investments are categorized as Level 1 investments and are valued using quoted market prices.

Interest Rate Risk

State statute limits investments in agencies to a maximum five-year maturity and corporate bonds to three years.

Note 3 - Capital Assets

Capital asset balances and activity for the year ended December 31, 2022, were as follows:

	Balance January 1, 2022	Additions	Retirements	Balance December 31, 2022
Sewer system	\$ 2,191,046	\$ 16,347	\$ -	\$ 2,207,393
Building and land	383,598	-	-	383,598
Equipment and tools	24,727	-	-	24,727
Office equipment	55,543	-	-	55,543
Vehicles	26,500	-	-	26,500
Construction in progress	-	3,547,862	-	3,547,862
	<u>\$ 2,681,414</u>	<u>\$ 3,564,209</u>	<u>\$ -</u>	<u>\$ 6,245,623</u>
Accumulated Depreciation:				
Sewer system	\$ 1,010,292	\$ 55,361	\$ -	\$ 1,065,653
Equipment and tools	24,727	-	-	24,727
Office equipment	55,353	-	-	55,353
Vehicles	18,106	5,300	-	23,406
Building	149,277	8,435	-	157,712
	<u>\$ 1,257,755</u>	<u>\$ 69,096</u>	<u>\$ -</u>	<u>\$ 1,326,851</u>

In 2022, the District capitalized \$3,547,862 of costs relating to improvements in progress being made to the wastewater system to expand the capacity of the sewer lines. The construction was not complete by the end of 2022 and is reflected as construction in progress in the statement of net position.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 4 - Investment in Joint Use Facility

The District, the Woodmoor Water and Sanitation District #1 (“Woodmoor”), and the Monument Sanitation District (“Palmer”) provide wastewater treatment at the Tri-Lakes Wastewater Facility (TLWWTF), which is operated as a joint venture under the Amended Joint Use Agreement dated June 6, 1996. The TLWWTF assets and liabilities are commonly owned by each district in equal, undivided one-third interests. The audited financial statements of the TLWWTF, are available at the treatment facility. Woodmoor is presently the management company for the facility, as directed by a three-member board of directors, comprised of one director and an alternate appointed from each district.

The District uses the equity method to record its share of joint use facility transactions. At December 31, 2022, the District’s ownership interest in TLWWTF reflected in the statement of net position as investment in joint use facility, was \$2,179,235. The District’s share of the change in net position of TLWWTF for the year ended December 31, 2022, reflected in the statement of revenues, expenses, and changes in net position as (loss) from investment in joint use facility, was \$(70,748).

The following reflects a summary of the financial position and results of operation of TLWWTF, as of and for the year ended December 31, 2022:

	2022
Cash	\$ 61,016
Accounts receivable	75,878
Prepaid expenses	41,766
Net pension asset	34,229
Capital assets, net of accumulated depreciation	6,801,890
Total Assets	7,014,779
Deferred outflows of resources - related to pensions	64,721
Total Assets and Deferred Outflows of Resources	\$ 7,079,500
<hr/>	
Accounts payable	\$ 7,692
Compensated absences	86,463
Deposits held	59,172
Net OPEB liability	26,761
Total Liabilities	180,088
Total Net Position	6,537,706
Deferred inflows of resources - related to pensions	361,706
Total Liabilities, Net Position and Deferred Inflows of Resources	\$ 7,079,500

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 4 - Investment in Joint Use Facility (continued)

	2022
Operating revenue	\$ 1,286,430
Non-operating income	43,911
Operating (expenses)	(1,542,583)
Net (Loss)	\$ (212,242)

Capital outlays of the joint use facility are assessed equally to each district. Operating expenses for the joint use facility are allocated to the respective districts based on various factors.

Monthly billings from the joint use facility, which cover both operating expenses and other assessments, are expensed by the District. For the year ended December 31, 2022, the District incurred \$257,187 of operating and sludge removal expenses with TLWWTF. As of December 31, 2022, the District owed TLWWTF \$16,264, which is included in accounts payable on the statement of net position.

On October 13, 1998, and December 12, 2006, the District contributed \$10,000 and \$7,000, respectively, to an escrow deposit account with TLWWTF which are included in other non-current assets on the statement of net position.

Note 5 - Note Payable

In March 2022, the District entered into an agreement with the Colorado Water Resources and Power Development Authority (the "Authority") for a revolving loan in the amount of \$3,000,000 to help fund the improvements being made to the wastewater system discussed in Note 3. The note bears interest at 2.25%, matures on November 1, 2052 and is secured by the net revenues of the District, as defined in the agreement. Semi-annual payments of \$68,483 will begin on May 1, 2023 through the term of the loan.

The District may request loan funds as the costs relating to the wastewater system improvement project are incurred. The District is responsible for the entire \$3,000,000 loan unless the Authority grants approval to de-obligate any loan funds that have not been requisitioned. Accordingly, as of December 31, 2022, the outstanding balance of the note recorded by the District in these financial statements is \$3,000,000; of which \$1,908,657 of the proceeds were received by the District in 2022. The remaining \$1,091,343 proceeds available under the loan are reflected as loan proceeds available for draw on the statement of net position. In 2023, through June 14, 2023 (the date of these financial statements), the District has requested an additional \$749,646. The District anticipates the entire loan fund available will be utilized to complete the project in 2023.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 5 - Note Payable (continued)

The following table summarizes the note payable at December 31, 2022

	2022
Loan proceeds requisitioned in 2022	\$ 1,908,657
Loan proceeds available for draw	1,091,343
Balance, Note Payable at December 31, 2022	3,000,000
Current portion	98,143
Long terms	\$ 2,901,857

The following is a summary of the future maturities for the note payable for the years ending December 31:

	December 31,
2023	\$ 98,143
2024	77,771
2025	73,403
2026	75,071
2027	76,778
Thereafter	2,598,834
	\$ 3,000,000

In December 2022, the District entered into an agreement with the Authority for an additional revolving loan in the amount of \$1,000,000 to provide additional funding for the wastewater system improvements discussed above. The District determined the additional funding was not needed and submitted an application to cancel the loan which was approved by the Authority in April 2023. No amounts are recorded relating to this loan in the 2022 financial statements since it was cancelled before any proceeds were drawn.

Note 6 - 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; natural disasters; and workers' compensation, for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There was no significant reduction in the District's insurance coverage in fiscal 2022.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 6 - Risk Management (continued)

The District is a member of the Colorado Special Districts Property and Liability Pool (the "Pool"), as of December 31, 2022. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery, and workers' compensation coverage to its members. There have been no claims that have exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials, and workers' compensation coverage. In the event aggregated 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 that the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. No distributions were made during the year ended December 31, 2022.

Note 7 - Savings Incentive Match Plan

The District provides a Savings Incentive Match Plan for Employees (SIMPLE), an IRA plan under Section 408(p) of the Internal Revenue Code. The District, on an annual basis, matches contributions made by eligible employees to a qualifying account in an amount up to, but not to exceed, three percent of such eligible employees' gross annual compensation. Participation in the plan is optional for all eligible employees. The plan allows eligible employees to defer a portion of their salary until future years. The District's contributions to the plan for the year ending December 31, 2022 were \$4,440.

Note 8 - Commitments and Contingencies

Environmental Protection Agency (EPA)

The EPA has imposed certain requirements for providing sludge removal at the treatment plant owned and operated jointly with Woodmoor Water and Sanitation District #1 and Palmer Lake Sanitation District.

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. The District operates as a waste water activity pursuant to Title 37, Article 45.1 of the state statutes.

Palmer Lake Sanitation District

Notes to the Financial Statements

Note 8 - Commitments and Contingencies (continued)

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenues in grants from all state and local governments combined, are excluded from the provision of TABOR. The District's management believes its operations qualify for this exclusion. However, TABOR is complex and subject to interpretation. Many of the provisions, including qualification as an enterprise, will require judicial interpretation. Accordingly, the possibility exists that the District's interpretation of certain TABOR provisions may subsequently be determined to be incorrect. This could result in a potential refund of revenue unless voters approve retention of such revenue. The ultimate outcome of these matters cannot presently be determined and no provision for any liability for a refund of revenue is provided for in these financial statements.

TABOR requires local governments to establish Emergency Reserves equal to 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 benefit increase. As of December 31, 2022, the District has restricted net position of \$27,307 as required by Article X, Section 20.

Note 9 - Grant from El Paso County

In October 2022, the District was awarded a grant from El Paso County in the amount of \$1,000,000 which the District used to help fund the wastewater system improvements discussed in Note 3. The District is a subrecipient of grant funds awarded to El Paso County under the American Rescue Plan Act State and Local Fiscal Recovery Funds from the US Department of Treasury. The grant funds were fully expended by year end and at December 31, 2022, the District recorded \$1,000,000 of grants receivable and related revenue from this grant.

Note 10 - Prior Period Adjustment

The District's net position as of December 31, 2021 was restated to correct the accounting treatment of the District's ownership interest in the Tri-Lakes Wastewater Treatment Facility (TLWWTF) discussed in Note 4. The District was previously accounting for only the capital assets acquired by TLWWTF and was depreciating those assets. The prior period adjustment was recorded to reverse the capital assets and related accumulated depreciation and to record an investment for the District's ownership interest in the TLWWTF. The following table summarizes the balances as originally reported and as restated at December 31, 2021:

	As Originally Reported	As Restated
Capital assets, net of accumulated depreciation	\$ 2,810,581	\$ 1,423,660
Investment in joint use facility	\$ -	\$ 2,249,982
Net position	\$ 6,342,064	\$ 7,205,125

Supplemental Information

Palmer Lake Sanitation District

Schedule of Revenues, Expenses, and Changes in Net Position - Budget to Actual

<i>Year Ended December 31, 2022</i>	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
User fees	\$ 780,000	\$ 836,455	\$ 56,455
Interest	2,000	33,520	31,520
Other revenue	-	2,313	2,313
Loan revenue	4,000,000	3,000,000	(1,000,000)
Grants	1,000,000	1,000,000	-
Tap fees	100,000	84,995	(15,005)
Total Revenue	5,882,000	4,957,283	(924,717)
Expenditures			
Administrative	214,308	134,273	80,035
Operational - direct costs	264,093	201,158	62,935
Maintenance	134,750	45,892	88,858
Sewage treatment plant	268,849	257,186	11,663
Capital expenditures	5,000,000	3,564,209	1,435,791
Total Expenditures	5,882,000	4,202,718	1,679,282
Revenue Over (Under) Expenditures	-	754,565	754,565
Increase (Decrease) to Reconcile Budgetary Basis to GAAP Basis			
Loan revenue		(3,000,000)	
Capital expenditures		3,564,209	
Depreciation expense		(69,096)	
Loss from joint use facility		(70,748)	
Increase (Decrease) in Net Position		\$ 1,178,930	



Certified Public Accountants

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Palmer Lake Sanitation District
Palmer Lake, CO

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Palmer Lake Sanitation District (the “District”) which comprise the statement of net position as of December 31, 2022, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2023.

Report on Internal Control Over Financial Reporting

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

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.



Certified Public Accountants

Report on Compliance and Other Matters

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

Palmer Lake Sanitation District's Response to Findings

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

Purpose of this Report

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

Olson, Reyes & Sauerwein, LLC
Centennial, Colorado
June 14, 2023



Certified Public Accountants

Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

To the Board of Directors
Palmer Lake Sanitation District
Palmer Lake, CO

Report on Compliance Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Palmer Lake Sanitation District’s (the “District”) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended December 31, 2022. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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



Certified Public Accountants

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Certified Public Accountants

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Olson, Reyes & Sauerwein, LLC

Olson, Reyes & Sauerwein, LLC

Centennial, Colorado

June 14, 2023

Palmer Lake Sanitation District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Treasury				
Direct				
Pass-Through From El Paso County				
Coronavirus State and Local Fiscal Recovery Funds				
COVID-19 - Water and WasteWater Infrastructure Project	21.027	WP-2022-006	\$ 1,000,000	\$ -
Total U. S. Department of Treasury			<u>1,000,000</u>	<u>-</u>
Environmental Protection Agency				
Clean Water State Revolving Funds (CWSRF) Cluster				
Pass-Through From Colorado Water Resources and Power Development Authority				
Capitalization Grants for Clean Water State Revolving Funds				
Water Pollution Control Revolving Fund	66.458	23.002	1,531,902	
Total Environmental Protection Agency			<u>1,531,902</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 2,531,902</u>	<u>\$ -</u>

Palmer Lake Sanitation District

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2022

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of Palmer Lake Sanitation District (the “District”) under the programs of the federal government for the year ended December 31, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Foundation.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles obtained in OMB Circular A-21, Cost Principles for Educational Institutions, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. No indirect costs were allocated to the federal awards.

Palmer Lake Sanitation District

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Internal control over financial reporting

Material weakness(es) identified? x yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes x none reported

Type of auditor's report issues on compliance for major programs: Unmodified

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

Indentification of Major Programs

Federal Assistance Listing Number

Name of Federal Program or Cluster

21.027

Coronavirus State and Local Fiscal Recovery Funds
COVID 19 - Water and Wastewater Infrastructure Project

10.557

Capitalization Grants for Clean Water State Revolving
Funds Water Pollution Control Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee? yes x no

Palmer Lake Sanitation District
Schedule of Findings and Questioned Costs (continued)
December 31, 2022

Section 1 – Financial Statement Findings

Finding #2022-001

Condition: During the course of the audit, a prior period adjustment was recorded to properly reflect the net position of the District due to improper recording of an investment in a joint venture resulting in the financial statements not being presented in accordance with GAAP.

Criteria: Financial statements are required presented in accordance with GAAP.

Cause: The District misinterpreted the guidance relating to recording its ownership interest in the Tri-Lakes Wastewater Treatment Facility in which the District owns a 1/3rd interest in the facility. Rather than recording its equity interest in the facility, the District was recording the property acquired by the facility as a capital asset and was depreciating those assets.

Effect: Internal financial statements were not in accordance with GAAP.

Perspective Information: This is an isolated instance related to the treatment of correct way to account for ownership interest in a joint venture investment in accordance with GAAP.

Repeat Finding: Not applicable.

Recommendation: We recommend the District implement procedures to ensure its internal financial statements conform with GAAP.

Reporting Views of

Responsible Officials: The District agrees with the finding. The District followed the recommendations of the former auditor and capitalized the property acquired by the Tri-Lakes Wastewater Facility rather than recording an investment based on the District's ownership interest. The District will implement procedures to ensure the investment is recorded in accordance with GAAP going forward.

Section 2 – Major Federal Findings, Questioned Costs and Recommendations

Our audit disclosed no findings that are required to be reported herein under *Government Auditing Standards*.

Section 3 – Prior Year Audit Findings

None.