

WEST MONTROSE SANITATION DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

DONALD R. MORELAND & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Montrose Sanitation District
Montrose, Colorado 81403

Opinion

We have audited the accompanying financial statements of West Montrose Sanitation District, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of West Montrose Sanitation District as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of West Montrose Sanitation District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

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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 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 judgement made by a reasonable user based on these 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 text 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 West Montrose 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 West Montrose 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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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the West Montrose Sanitation District's basic financial statements. The supplementary information - revenues and expenditures - budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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, based on our audit, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Donald R. Moreland & Associates, P.C.

Montrose, Colorado
June 5, 2023

MANAGEMENT' S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the West Montrose Sanitation District (the District), we offer readers of the West Montrose Sanitation District's financial statements this narrative overview and analysis of the financial activities of the West Montrose Sanitation District for the fiscal years ended December 31, 2022 and 2021.

Financial Highlights

- The assets of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,631,116 (net position). Of this amount, \$2,615,684 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors. At the close of the prior fiscal year the District's net position and unrestricted net position were \$3,653,573 and \$2,413,868, respectively.
- The District's net position for the current fiscal year increased (decreased) by \$(22,457), mainly the result of decreased septage fees and increased repairs and maintenance and sludge removal. The District's net position for the prior fiscal year increased (decreased) by \$470,410 mainly the result of increased septage fees and capital contributions - tap fees.
- District revenues and expenses were relatively consistent from 2021 to 2022 with the exception of increased repair reimbursement, decreased septage fees, and increased repairs and maintenance and sludge removal. District revenues and expenses were relatively consistent from 2020 to 2021 with the exception of increased capital contributions-tap fees and increased septage fees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the West Montrose Sanitation District's basic financial statements. The West Montrose Sanitation District's basic financial statements are presented as a special purpose government engaged only in business type activities - providing sanitation services.

The *statement of net position* presents information on all of the West Montrose Sanitation District's assets and liabilities, with the difference between the two 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 West Montrose Sanitation District is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of 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 but unused vacation leave).

The *statement of cash flows* report the District's cash flows from operating, capital and investing activities. Also presented are beginning and end of year cash and cash equivalents.

The basic financial statements can be found on pages 8 through 10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 11 through 19 of the report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the West Montrose Sanitation District's budgetary comparisons for revenues and expenditures. Supplementary information can be found on page 20 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the West Montrose Sanitation District, assets exceeded liabilities and deferred inflows of resources by \$3,631,116 at the close of the most recent fiscal year.

A significant amount of the District's net position (approximately 28 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, treatment facilities and collection system). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

West Montrose Sanitation District Net Position

	<u>2022</u>	<u>2021</u>
Current assets	\$2,823,646	2,617,960
Capital assets	<u>1,015,432</u>	<u>1,239,705</u>
Total assets	<u>3,839,078</u>	<u>3,857,665</u>
Current liabilities	<u>132,364</u>	<u>134,225</u>
Total liabilities	<u>132,364</u>	<u>134,225</u>
Deferred inflows of resources	<u>75,598</u>	<u>69,867</u>
Total deferred inflows of resources	<u>75,598</u>	<u>69,867</u>
Net position:		
Net investment in capital assets	1,015,432	1,239,705
Unrestricted	<u>2,615,684</u>	<u>2,413,868</u>
Total net position	<u>\$3,631,116</u>	<u>3,653,573</u>

At the end of the current and prior fiscal year, the West Montrose Sanitation District is able to report positive balances in all categories of net position.

Under the GASB 34 reporting model the audit shows the District's net position increased (decreased) by \$(22,457) and \$470,410, respectively, during the years ended December 31, 2022 and 2021. The decrease in net position for 2022 was due to increased repairs and maintenance and sludge removal. The increase in net position for 2021 was due to increased septage fees and capital contributions-tap fees.

West Montrose Sanitation District Changes in Net Position

	<u>2022</u>	<u>2021</u>
Revenues:		
Operating revenue	\$ 855,422	889,039
Non-operating revenue	<u>113,533</u>	<u>79,270</u>
Total revenues	<u>968,955</u>	<u>968,309</u>
Expenses:		
Operating expenses:		
Administrative and general	177,868	191,700
Sewage collection and treatment	999,472	476,764
Depreciation	224,273	226,580
Non-operating expenses:		
Treasurer's fees	<u>1,874</u>	<u>1,855</u>
Total expenses	<u>1,403,487</u>	<u>896,899</u>
Income (loss) before contributions	(434,532)	71,410
Capital contributions - tap fees	<u>412,075</u>	<u>399,000</u>
Change in net position	(22,457)	470,410
Net position - beginning of year	<u>3,653,573</u>	<u>3,183,163</u>
Net position - end of year	<u>\$3,631,116</u>	<u>3,653,573</u>

Total expenses approximated the prior fiscal year with the exception of increased repairs and maintenance and sludge removal. Total expenses for the prior year increased approximately 8 percent from the prior fiscal year mainly as a result of increased employee costs.

Budgetary highlights

Changes between actual revenues and budgeted amounts were primarily due to increased capital contributions-tap fees and repair reimbursement.

Changes between actual expenses and budgeted amounts were primarily due to decreased capital outlay and increased sewage collection and treatment supplies and expense.

Capital Asset and Debt Administration

Capital assets. The West Montrose Sanitation District's investment in capital assets as of December 31, 2022 and 2021 amounted to \$1,015,432 and \$1,239,705, respectively, (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building, equipment, treatment facilities and collection system.

There were no major capital assets events during the current and prior year.

West Montrose Sanitation District Capital Assets
(net of depreciation)

	2022	2021
Land	\$ 184,496	184,496
Land improvements	8,509	9,463
Treatment facility	287,939	417,701
Collection system	433,399	488,160
Building	23,515	26,554
Furniture and equipment	77,574	113,331
	<u>\$1,015,432</u>	<u>1,239,705</u>

Additional information on the District's capital assets can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets and Rates

The economic condition and outlook for the District in the upcoming year appears stable. Sanitation fees increased by \$2 a month in 2015 which increased revenue by approximately \$45,000. The District's anticipated collection of property and specific ownership taxes in 2023 will increase approximately \$9,500 from the prior year. Legal fees, personnel costs, repairs and maintenance and capital outlay will be increased. These plus other factors were considered in preparing the District's budget for the 2023 fiscal year.

Request for information

This financial report is designed to provide a general overview of the West Montrose Sanitation District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to West Montrose Sanitation District, 239 Chipeta Drive, Montrose, Colorado, 81403.

FINANCIAL STATEMENTS

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF NET POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 671,803	571,899
Investments	1,960,650	1,927,479
Due from other governments	844	733
Accounts receivable	102,250	38,225
Property taxes receivable	75,598	69,867
Prepaid expenses	12,501	9,757
TOTAL CURRENT ASSETS	<u>2,823,646</u>	<u>2,617,960</u>
CAPITAL ASSETS		
Land	184,496	184,496
Land improvements	26,544	26,544
Treatment facilities	3,022,366	3,022,366
Collection system	1,930,542	1,930,542
Building	68,249	68,249
Transportation equipment	49,144	49,144
Furniture and equipment	276,006	276,006
	<u>5,557,347</u>	<u>5,557,347</u>
Less accumulated depreciation	4,541,915	4,317,642
PROPERTY, PLANT AND EQUIPMENT - NET	<u>1,015,432</u>	<u>1,239,705</u>
TOTAL ASSETS \$	<u>3,839,078</u>	<u>3,857,665</u>
<u>LIABILITIES</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 29,726	31,471
Customer advances	65,937	70,258
Accrued payroll	13,112	11,520
Payroll taxes withheld and accrued	4,370	3,892
Accrued compensated absences	19,219	17,084
TOTAL CURRENT LIABILITIES	<u>132,364</u>	<u>134,225</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred revenue - property taxes	75,598	69,867
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>75,598</u>	<u>69,867</u>
<u>NET POSITION</u>		
Net investment in capital assets	1,015,432	1,239,705
Unrestricted	2,615,684	2,413,868
TOTAL NET POSITION \$	<u>3,631,116</u>	<u>3,653,573</u>

See Notes to Financial Statements.

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>OPERATING REVENUE</u>		
Sanitation fees	\$ 604,318	586,092
Septage fees	151,387	286,241
Rental income		4,396
Repair reimbursement	81,552	
Other income	18,165	12,310
TOTAL OPERATING REVENUES	<u>855,422</u>	<u>889,039</u>
<u>OPERATING EXPENSES</u>		
Salaries and wages	332,099	304,540
Payroll tax expense	25,844	24,426
Employee benefits	71,242	71,853
Licenses and permits	1,693	1,753
Insurance	18,929	17,189
Accounting and audit fees	14,994	10,709
Legal fees	14,151	44,247
Consultant fees	3,956	3,926
Collection system study	52,360	
Election expenses	114	
Bank fees	6,030	5,365
Miscellaneous	5,264	4,949
Office supplies	7,672	7,117
Postage	2,411	5,224
Supplies	9,041	11,608
Telephone	7,341	7,774
Utilities	83,440	85,766
Repairs and maintenance	206,839	50,846
Sudge removal	300,894	
Training	8,286	4,212
Depreciation	224,273	226,580
Vehicle expense	4,740	6,960
TOTAL OPERATING EXPENSES	<u>1,401,613</u>	<u>895,044</u>
OPERATING INCOME (LOSS)	<u>(546,191)</u>	<u>(6,005)</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Investment income	33,377	1,625
Property and specific ownership tax	80,156	77,645
Treasurer's fees	(1,874)	(1,855)
NET NON-OPERATING REVENUE (EXPENSE)	<u>111,659</u>	<u>77,415</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	<u>(434,532)</u>	<u>71,410</u>
CAPITAL CONTRIBUTIONS - TAP FEES	<u>412,075</u>	<u>399,000</u>
CHANGE IN NET POSITION	(22,457)	470,410
NET POSITION, January 1	<u>3,653,573</u>	<u>3,183,163</u>
NET POSITION, December 31	<u>\$ 3,631,116</u>	<u>3,653,573</u>

See Notes to Financial Statements.

WEST MONTROSE SANITATION DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	2022	2021
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from user charges	\$ 787,076	863,042
Payments to suppliers for goods and services	(752,644)	(266,539)
Payments to employees	(424,980)	(404,578)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(390,548)</u>	<u>191,925</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Property and specific ownership tax-net	78,171	75,790
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>78,171</u>	<u>75,790</u>
<u>CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets		(18,874)
Capital contributions - tap fees	412,075	399,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>412,075</u>	<u>380,126</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of investment	(33,171)	(566,337)
Investment income received	33,377	1,625
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>206</u>	<u>(564,712)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99,904	83,129
CASH AND CASH EQUIVALENTS, January 1	571,899	488,770
CASH AND CASH EQUIVALENTS, December 31	<u>\$ 671,803</u>	<u>571,899</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (546,191)	(6,005)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	224,273	226,580
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(64,025)	(6,311)
(Increase) decrease in prepaid expenses	(2,744)	1,490
Increase (decrease) in accounts payable	(1,745)	(384)
Increase (decrease) in customer advances	(4,321)	(19,686)
Increase (decrease) in accrued payroll	1,592	(2,088)
Increase (decrease) in payroll taxes withheld and accrued	478	960
Increase (decrease) in accrued compensated absences	2,135	(2,631)
	<u>\$ (390,548)</u>	<u>191,925</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The West Montrose Sanitation District is incorporated as a special district under the laws of the State of Colorado with an elected board of five directors. The District provides sewage collection services for the residences and businesses within the District's boundaries and septage services. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The financial statements of the District consist only of the enterprise fund of the District, a primary government. Based on criteria set forth by GASB, there are no component units for which the District is financially accountable.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 are charges to customers for sales and services. Operating expenses for proprietary 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 nonoperating revenues and expenses.

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.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022 and 2021

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents. The District considers all cash on hand, demand deposits and short-term highly liquid investments with an original maturity of three months or less to be cash equivalents

Investments. It is the District's policy to invest in money market deposits with SEC registered broker-dealers, securities issued or guaranteed by the Federal government or its agencies and commercial paper. Investments, if any, are stated at fair value.

Allowance for doubtful accounts. The District considers all accounts receivable collectible and, accordingly, provides no allowance for doubtful accounts.

Property taxes receivable. Property taxes are levied on December 22 and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes levied in the current year and collected in the following year are reported as a receivable at December 31, net of an estimated uncollectible portion.

Capital assets. Purchased or constructed capital assets are reported at cost or estimated historical cost. Construction costs are increased by interest incurred on bonds during the construction period and reduced by earnings from the investment of the unexpended bond proceeds. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives. Capital assets acquired by capital lease are depreciated over the estimated useful lives and are included in depreciation expense. The estimated useful lives are as follows:

Treatment facilities	5 - 25 years
Collection system	40 years
Building	40 years
Furniture and equipment	5 - 20 years
Transportation equipment	4 years
Land improvements	10 years

Compensated absences. The liability for compensated absences consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

WEST MONTROSE SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2022 and 2021

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGET AND BUDGETARY ACCOUNTING.

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

1. Budgets are required by state law for all governmental funds.
2. During September the proposed budget is submitted to the Board of Directors for the fiscal year commencing the following January 1.
3. Prior to December 31, the budget is adopted and appropriations are authorized by resolution at the fund level for all funds. The legal level of budgeting control is at the individual fund level for all funds.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except that capital outlays are budgeted as expenditures, no provision is made for depreciation and advance refundings are not budgeted.
5. Expenditures may not legally exceed appropriations at the fund level. The Board of Directors may increase or decrease the budget and appropriations during the year within restrictions imposed by the District and laws of the State of Colorado. Budget amounts included in the financial statements are based on the final, legally amended budget.
6. Appropriations lapse at the end of the year, and the Board of Directors may adopt supplemental appropriations during the year. For 2022 and 2021, supplemental appropriations were not adopted.

Originally adopted budgeted expenditures, amendments and the final amended budgeted expenditures for the year ended December 31, 2022 and 2021 are as follows:

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDMENT</u>	<u>FINAL</u> <u>BUDGET</u>
Enterprise Fund - 2022	\$ <u>1,618,184</u>	<u> </u>	<u>1,618,184</u>
Enterprise Fund - 2021	\$ <u>1,256,000</u>	<u> </u>	<u>1,256,000</u>

Reclassifications. Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

WEST MONTROSE SANITATION DISTRICT
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2022 and 2021

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public depositories as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

Custodial Credit Risks - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2022 and 2021 none of the District's bank balances of \$842,340 and \$571,398, respectively, were exposed to custodial credit risk as \$419,266 and \$417,910, respectively, were insured and \$423,081 and \$153,488, respectively, were collateralized by securities pledged by financial institutions.

At December 31, 2022 and 2021 the carrying amount of the District's deposits were presented on the balance sheet as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ <u>671,803</u>	<u>571,899</u>

Investments

As of December 31, 2021 and 2020, the District had the following investments:

	<u>MATURITIES</u>	<u>FAIR VALUE</u>	
		<u>2022</u>	<u>2021</u>
CSAFE	N/A	\$1,960,650	1,927,479

As of December 31, 2022 and 2021, the District has invested \$1,960,650 and \$1,927,479, respectively, in CSAFE, an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. The value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the pool are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pool.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022 and 2021

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Investments (continued)

The District's investment in CSAFE is rated AAAM by S&P. CSAFE is routinely monitored by the Colorado Division of Securities with regard to operations and investments. Separately issued financial statements may be obtained at the following address:

CSAFE
1675 Broadway, Suite 500
Denver, CO 80202
www.csafe.org

Interest rate risk

The District has a formal investment policy that limits investment maturities to less than ten years from date of purchase as means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and guaranteed investment contracts. The District's general investment policy is to apply the prudent-person rule: Prudence and protection of District funds are the primary criteria. All investments and bid requests for investments are predicated on liquidity, yield, safety and interest of local economy. As of December 31, 2022 and 2021, the District's investment in CSAFE, a 2a7-like investment pool, was rated AAAM by Standard & Poors.

Concentration of credit risk

The District limits the amount that may be invested in commercial paper to no more than 50% of invested funds, effective August 9, 2013. More than 5 percent of the District's investments are in CSAFE. At December 31, 2022 and 2021, CSAFE represented 100% of the District's investments.

These investments are presented on the balance sheet as follows:

Investments	<u>2022</u>	<u>2021</u>
	\$1,960,650	1,927,479
	<u>\$1,960,650</u>	<u>1,927,479</u>

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022 and 2021

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Fair value measurement

Government Accounting Standards Board Statement No. 72 (GASB 72) *Fair Value Measurement and Application* establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques. According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair application guidance and enhances disclosures about fair value measurements.

The District's investments and derivative instruments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure fair value of assets and liabilities as follows.

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy.

Level 3 - Prices determined using significant unobservable inputs. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The following table reflects the fair value of the District's investments and derivative instruments as of December 31, 2022 and 2021:

2022

<u>Assets</u>	<u>Fair Value Measurement Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
CSAFE	\$1,960,650			
Total investments	<u>\$1,960,650</u>			

2021

<u>Assets</u>	<u>Fair Value Measurement Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
CSAFE	\$1,927,479			
Total investments	<u>\$1,927,479</u>			

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022 and 2021

2 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

Fair value measurement (continued)

(A) During the years ended December 31, 2022 and 2021, the District invested in CSAFE, a local government investment pool. The valuation is measured at net asset value and is designed to approximate the share value. The pool's Board of Trustees, elected by the participants, is responsible for overseeing the management of CSAFE, including establishing operating standards and policies. CSAFE is designed to provide local governments with a convenient method for investing in short-term investments carefully chosen to provide maximum safety and liquidity, while still maximizing interest earnings.

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2022 and 2021 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
2022				
Capital assets not being depreciated:				
Land and easements	\$ 184,496	_____	_____	184,496
Capital assets being depreciated:				
Land improvements	26,544			26,544
Treatment facilities	3,022,366			3,022,366
Collection system	1,930,542			1,930,542
Building	68,249			68,249
Transportation equipment	49,144			49,144
Furniture and equipment	276,006			276,006
Total capital assets being depreciated	<u>5,372,851</u>	_____	_____	<u>5,372,851</u>
depreciation for:				
Land improvements	17,081	954		18,035
Treatment facilities	2,604,665	129,762		2,734,427
Collection system	1,442,382	54,761		1,497,143
Building	41,695	3,039		44,734
Transportation equipment	49,144			49,144
Furniture and equipment	162,675	35,757		198,432
Total accumulated depreciation	<u>4,317,642</u>	<u>224,273</u>	_____	<u>4,541,915</u>
Total capital assets, net	<u>\$1,239,705</u>	<u>(224,273)</u>	_____	<u>1,015,432</u>

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022 and 2021

3 - CAPITAL ASSETS (continued)

2021

Capital assets not being depreciated:			
Land and easements	\$ 184,496		184,496
Capital assets being depreciated:			
Land improvements	17,001	9,543	26,544
Treatment facilities	3,022,366		3,022,366
Collection system	1,930,542		1,930,542
Building	61,592	6,657	68,249
Transportation equipment	49,144		49,144
Furniture and equipment	273,332	2,674	276,006
Total capital assets being depreciated	5,353,977	18,874	5,372,851
depreciation for:			
Land improvements	17,001	80	17,081
Treatment facilities	2,484,568	120,097	2,604,665
Collection system	1,386,093	56,289	1,442,382
Building	39,047	2,648	41,695
Transportation equipment	47,798	1,346	49,144
Furniture and equipment	116,555	46,120	162,675
Total accumulated depreciation	4,091,062	226,580	4,317,642
Total capital assets, net	\$1,447,411	(207,706)	1,239,705

4 - SHORT-TERM DEBT

The District had no short-term debt during the years ended December 31, 2022 and 2021.

5 - SPENDING AND DEBT LIMITATIONS

The State Constitution, Article X, Section 20, has several limitations regarding revenue raising, spending abilities, and other specific requirements of state and local governments. The Section is complex and subject to judicial interpretation. It is the opinion of management and the District's attorney that the District's sewage activity is an enterprise within the meaning of Article X, Section 20, and is not subject to the revenue limitations nor required to establish the emergency reserves but is subject to the property tax limitations contained therein.

6 - RISK MANAGEMENT

The District is exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Such exposure, except for the collection system, is covered by purchase of commercial insurance, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

WEST MONTROSE SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2022 and 2021

7 - EMPLOYEES' RETIREMENT PLAN

The District provides pension benefits for all of its full-time employees in two separate defined contribution plans through the Colorado Retirement Association (CRA), a multiple-employer public employee retirement system. Any Colorado county, special district or municipality may choose to adopt the plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately. Association rules require that both the employee and the District contribute 8% of total compensation to the plan. Plan provisions and contribution requirements are established and may be amended by CCOERA and would have to be approved by the District.

The District's contribution for each employee (and earnings, losses and changes in fair market value of plan assets) are vested at a rate of 50% per year. Employee contributions and their earnings are 100% vested immediately. Nonvested contributions are forfeited upon termination of employment and such forfeitures may be used to pay plan expenses or the employer's contribution to the plan. For the years ended December 31, 2022 and 2021, there were no forfeitures.

The District's total payroll for 2022 and 2021 was \$332,099 and \$304,540, respectively. The District's contributions were calculated using the covered payroll of \$271,813 and \$272,150 for 2022 and 2021, respectively. Both the District and the covered employees made the 8% contribution, amounting to \$21,745 for 2022 and \$21,772 for 2021 from each source, or \$43,490 and \$43,544 in total for 2022 and 2021, respectively. The plan had four plan members for 2022 and five plan members for 2021.

The District had no liability to the plan at December 31, 2022 and 2021.

8 - SUBSEQUENT EVENTS

Subsequent events were evaluated through June 5, 2023 which is the date the financial statements were available to be issued.

In 2022 and 2023, domestic and international economies faced uncertainty related to the COVID-19 pandemic. The District may be adversely affected through a delay in collection of charges and negative impacts on operations. However, the related financial impact cannot be reasonably estimated at this time.

SUPPLEMENTARY INFORMATION

REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

WEST MONTEOSE SANITATION DISTRICT
 REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 For the years ended December 31, 2022 and 2021

	2022		2021		VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL
PROPRIETARY REVENUE					
Sanitation fees	594,918	604,318	9,400	525,826	596,092
Septage fees	198,306	151,387	(46,919)	285,241	286,241
Tap fees	26,250	412,075	385,825	26,250	399,000
Investment income	1,500	33,377	31,877	9,000	1,625
Rental income			-		4,396
Repair reimbursement		81,552	81,552		
Other income	5,000	18,165	13,165	5,000	12,310
	825,974	1,300,874	474,900	791,430	1,289,561
PROPRIETARY EXPENDITURES					
Administration:					
Personnel costs	146,380	109,085	37,295	143,900	99,120
Supplies and expense	114,094	49,854	64,240	120,800	75,391
Insurance	15,000	18,929	(3,929)	15,000	17,189
Sewage Collection and Treatment:					
Personnel costs	331,110	320,100	11,210	302,300	301,599
Supplies and expense	292,300	679,372	(387,072)	249,000	175,065
Capital outlay	516,600	516,600	516,600	222,500	18,874
Contingency	200,000		200,000	200,000	
	1,615,684	1,177,340	438,344	1,253,500	687,338
TOTAL PROPRIETARY EXPENDITURES					
	(789,710)	123,534	913,244	(462,070)	603,326
EXCESS OF PROPRIETARY REVENUES OVER (UNDER) EXPENDITURES					
					7,645
GOVERNMENTAL REVENUE					
Property and specific ownership taxes	70,000	80,156	10,156	70,000	77,515
GOVERNMENTAL EXPENDITURES					
Treasurer's fees	2,500	1,874	626	2,500	1,955
EXCESS OF GOVERNMENT REVENUES OVER (UNDER) EXPENDITURES					
					645
TOTAL DISTRICT REVENUES					
	895,974	1,381,030	485,056	861,430	1,387,309
TOTAL DISTRICT EXPENDITURES					
	1,618,184	1,179,214	438,970	1,256,000	689,193
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$					
	(722,210)	201,816	924,026	(394,570)	678,116
RECONCILIATION OF EXCESS OF REVENUES OVER (UNDER) EXPENDITURES TO CHANGE IN NET POSITION					
CAPITALIZED EXPENDITURES DEPRECIATION		(224,273)			18,874
CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION \$		(22,457)			(266,580)
					430,410