

STRATMOOR HILLS WATER DISTRICT

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
With Independent Auditors' Report

December 31, 2022 and 2021

STRATMOOR HILLS WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Stratmoor Hills Water District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Stratmoor Hills Water District, which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenue, expenses and changes in net position, and cash flows for the years 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 Stratmoor Hills Water District, as of December 31, 2022 and 2021, and the changes in its net position and its cash flows for the years 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 the Stratmoor Hills Water 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, Stratmoor Hills Water District implemented GASB Statement No. 87, Leases effective January 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 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 the Stratmoor Hills Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Stratmoor Hills Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents 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 an opinion on the financial statements as a whole. The accompanying supplementary information 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 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hoelting & Company Inc.

Colorado Springs, Colorado
July 12, 2023

STRATMOOR HILLS WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2022

As management of Stratmoor Hills Water District (the District) we offer readers of the District’s annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2022. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District’s assets of \$9,939,218 exceeded its liabilities at the close of the most recent fiscal year by \$5,850,291 (*net position*). Of this amount, \$1,494,178 represents unrestricted net position, which may be used to meet the District’s ongoing obligations.
- The District’s total net position decreased during the year by \$83,833.
- Capital assets net of depreciation increased \$455,260 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District’s basic financial statements. The District’s basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenue, Expenses and Changes in Fund Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets), obligations (liabilities), and deferred inflows and outflows. The difference between assets, liabilities, and deferred inflows and outflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Fund Net Position - All revenue and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District’s rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows – This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2022, the District's assets exceeded liabilities by \$5,850,291 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 2,780,072	\$ 2,780,050
Capital assets, net	<u>7,159,146</u>	<u>6,703,886</u>
Total assets	<u>9,939,218</u>	<u>9,489,936</u>
Long-term liabilities	2,707,705	2,803,033
Other liabilities	<u>1,381,222</u>	<u>752,779</u>
Total liabilities	<u>4,088,927</u>	<u>3,555,812</u>
Net position:		
Investment in capital assets	4,356,113	4,754,437
Unrestricted	<u>1,494,178</u>	<u>1,179,687</u>
Total net position	<u>\$ 5,850,291</u>	<u>\$ 5,934,124</u>

Unrestricted net position of the District at the end of the year was \$1,494,178, a \$314,491 increase from the prior year.

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

	<u>2022</u>	<u>2021</u>
Operating revenues	\$ 2,136,115	\$ 1,920,006
Operating expenses	<u>(2,399,280)</u>	<u>(1,778,248)</u>
Operating income (loss)	(263,165)	141,758
Non-operating revenue and expenses, net	<u>55,775</u>	<u>32,485</u>
Income (loss) before contributions	(207,390)	174,243
Capital contributions	<u>123,557</u>	<u>623,665</u>
Change in net position	(83,833)	797,908
Net position, beginning	<u>5,934,124</u>	<u>5,136,216</u>
Net position, ending	<u>\$ 5,850,291</u>	<u>\$ 5,934,124</u>

BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with state law. An analysis of budget results in the following observations:

- Water sales came in \$64,857 less than anticipated in 2022 due primarily to lower usage during the year.
- Operating expenses were \$137,670 more than anticipated in 2022. Most significant reasons for this were higher maintenance expenses than planned.
- Capital outlays were \$662,303 less than anticipated in 2022

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2022 amounts to \$7,159,146. This investment in capital assets includes land and easements, water rights, plant, office building, equipment and vehicles, and construction in progress.

	<u>2022</u>	<u>2021</u>
Capital assets, not being depreciated	\$ 426,287	\$ 3,965,028
Capital assets, being depreciated	10,429,551	6,727,355
Less accumulated depreciation	<u>(3,696,692)</u>	<u>(3,988,497)</u>
Total capital assets, net	<u>\$ 7,159,146</u>	<u>\$ 6,703,886</u>

Water treatment plant improvements increased the District's assets.

Long-Term Debt

At December 31, 2022, the District had a \$2,803,033 loan outstanding for completion of water facilities projects. The District paid debt payments during in compliance with debt agreements.

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – Water sales were lower than budgeted, with expenditures exceeding budgeted amounts, resulting in a decreased Fund Balance. Water fees were increased in early 2023 in an effort to equal, or at least lessen, the gap between revenues and expenditures. The District negotiated a new agreement with the United States Air Force to more accurately cover operational costs and PFAS testing at the new water treatment plant. Grants were also awarded, one to cover the cost of engineering and construction on the new interconnection with Colorado Springs Utilities, with the other covering additional costs associated with the operation of the new water treatment plant. The District will continue to concentrate on much-needed capital projects, reserving certain amounts each year for those projects that cannot be financially completed over the course of one fiscal year.

Economic and Environmental Factors – Of primary concern is construction of the Emergency Interconnect between Stratmoor Hills and Colorado Springs Utilities. This connection serves as an important backup if and when the District requires water resources due to Widefield Aquifer issues. Equally important is the ability to provide some water resources in the event of issues with delivery through the Fountain Valley Authority. While the service area of the District has not changed, the large commercial area in the southern portion, although technically in the City of Fountain, continues to develop. Likewise, a large apartment complex is being developed along the northern border, both of which provide tap fees and future revenue sources.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers, creditors and other financial users with a general overview of the District's finances. If you have questions about this report or need additional financial information, please contact the District's Manager, Kevin Niles, at 719-576-0311 or 1811 B Street, Colorado Springs, CO 80906.

BASIC FINANCIAL STATEMENTS

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,399,369	\$ 1,351,694
Cash with fiscal agent	-	948,437
Accounts receivable, users	255,156	180,158
Accounts receivable, Air Force	1,747	57,409
Accounts receivable, other	3,750	7,500
Lease receivable	1,016,304	-
Inventory	94,517	193,309
Other prepaid expenses	9,229	47,543
Total current assets	2,780,072	2,786,050
Noncurrent assets:		
Capital assets, not being depreciated	426,287	3,965,028
Capital assets being depreciated, net	6,732,859	2,738,858
Total noncurrent assets	7,159,146	6,703,886
Total assets	9,939,218	9,489,936
LIABILITIES		
Current liabilities:		
Accounts payable, trade	29,048	466,242
Accounts payable, Stratmoor Hills Sanitation District	154,365	101,013
Accrued interest	2,336	2,415
Escrow deposits	4,561	4,561
Payroll taxes payable	8,365	7,931
Compensated absences	22,009	23,593
Customer deposits	26,415	29,680
Unearned revenue, rent	22,491	22,491
Current portion, notes payable	95,328	94,853
Total current liabilities	364,918	752,779
Noncurrent liabilities:		
Notes payable, less current portion	2,707,705	2,803,033
Total liabilities	3,072,623	3,555,812
DEFERRED INFLOWS OF RESOURCES		
Deferred lease revenue	1,016,304	-
NET POSITION		
Net investment in capital assets	4,356,113	4,754,437
Unrestricted	1,494,178	1,179,687
Total net position	\$ 5,850,291	\$ 5,934,124

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUE		
Water sales	\$ 1,585,143	\$ 1,434,705
Water lease income	20,837	30,794
Maintenance contract income	300,000	240,000
Billing fees	179,797	173,923
Late fees	40,080	36,570
Other income	10,258	4,014
	2,136,115	1,920,006
OPERATING EXPENSES		
Water operations	1,864,010	1,391,429
General administration	208,517	171,310
Depreciation	326,753	215,509
	2,399,280	1,778,248
Total operating expenses	2,399,280	1,778,248
Operating income (loss)	(263,165)	141,758
NON-OPERATING REVENUE (EXPENSES)		
Investment income	18,785	579
Rental income	55,880	60,042
Interest expense	(14,292)	(14,858)
Fountain Valley Authority debt service	(14,019)	(13,278)
Gain (loss) on disposal of fixed assets	9,421	-
	55,775	32,485
Total non-operating revenue (expenses)	55,775	32,485
Income (loss) before capital contributions	(207,390)	174,243
Capital contributions - tap fees	44,458	511,100
Capital contributions - Air Force	79,099	112,565
	123,557	623,665
Total capital contributions	123,557	623,665
Change in net position	(83,833)	797,908
Net position-beginning	5,934,124	5,136,216
Net position-ending	\$ 5,850,291	\$ 5,934,124

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,061,602	\$ 1,946,954
Cash payments to suppliers for goods and services	(1,204,935)	(998,707)
Cash payments to employees for services	(674,720)	(625,522)
Cash received from other governments	134,761	55,155
Cash received from miscellaneous income	55,880	60,042
	<u>372,588</u>	<u>437,922</u>
Net cash provided (used) by operating activities	<u>372,588</u>	<u>437,922</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets and insurance recoveries	15,105	-
Capital contributions	44,458	531,448
Cash received from other governments	-	331,471
Purchase of capital assets	(1,228,455)	(3,007,381)
Fountain Valley Authority debt service	(14,019)	(13,278)
Loan principal payments	(94,853)	(94,380)
Interest paid	(14,371)	(14,937)
	<u>(1,292,135)</u>	<u>(2,267,057)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,292,135)</u>	<u>(2,267,057)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	18,785	579
	<u>18,785</u>	<u>579</u>
Net increase (decrease) in cash and cash equivalents	(900,762)	(1,828,556)
Cash and cash equivalents at beginning of year	<u>2,300,131</u>	<u>4,128,687</u>
Cash and cash equivalents at ending of year	<u>\$ 1,399,369</u>	<u>\$ 2,300,131</u>

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 1,399,369	\$ 1,351,694
Cash with fiscal agent	-	948,437
 Total cash and cash equivalent at end of year	 \$ 1,399,369	 \$ 2,300,131
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (263,165)	\$ 141,758
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	326,753	215,509
Miscellaneous income	55,880	60,042
Cash received from other governments	-	55,155
Change in assets and liabilities:		
<i>(Increase) decrease in:</i>		
Accounts receivable, users	941,306	19,892
Accounts receivable, other	3,750	5,000
Inventory	98,792	(107,975)
Prepaid water	-	92,456
Other prepaid expenses	38,314	9,401
<i>Increase (decrease) in:</i>		
Accounts payable	(824,627)	(60,522)
Compensated absences payable	(1,584)	3,812
Payroll taxes payable	434	1,339
Customer deposits	(3,265)	2,055
 Total Adjustments	 635,753	 296,164
 Net Cash Provided (Used) by Operating Activities	 \$ 372,588	 \$ 437,922
 Non cash investing, capital and financing activities	 None	 None

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

NOTES TO FINANCIAL STATEMENTS

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Stratmoor Hills Water District (the District) was organized under the laws of the State of Colorado to operate and maintain a special district for the purpose of transmission and distribution of water to the residents of the Stratmoor Hills subdivision located adjacent to the City of Colorado Springs, Colorado.

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

The District is a special district governed by an elected five-member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's 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 when a liability is incurred, regardless of the timing of related cash flows.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Accounts receivable, users

The accounts receivable are due from a large number of customers for the purchase of water and for sanitation assessments. An allowance for doubtful accounts is not required as the District can place a lien on property for unpaid water sales.

Inventory

Inventory consists of materials and supplies and is valued at cost, which approximates market, using the first-in, first-out method.

Prepaid water

This account represents the conveyance service charges for water to be delivered in the next fiscal year by the Fountain Valley Authority.

Other prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items are recorded as expenses when consumed rather than when purchased.

Water rights

The cost of water rights includes acquisition costs, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION
(CONTINUED)*

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are recorded at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method over the estimated useful lives of the depreciable property. The estimated useful lives are as follows:

Plant:	
Transmission and distribution lines	5 to 45 years
Storage facilities	10 to 60 years
Equipment	10 to 45 years
Office building:	
Building and improvements	5 to 25 years
Land improvements	5 years
Equipment and vehicles:	
Office equipment	5 to 7 years
Other equipment	5 to 12 years
Vehicles	5 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION
(CONTINUED)*

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

Leases

Lessee: The District recognizes lease liabilities with an initial, individual value of \$50,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS OF RESOURCES AND NET POSITION
(CONTINUED)*

Lessor:

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

E. REVENUES AND EXPENSES

Compensated Absences

Employees earn two weeks of paid time off after one year of service, three weeks after two or more years of service and four weeks after ten or more years of service. Paid time off is earned on an employee's anniversary. Employees can accrue a maximum of 110 days of paid time off and carry it over from year to year. Upon termination, employees with accrued but unused paid time off shall be paid at their current regular hourly rate for such time. A liability is recorded in the amount of the earned accumulated rights to receive paid time off benefits.

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and sanitation assessments, late and reconnect charges, and inspection fees. Operating expenses include all expenses incurred to provide water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ESTIMATES

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

G. COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Budgets are adopted on a comprehensive basis of accounting other than generally accepted accounting principles. The primary differences are that bond and note proceeds are treated as a budget source and capital expenditures and bond and note principal payments are treated as a budget use. Depreciation expense is not considered a budget expense. An annual appropriated budget is adopted for the proprietary fund. All annual appropriations lapse at fiscal year-end. The budgeted revenues and expenses represent the original budget adopted or as amended by the Board.

Expenditures may not legally exceed budgeted appropriations.

The District follows these procedures in establishing the budgetary data reflected in the Financial Statements.

1. Prior to October 15, administrative personnel submit to the Board of Directors a proposed operating budget for the following fiscal year (calendar) beginning January 1. The operating budget includes proposed expenses and the means for financing them.
2. The proposed budget is advertised as available for inspection and comment by the electorate of the District.
3. Prior to December 15, the Board legally adopts the budget.
4. In December, the Board certifies the mill levy to El Paso County.
5. During the year, formal budgetary integration is employed as a management control device.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 – DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

As of December 31, 2022 and 2021, the carrying amounts of the District’s deposits were \$480,131 and \$448,053, respectively and the bank balances were \$544,876 and \$528,895, respectively. Of the total bank balances, \$250,000 were covered by FDIC insurance for the year ended December 31, 2022 and 2021. The remaining balances of \$294,876 and \$278,895 at December 31, 2022 and 2021, respectively, fall under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools.

Investments

The District is authorized by Colorado State Statutes to invest in the following:

- ◆ Bonds and other interest-bearing obligations of the United States government.
- ◆ Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- ◆ Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- ◆ Notes or bonds issued to the “National Housing Act”.
- ◆ Repurchase agreements.
- ◆ Local government investment pools.

Interest Rate Risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Credit Risk: The State law limits investments as described above. The District does not have an investment policy that would further limit its investment choices. As of December 31, 2022, the District’s investments were rated AAA by Standard & Poor’s.

As of December 31, 2022 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
CSAFE	\$ 763,013	\$ 763,013	\$ -	\$ -	\$ -
COLOTRUST	<u>156,225</u>	<u>156,225</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 919,238</u>	<u>\$ 919,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
CSAFE	\$ 750,102	\$ 750,102	\$ -	\$ -	\$ -
COLOTRUST	<u>153,539</u>	<u>153,539</u>	-	-	-
Total Investments	<u>\$ 903,641</u>	<u>\$ 903,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

COLOTRUST is 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. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair 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 to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. Substantially all securities owned by COLOTRUST 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 COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the District does not categorize investments with COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

Colorado Surplus Asset Fund Trust (CSAFE) is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes by state statutes. CSAFE operates similarly to a money market fund and each share is equal in value to \$1.00. Designated custodial banks provide safekeeping and depository services to CSAFE in connection with the direct investment and withdrawal functions of CSAFE. All securities owned by CSAFE 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 CSAFE. Investments of CSAFE consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury notes

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

The District’s restricted and unrestricted deposits and investments consist of the following at December 31, 2022:

	<u>Unrestricted Assets</u>	<u>Restricted Assets</u>	<u>Total</u>
Demand accounts	\$ 480,131	\$ -	\$ 480,130
CSAFE	763,013	-	763,013
COLOTRUST	<u>156,225</u>	<u>-</u>	<u>156,225</u>
Total deposits and investments	<u>\$ 1,399,369</u>	<u>\$ -</u>	<u>\$ 1,399,369</u>

The District’s restricted and unrestricted deposits and investments consist of the following at December 31, 2021:

	<u>Unrestricted Assets</u>	<u>Restricted Assets</u>	<u>Total</u>
Demand accounts	\$ 448,053	\$ -	\$ 448,053
Cash with Escrow Agent	-	948,437	948,437
CSAFE	750,102	-	750,102
COLOTRUST	<u>153,539</u>	<u>-</u>	<u>153,539</u>
Total deposits and investments	<u>\$ 1,351,694</u>	<u>\$ 948,437</u>	<u>\$ 2,300,131</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and easements	\$ 215,424	\$ -	\$ -	\$ 215,424
Water rights	210,863	-	-	210,863
Construction in progress	<u>3,538,741</u>	<u>627,067</u>	<u>(4,165,808)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>3,965,028</u>	<u>627,067</u>	<u>(4,165,808)</u>	<u>426,287</u>
Capital assets, being depreciated:				
Plant	5,723,961	4,226,988	(574,895)	9,376,054
Office building	291,841	-	(3,198)	288,643
Equipment and vehicles	<u>711,553</u>	<u>99,450</u>	<u>(46,149)</u>	<u>764,854</u>
Total capital assets, being depreciated	6,727,355	4,326,438	(624,242)	10,429,551
Less accumulated depreciation	<u>(3,988,497)</u>	<u>(326,753)</u>	<u>618,558</u>	<u>(3,696,692)</u>
Total capital assets, being depreciated, net	<u>2,738,858</u>	<u>3,999,685</u>	<u>(5,684)</u>	<u>6,732,859</u>
Total capital assets, net	<u>\$ 6,703,886</u>	<u>\$ 4,626,752</u>	<u>\$ (4,171,492)</u>	<u>\$ 7,159,146</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

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

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and easements	\$ 215,424	\$ -	\$ -	\$ 215,424
Water rights	210,863	-	-	210,863
Construction in progress	<u>1,057,501</u>	<u>2,481,240</u>	<u>-</u>	<u>3,538,741</u>
Total capital assets, not being depreciated	<u>1,483,788</u>	<u>2,481,240</u>	<u>-</u>	<u>3,965,028</u>
Capital assets, being depreciated:				
Plant	5,304,570	419,391	-	5,723,961
Office building	291,841	-	-	291,841
Equipment and vehicles	<u>524,258</u>	<u>191,295</u>	<u>(4,000)</u>	<u>711,553</u>
Total capital assets, being depreciated	6,120,669	610,686	(4,000)	6,727,355
Less accumulated depreciation	<u>(3,776,988)</u>	<u>(215,509)</u>	<u>4,000</u>	<u>(3,988,497)</u>
Total capital assets, being depreciated, net	<u>2,343,681</u>	<u>395,177</u>	<u>-</u>	<u>2,738,858</u>
Total capital assets, net	<u>\$ 3,827,469</u>	<u>\$ 2,876,417</u>	<u>\$ -</u>	<u>\$ 6,703,886</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 5 - WATER RIGHTS

Water rights were composed of the following as of December 31, 2022 and 2021:

Acquired from the J. Fred Abrahamson Trust in 1986:

Rights to successive use water - up to 40 acre feet annually	\$ 9,000
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Acquired from the Hassler and Bates Company:

38.7961% ownership of water rights for 5.616 cubic feet per second of Laughlin Ditch and 1.736 cubic feet per second of Laughlin Ditch Enlargement	<u>201,863</u>
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Total Water Rights	<u>\$ 210,863</u>
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NOTE 6 - WATER LEASE

The District has entered into an agreement to lease up to 61.2039% of water rights for 5.616 cubic feet per second of Laughlin Ditch and 1.736 cubic feet per second of Laughlin Ditch Enlargement. The lease may be terminated by either party, lessor or lessee, upon 30 days written notice to the other party. The District has the first right of refusal upon the sale of this water. The District will be assessed a lease rental of \$75 per acre-foot for water used for municipal purposes under this lease agreement. The District has no obligation to lease any water under this lease agreement.

NOTE 7 - LONG-TERM DEBT

Loan Payable

On December 3, 2019, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA) in the amount of \$3,000,000. The loan is payable semiannually with payments of \$54,612 beginning May 1, 2021 and an initial payment of \$8,984 due November 1, 2020, including interest at 0.5%. This loan is to be repaid from and secured by a pledge of net revenues.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 7 - LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize the CWRPDA loan is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 95,328	\$ 13,896
2024	95,805	13,419
2025	96,284	12,939
2026	96,766	12,457
2027	97,251	11,973
2028 – 2032	493,606	52,513
2033 – 2037	506,086	40,032
2038 – 2042	518,882	27,237
2043 – 2047	532,001	14,118
2048 – 2050	<u>271,024</u>	<u>2,036</u>
Total	<u>\$ 2,803,033</u>	<u>\$ 200,620</u>

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2022:

	<u>Balance 12/31/21</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Balance 12/31/22</u>	<u>Due Within One year</u>
Loans	\$ 2,897,886	\$ -	\$ (94,853)	\$ 2,803,033	\$ 95,328

NOTE 8 - NET POSITION

Net position is reported in three separate categories—net investment in capital assets; net position-restricted; and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2022 and 2021, net investment in capital assets was as follows:

	<u>2022</u>	<u>2021</u>
Net investment in Capital Assets:		
Capital assets, net of depreciation	\$ 7,159,146	\$ 6,703,886
Related debt	(2,803,033)	(2,897,886)
Cash with fiscal agent	<u>-</u>	<u>948,437</u>
Total	<u>\$ 4,356,113</u>	<u>\$ 4,754,437</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 8 - NET POSITION (CONTINUED)

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). The District had no restricted balances for the years ended December 31, 2022 and 2021.

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted. The District utilizes net position-unrestricted before using net position-restricted.

NOTE 9 - TRANSACTIONS WITH RELATED DISTRICTS

The District provides substantially all maintenance operations for the Stratmoor Hills Sanitation District. In exchange for these services, the Sanitation District paid \$300,000 and \$240,000 to the Stratmoor Hills Water District for the years ended December 31, 2022 and 2021, respectively.

The District also bills and collects the Sanitation District's user charges each month, issuing a joint billing to the customers. The District paid the Sanitation District 85% of the sanitation assessments in 2022 and 2021. For the amount remaining, the District prepares and mails the monthly bills, pays postage, and bears all losses from uncollectible amounts. The totals received by the District for 2022 and 2021 were \$179,797 and \$173,923, respectively.

The District's five-member board is the same as that of the Stratmoor Hills Sanitation District. As a matter of expedience, the Stratmoor Hills Sanitation District pays all members of the board for director's fees and related payroll taxes for both districts. The Sanitation District then bills Stratmoor Hills Water District for their share of the director's fees and related payroll taxes.

As of December 31, 2022 and 2021 the District had accounts payable to the Stratmoor Hills Sanitation District of \$154,365 and \$101,013, respectively.

NOTE 10 – JOINTLY GOVERNED ORGANIZATION

The District owns a 2.99% share in the Fountain Valley Authority (the Authority) which was established on July 10, 1979, for the primary purpose of construction and operating a water treatment plant for its five customers, each of which owns and operates a water system.

The Authority is empowered to acquire, operate, manage, and maintain all facilities required to deliver treated potable water to its customers. Customers include the City of Colorado Springs, the City of Fountain, the Security Water District, the Stratmoor Hills Water District, and the Widefield Water and Sanitation District.

The United States Department of Interior, Bureau of Reclamation (Bureau), has agreed to supply to these five customers, up to 20,100 acre-feet of water annually from the Frying Pan Arkansas Project. The District has been allocated 2.99% of this total.

In addition, the Bureau constructed a pipeline (the Fountain Valley Conduit) to transport this water from the Pueblo Reservoir, approximately 25 miles north, to the site of each system.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 10 – JOINTLY GOVERNED ORGANIZATION (CONTINUED)

The Bureau’s pipeline is operated by the Authority which pays all operating expenses plus a conveyance charge. The conveyance charge is designed to amortize the cost of the pipeline over a forty-year period. At the end of this period, title to the pipeline may be transferred by Congress to the Authority. The conveyance charge is to be allocated among the governments, based on their participation percentage and scheduled water deliveries.

The Authority has constructed an 18,000,000 gallon-per-day water treatment plant located approximately 17 miles south of the City of Colorado Springs. The purpose of this treatment plant is to treat water obtained by the customers from the Frying Pan Arkansas Project. All water transmitted through the Fountain Valley Conduit is treated at this plant. All costs incurred by the Authority will be recovered through charges to be paid by the member governments.

The water treatment and delivery charges paid by the District to the Authority are recorded as operating expenses in the accompanying financial statements while debt service charges are budgeted and recorded separately.

The following payments were made by the District to the Authority during the years ended December 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Conveyance and treatment	\$ 365,440	\$ 369,117
Debt service	<u>14,019</u>	<u>13,278</u>
Total	<u>\$ 379,459</u>	<u>\$ 382,395</u>

The joint venture summary financial information as of December 31, 2022 and 2021 (most recent available) is as follows:

	<u>2022</u>	<u>2021</u>
Assets and Deferred outflows	<u>\$ 64,874,587</u>	<u>\$ 61,094,604</u>
Liabilities	1,129,997	5,808,482
Net Position (deficit)	<u>63,744,590</u>	<u>55,286,122</u>
Total Liabilities and Net Position	<u>\$ 64,874,587</u>	<u>\$ 61,094,604</u>
Revenues	\$ 14,636,923	\$ 15,064,782
Expenditures	<u>(6,178,455)</u>	<u>(7,194,788)</u>
Change in Net Position	<u>\$ 8,458,468</u>	<u>\$ 7,869,994</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

NOTE 10– JOINTLY GOVERNED ORGANIZATION (CONTINUED)

Long-term liability activity for the year ended December 31, 2022 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Loans payable	\$ 554,720	\$ -	\$ 173,700	\$ 381,020	\$ 184,907
Obligations under lease	<u>1,403,294</u>	<u>-</u>	<u>1,403,294</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,958,014</u>	<u>\$ -</u>	<u>\$ 1,576,994</u>	<u>\$ 381,020</u>	<u>\$ 184,907</u>

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss, including worker’s compensation. No settled claims resulting from these risks exceeded commercial insurance coverage during the last three fiscal years.

NOTE 12 – EMPLOYEE IRA

The District has set up a Simple IRA for substantially all employees. Employees contribute at least 3% of compensation and the District contributes 3% of compensation. The employer’s contributions for 2022 and 2021 were \$13,941 and \$15,280, respectively.

NOTE 13 - AMENDMENT TO COLORADO CONSTITUTION

Colorado’s voters passed an amendment to the State Constitution, Article X, Section 20 (“Amendment”), which has several limitations, including raising revenue, spending abilities and other specific requirements of state and local governments. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10.0% of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The District is of the opinion that it qualifies for this exclusion. The Amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the Amendment. However, the District has made certain interpretations of the Amendments’ language in order to determine its compliance.

NOTE 14 – ADOPTION OF NEW ACCOUNTING STANDARD

Stratmoor Hills Water District implemented GASB Statement No. 87, *Leases*, effective January 1, 2022. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. There is no effect on fund balance or net position as a result of the implementation of this standard.

SUPPLEMENTAL INFORMATION

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Water operations:		
Cost of water	\$ 42,767	\$ 38,627
Fountain Valley Authority - water conveyance, operations, etc.	365,440	369,117
Salaries and wages	659,629	616,167
Outside labor	52,385	24,902
Employee health insurance	133,282	141,680
FICA expense	50,444	46,911
Unemployment insurance	1,022	1,819
Workers compensation insurance	9,748	16,302
Retirement expense	13,941	15,280
Plant maintenance	353,122	(27,530)
Vehicle and equipment maintenance	11,999	22,133
Office building maintenance	6,496	4,571
Repairs and maintenance	412	-
Utilities	69,736	43,962
Engineering	2,895	17,717
Gas and oil	28,376	27,160
Supplies	19,301	6,492
Small tools	10,418	3,351
Uniforms	4,498	3,544
Testing and analysis	12,067	10,670
Equipment leases	11,200	4,995
Trash and recycling	4,832	3,559
Total water operations	\$ 1,864,010	\$ 1,391,429
General administration:		
Insurance	\$ 42,723	\$ 47,328
Billing	15,043	13,150
Postage	11,633	9,503
Meeting	7,684	7,290
Telephone	5,546	6,956
Audit	14,750	10,100
Legal	30,214	1,353
Office supplies	6,309	10,657
Dues and subscriptions	13,245	8,783
Training and education	6,687	2,348
Miscellaneous	343	1,030
Election expense	205	-
Bank/service charges	50,429	50,348
Other utilities	3,706	2,464
Total general administration	\$ 208,517	\$ 171,310

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2022

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Water sales	\$ 1,650,000	\$ 1,585,143	\$ (64,857)
Water lease income	35,500	20,837	(14,663)
Maintenance contract income	300,000	300,000	-
Billing fees	170,000	179,797	9,797
Investment income	5,000	18,785	13,785
Rental income	50,000	55,880	5,880
Late charges	30,000	40,080	10,080
Miscellaneous income	1,900	10,258	8,358
Sale of assets	-	15,105	15,105
Operating contributions - Air Force	-	79,099	79,099
Capital contributions - tap fees	-	44,458	44,458
Loan proceeds	1,000,000	-	(1,000,000)
Beginning fund balance	-	2,128,124	2,128,124
TOTAL REVENUES	3,242,400	4,477,566	1,235,166
EXPENDITURES			
Operating expenditures:			
Cost of water	31,500	42,767	(11,267)
Fountain Valley Authority - water conveyance, treatment, operating, etc.	399,000	365,440	33,560
Salaries and wages	646,000	659,629	(13,629)
Outside labor	26,250	52,385	(26,135)
Employee health insurance	149,350	133,282	16,068
FICA expense	49,400	50,444	(1,044)
Unemployment insurance	2,100	1,022	1,078
Workers compensation insurance	16,800	9,748	7,052
Retirement expense	17,440	13,941	3,499
Plant maintenance	36,750	353,122	(316,372)
Vehicle and equipment maintenance	26,250	11,999	14,251
Office building maintenance	6,300	6,496	(196)
Repairs and maintenance	15,750	412	15,338
Utilities	57,750	69,736	(11,986)
Engineering	21,000	2,895	18,105
Gas and oil	18,900	28,376	(9,476)
Supplies	6,300	19,301	(13,001)
Small tools	10,500	10,418	82
Uniforms	5,250	4,498	752
Testing and analysis	\$ 21,000	\$ 12,067	\$ 8,933

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2022

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (continued)			
Equipment leases	\$ 5,250	\$ 11,200	\$ (5,950)
Distribution system maintenance	157,500	-	157,500
Trash and recycling	-	4,832	(4,832)
TOTAL OPERATING EXPENDITURES	1,726,340	1,864,010	(137,670)
General and administrative expenditures:			
Insurance	55,390	42,723	12,667
Billing	15,750	15,043	707
Postage	12,600	11,633	967
Meeting	15,250	7,684	7,566
Telephone	11,550	5,546	6,004
Audit	10,500	14,750	(4,250)
Legal	10,500	30,214	(19,714)
Office supplies	6,300	6,309	(9)
Dues and subscriptions	10,500	13,245	(2,745)
Licenses and fees	1,575	-	1,575
Training and education	5,250	6,687	(1,437)
Miscellaneous	1,000	343	657
Election Expense	-	205	(205)
Bank/service charges	31,710	50,429	(18,719)
Other utilities	-	3,706	(3,706)
TOTAL GENERAL AND ADMINISTRATIVE EXPENDITURES	187,875	208,517	(20,642)
INTEREST EXPENSE	210	-	210
LOAN PRINCIPAL PAYMENT	94,262	94,853	(591)
LOAN INTEREST EXPENSE	14,962	14,292	670
FOUNTAIN VALLEY AUTHORITY DEBT SERVICE	15,000	14,019	981
CAPITAL EXPENDITURES	1,450,000	787,697	662,303
TOTAL EXPENDITURES	\$ 3,488,649	\$ 2,983,388	\$ 505,261

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2022

	<u>Actual</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 1,494,178
Less:	
Beginning fund balance	(2,128,124)
Loss on disposal of assets	(5,684)
Depreciation	(326,753)
Add:	
Capital expenditures	787,697
Loan principal payment	94,853
CHANGE IN NET POSITION	<u><u>\$ (83,833)</u></u>

Ending fund balance is calculated as follows:

Current assets	2,780,072
Current liabilities	(1,381,222)
Loan payable, current portion	95,328
	<u><u>\$ 1,494,178</u></u>

See the accompanying independent auditors' report.