

**The Valley Water District
Jefferson County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2022 and 2021

The Valley Water District
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December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Valley Water District
Jefferson County, Colorado

Opinions

We have audited the accompanying financial statements of The Valley Water District (the 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, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2022 and 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.


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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MDA) on pages i through vi 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 MDA 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 MDA because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and legal compliance 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Fiscal Services Partners, LLC".

Arvada, Colorado
April 14, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of The Valley Water District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2022. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should review the information presented here in conjunction with the basic financial statements and the notes to financial statements to enhance their understanding of the District's financial performance.

The Valley Water District operates as a quasi-municipal corporation and political subdivision of the State of Colorado operating as a water service provider serving parts of Wheat Ridge, Arvada and unincorporated Jefferson County.

The District purchases its water through a distributor's contract with the Denver Water Department.

The District derives its revenues from the sales of taps and water. The District prioritizes customer service and budgets funds annually for capital water system improvements.

The District remains dedicated to providing a safe, reliable water supply and adequate reserves for emergencies. The District has upheld its commitment to its customers through its proven track record of minimal service interruptions and no bonded indebtedness.

Financial Highlights

- Assets of the District exceeded its liabilities at the close of the fiscal year by \$34,882,825 (net position). Of this amount, \$20,448,143 (unrestricted net position) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The District's total net position increased by \$2,556,425 over the prior fiscal year, due largely to an increase in tap fees received in the current year as a result of development.
- Operating revenues from water operations increased \$219,332 from the prior year, primarily due to an increase in demand.
- Operating expenses increased \$334,763 from the prior year, primarily due to an increase in water purchases, an increase in payroll and an increase in repairs and maintenance.
- Tap fees increased \$1,299,000 from the prior year, due to increased development in the District.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Overview of the Financial Statements

The Valley Water District basic financial statements included in this report are those of a special purpose government engaged in a business-type activity, providing water services. The statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The *Statement of Net Position* presents information on all of the 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 District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in 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 the 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 reports the District's operating and non-operating revenue by source along with operating and non-operating expenses and capital contributions.

The *Statement of Cash Flows* reports the District's cash flows from operating activities, investing, capital and non-capital activities.

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

A budgetary comparison statement has been provided in the *supplemental information* to demonstrate compliance with the budget.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Valley Water District, assets exceeded liabilities by \$34,882,825 (net position) at the close of the most recent fiscal year.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Statement of Net Position

	December 31,		
	2022	2021	2020
Current assets	\$ 20,901,285	\$ 17,832,653	\$ 15,935,093
Capital assets	14,223,782	14,719,322	13,182,616
Total assets	35,125,067	32,551,975	29,117,709
 Current liabilities	 242,242	 225,575	 202,814
 Net position:			
Net investment in capital assets	14,223,782	14,719,322	13,182,616
Restricted	210,900	157,000	161,916
Unrestricted	20,448,143	17,450,078	15,570,363
Net position	\$ 34,882,825	\$ 32,326,400	\$ 28,914,895

Unrestricted net position of \$20,448,143 is available for future expansion and major repair costs such as emergency water main breaks.

The District has 41% of its net position invested in capital assets (e.g., water distribution system, building, and equipment). The District uses these capital assets to provide services to citizens; consequently, this net position is *not* available for future spending.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Changes in Net Position

	For the Years Ended December 31,		
	2022	2021	2020
Revenues			
Water operations	\$ 4,382,805	\$ 4,163,473	\$ 4,411,326
Non-operating revenue			
Tap fee revenue	2,305,000	1,006,000	230,000
Contributed capital	-	2,007,000	995,000
Interest income	23,487	20,050	45,733
Unrealized gain (loss) on investment	(18,004)	(16,918)	13,243
Other revenue	23,498	57,498	55,037
Total revenues	6,716,786	7,237,103	5,750,339
Expenses			
Water operations	2,659,749	2,526,609	2,563,597
Maintenance and repairs	200,780	118,262	265,377
Administrative and general	804,292	700,625	702,099
Depreciation	495,540	480,102	459,045
Total expenses	4,160,361	3,825,598	3,990,118
Change in net position	2,556,425	3,411,505	1,760,221
Net position - beginning	32,326,400	28,914,895	27,154,674
Net position - ending	\$ 34,882,825	\$ 32,326,400	\$ 28,914,895

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay in addition to operations and non-operating revenue. Depreciation is not reflected in the budget since it does not affect funds available. Funds available (current assets less current liabilities) increased \$3,051,965 during 2022.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Capital Assets

The District's net investment in capital assets as of December 31, 2022, 2021, and 2020 was as follows:

	Capital Assets		
	December 31,		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Land	\$ 25,000	\$ 25,000	\$ 25,000
Rights of use of supplemental line	4,041,732	4,041,732	4,041,732
Building and ground improvements	428,209	428,209	425,242
Infrastructure	19,113,607	19,113,607	17,106,607
Vehicles	146,586	146,586	146,586
Office equipment	14,156	14,156	13,512
Other equipment	168,999	168,999	162,802
Total assets	<u>23,938,289</u>	<u>23,938,289</u>	<u>21,921,481</u>
Accumulated depreciation	<u>(9,714,507)</u>	<u>(9,218,967)</u>	<u>(8,738,865)</u>
Net capital assets	<u><u>\$ 14,223,782</u></u>	<u><u>\$ 14,719,322</u></u>	<u><u>\$ 13,182,616</u></u>

Additional information relating to the District's capital assets activity can be found in Note 4 of this report.

Economic Factors and Next Year's Budget

- The District monitors all proposed legislation along with legal counsel and Special District Association representatives. At this time, no legislation that poses significant negative impact to the District is foreseen.
- Recent growth and development within the District has provided funds that will be pledged towards replacement of aging facilities and future expansion of the District's infrastructure.
- Due to current economic conditions and population growth within the District, continued development is expected in the areas of residential, commercial and industrial. The majority of this growth will be funded by the developers of said projects.
- Due to increased material availability and the easing of supply chain issues and labor constraints, capital improvement projects will be a priority for the next several years. Funds for replacement of aging water mains and system improvements and upgrades will be included in the annual budget in the coming years.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)**

Requests for Information

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

Treasurer
The Valley Water District
12101 West 52nd Avenue
Wheat Ridge, Colorado 80033

BASIC FINANCIAL STATEMENTS

The Valley Water District
STATEMENTS OF NET POSITION
December 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 17,495,593	\$ 14,481,519
Cash and cash equivalents - restricted	210,900	157,000
Investments	2,797,281	2,806,377
Accounts receivable	351,349	348,361
Accrued interest receivable	693	693
Prepaid expenses	24,441	23,718
Inventory	21,028	14,985
Total current assets	20,901,285	17,832,653
Capital assets, not being depreciated	25,000	25,000
Capital assets, net	14,198,782	14,694,322
Total assets	35,125,067	32,551,975
LIABILITIES		
Current liabilities		
Accounts payable	198,062	196,375
Accrued salary and benefits	35,280	29,200
Deposits on system extension requests	8,900	-
Total current liabilities	242,242	225,575
Total liabilities	242,242	225,575
NET POSITION		
Net investment in capital assets	14,223,782	14,719,322
Restricted	210,900	157,000
Unrestricted	20,448,143	17,450,078
Total net position	\$ 34,882,825	\$ 32,326,400

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Water operations	\$ 4,382,805	\$ 4,163,473
OPERATING EXPENSES		
Water operations	2,659,749	2,526,609
Maintenance and repairs	200,780	118,262
Administrative and general	804,292	700,625
Depreciation	495,540	480,102
Total operating expenses	4,160,361	3,825,598
OPERATING INCOME	222,444	337,875
NON-OPERATING REVENUES		
Tap fee revenue	2,305,000	1,006,000
Net investment earnings	5,483	3,132
Other revenues	23,498	57,498
Total non-operating revenues	2,333,981	1,066,630
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,556,425	1,404,505
CAPITAL CONTRIBUTIONS		
Contributed capital from developers	-	2,007,000
CHANGE IN NET POSITION	2,556,425	3,411,505
NET POSITION - beginning of year	32,326,400	28,914,895
NET POSITION - end of year	\$ 34,882,825	\$ 32,326,400

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley 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 and users	\$ 4,412,215	\$ 4,221,717
Cash paid to suppliers	(2,995,824)	(2,723,370)
Cash payments to and for the benefit of employees	<u>(667,996)</u>	<u>(578,538)</u>
Net cash provided by operating activities	<u>748,395</u>	<u>919,809</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash paid to acquire capital assets	-	(9,808)
Cash received from tap fees	<u>2,305,000</u>	<u>1,006,000</u>
Net cash provided (used) by capital and related financing activities	<u>2,305,000</u>	<u>996,192</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net maturity (purchase) of long-term investments	(8,909)	(16,196)
Interest received on investments	<u>23,488</u>	<u>20,051</u>
Net cash provided (used) by investing activities	<u>14,579</u>	<u>3,855</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,067,974	1,919,856
CASH AND CASH EQUIVALENTS - beginning of year	<u>14,638,519</u>	<u>12,718,663</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 17,706,493</u>	<u>\$ 14,638,519</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Assets contributed by other entities	<u>\$ -</u>	<u>\$ 2,007,000</u>
Change in fair value of investments	<u>\$ (18,004)</u>	<u>\$ (16,818)</u>

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2022 and 2021
(continued)

	2022	2021
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 222,444	\$ 337,875
Adjustment to reconcile net operating income to net cash provided by operating activities:		
Other revenue	23,498	57,498
Depreciation	495,540	480,102
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(2,988)	19,662
Prepaid expenses	(723)	(796)
Inventory	(6,043)	2,707
Increase (decrease) in:		
Accounts payable	1,687	33,844
Accrued salary and benefits	6,080	7,833
Deposits	8,900	(18,916)
Total adjustments	525,951	581,934
Net cash provided by operating activities	\$ 748,395	\$ 919,809

The accompanying Notes to Financial Statements are an integral part of these statements.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

Note 1 – Definition of reporting entity

The District is a quasi-municipal corporation and political subdivision of the State of Colorado established on October 27, 1956, and is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Jefferson County, Colorado. The District's primary operating function is to provide treated water for residential and commercial users within the boundaries of the District.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

Note 2 – Summary of significant accounting policies

The more significant accounting policies of the District are described as follows:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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.

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense; expenditures for property, plant and equipment are shown and recorded as an operating expense. Expenditures for capital assets are

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

shown as increases in assets. Contributed assets from developers are recorded as capital contributions when received.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Fair Value of Financial Instruments

The District believes that the carrying amounts of financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximates fair value because of their generally short maturities.

Cash equivalents

For purposes of the Statement of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition, to be cash equivalents.

Investments

Investments for the District are carried at fair value.

Accounts receivable, allowance for doubtful accounts

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

Inventory

Inventory, which includes meters to be installed, is stated at the lower of cost or market. Cost is determined primarily by the first-in, first-out method.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

Capital assets

Capital assets are defined by the District as those assets with an initial, individual cost of \$2,000 or greater and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developer's cost.

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

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

	<u>Years</u>
Water distribution system	50
Building and improvements	50
Office equipment	5 - 7
Other equipment	5 - 7

Compensated absences

Vacation and sick leave are accrued in the period they are earned. Accrued, unused vacation expires at the end of twelve months subsequent to the time of accrual. As of December 31, 2022 and 2021, accrued vacation and sick leave benefits totaled \$23,099 and \$16,643 respectively.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Capital contributions

The District has agreements with developers whereby extensions to existing water lines are constructed and funded by the developer and donated to the District. The

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

District is then responsible for the maintenance and operations of the lines. Water lines contributed to the District by developers are recorded as capital contributions and additions to the water system when received.

Tap fees are recorded as revenue when received.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2022 and 2021 Statements of Net Position as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 17,495,593	\$ 14,481,519
Cash and cash equivalents - restricted	210,900	157,000
Investments	<u>2,797,281</u>	<u>2,806,377</u>
Total cash and investments	<u>\$ 20,503,774</u>	<u>\$ 17,444,896</u>

Cash and investments as of December 31, 2022 and 2021 consist of the following:

Deposits with financial institutions	\$ 19,009,013	\$ 15,940,831
Cash on hand	100	100
Investments	<u>1,494,661</u>	<u>1,503,965</u>
Total cash and investments	<u>\$ 20,503,774</u>	<u>\$ 17,444,896</u>

At December 31, 2022 and 2021, the District's cash deposits had bank balances of \$19,008,857 and \$15,930,827, respectively, and carrying balances of \$19,009,013 and \$15,940,831, respectively.

Deposits with financial institutions

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. As of December 31, 2022 and 2021, the federal insurance limits were

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

\$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk - 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 has not adopted a deposit policy for custodial credit risk. As of December 31, 2022 and 2021, the District's bank balances and carrying balances were insured or collateralized as follows:

	2022	2021
Bank balances:		
Federally insured	\$ 1,552,620	\$ 1,552,412
Collateralized	17,456,237	14,378,415
Total bank balances	\$ 19,008,857	\$ 15,930,827
Carrying balances:		
Federally insured	\$ 1,552,620	\$ 1,552,412
Collateralized	17,456,393	14,388,419
Total carrying balances	\$ 19,009,013	\$ 15,940,831

Investments

The District's investment policy calls for investment diversification within the portfolio to avoid unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The District's investments are concentrated in U.S. Treasury Obligation securities (53.4%) and certificates of deposit with original maturities in excess of 90 days (46.6 %). The District's policy is to hold investments until maturity.

The District's investments are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. In addition, it is the District's policy to maintain approximately 50 percent of their investment balance in U.S. Treasury Bills with an original maturity of one year or less as a means of further reducing interest rate risks. Colorado Revised Statutes limit investment maturities to three to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest including the following:

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

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized costs.

The District has the following recurring fair value measurements as of December 31, 2022:

- U.S Treasury securities of \$1,494,661 are valued using quoted market prices (Level 1 inputs).
- Certificates of deposit of \$1,302,620 are valued using third-party quotations (Level 2 inputs).

Restricted cash and investments

At December 31, 2022 and 2021, the District had \$8,900 and \$0 respectively, restricted for line extension projects within the District. These deposits are being held by the District at the end of the year for unfinished projects.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

The District had restricted cash of \$202,000 and \$157,000, for emergencies as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11), as of December 31, 2022 and 2021, respectively.

Note 4 – Capital assets

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

	Balance at December 31, 2021	Increases	Decreases	Balance at December 31, 2022
Capital assets, not being depreciated				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>
Capital assets being depreciated				
Rights of use of supplemental line	\$ 4,041,732	\$ -	\$ -	\$ 4,041,732
Building and ground improvements	428,209	-	-	428,209
Infrastructure	19,113,607	-	-	19,113,607
Vehicles	146,586	-	-	146,586
Office equipment	14,156	-	-	14,156
Other equipment	168,999	-	-	168,999
Total capital assets being depreciated	<u>23,913,289</u>	<u>-</u>	<u>-</u>	<u>23,913,289</u>
Less accumulated depreciation for				
Rights of use of supplemental line	949,811	80,835	-	1,030,646
Building and ground improvements	302,130	14,446	-	316,576
Infrastructure	7,663,312	382,272	-	8,045,584
Vehicles	146,583	3	-	146,586
Office equipment	10,592	1,616	-	12,208
Other equipment	146,539	16,368	-	162,907
Total accumulated depreciation	<u>9,218,967</u>	<u>495,540</u>	<u>-</u>	<u>9,714,507</u>
Total capital assets being depreciated, net	<u>\$ 14,694,322</u>	<u>\$ (495,540)</u>	<u>\$ -</u>	<u>\$ 14,198,782</u>

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

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

	December 31, 2020	Increases	Decreases	December 31, 2021
Capital assets, not being depreciated				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>
Capital assets being depreciated				
Rights of use of supplemental line	\$ 4,041,732	\$ -	\$ -	\$ 4,041,732
Building and ground improvements	425,242	2,967	-	428,209
Infrastructure	17,106,607	2,007,000	-	19,113,607
Vehicles	146,586	-	-	146,586
Office equipment	13,512	644	-	14,156
Other equipment	162,802	6,197	-	168,999
Total capital assets being depreciated	<u>21,896,481</u>	<u>2,016,808</u>	<u>-</u>	<u>23,913,289</u>
Less accumulated depreciation for				
Rights of use of supplemental line	868,976	80,835	-	949,811
Building and ground improvements	287,839	14,291	-	302,130
Infrastructure	7,301,110	362,202	-	7,663,312
Vehicles	145,720	863	-	146,583
Office equipment	8,949	1,643	-	10,592
Other equipment	126,271	20,268	-	146,539
Total accumulated depreciation	<u>8,738,865</u>	<u>480,102</u>	<u>-</u>	<u>9,218,967</u>
Total capital assets being depreciated, net	<u>\$ 13,157,616</u>	<u>\$ 1,536,706</u>	<u>\$ -</u>	<u>\$ 14,694,322</u>

Depreciation expense of \$495,540 and \$480,102 for the years ended December 31, 2022 and 2021, respectively, was charged to water operations.

Note 5 – General Obligation Debt

The District is not obligated in any manner for general obligation debt at December 31, 2022 and 2021, nor does it have any authorized, unissued debt.

Note 6 – Net Position

The District has Net Position consisting of three components – net investment in capital assets, restricted, and unrestricted.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2022 and 2021, the District had net investment in capital assets calculated as follows:

	2022	2021
Capital assets, not being depreciated	\$ 25,000	\$ 25,000
Capital assets, net	14,198,782	14,694,322
Net investment in capital assets	\$ 14,223,782	\$ 14,719,322

Restricted assets include Net Position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. As of December 31, 2022 and 2021, the District had restricted Net Position as follows:

	2022	2021
Emergencies (Note 11)	\$ 202,000	\$ 157,000
Line extension projects (Note 3)	8,900	-
Total restricted net position	\$ 210,900	\$ 157,000

The District's unrestricted Net Position as of December 31, 2022 and 2021 was \$20,448,143 and \$17,450,078, respectively.

Note 7 – Deferred compensation plan

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by Great West Life and Annuity Insurance Company. Participation in the plan is optional for all employees. The plan allows the employees to defer a portion of their salary until future years. The deferred compensation is not available to the employee until termination, retirement, death or unforeseen emergencies. All amounts deferred under the plan are required to be held in trust for the exclusive benefit of participating employees and are not accessible by the District or its creditors. During the years ended December 31, 2022 and 2021, \$43,851 and \$36,750, respectively, was deferred at the request of the plan participants and remitted to the trustee in their behalf.

Note 8 – Commitments

As of December 31, 2022 and 2021, the District was under contract with the Denver Water Board for its purchase of water.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

Note 9 – Agreements

On November 14, 2022 the District entered into an intergovernmental agreement with the City of Wheat Ridge (the City). The City agrees to reconstruct a roadway which requires relocation of the District's water supply facilities. The District has agreed to reimburse the City \$674,534 for the relocation of the District's water supply facilities within 30 days following substantial completion and notice to the District of acceptance of the work by the City.

Note 10 – Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District was a member of the Colorado Special District Property and Liability Pool (the Pool) as of December 31, 2022. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery, and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers' compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 11 – Tax, spending and debt limitations

Article X, Section 20 of the Colorado constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes a significant portion of its operations qualifies for this exclusion.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

The Valley Water District
NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2022 and 2021

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

The District created The Valley Water District Activity Enterprise (the "Enterprise") effective November 8, 1994, for the purpose of conducting its water activities. On December 31, 1994, the District transferred to its Enterprise all of the District's General Expense Reserve Fund, together with all additions thereto to be held, invested, reinvested and utilized by the governing body of the Enterprise.

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SUPPLEMENTAL INFORMATION

The Valley Water District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

Water Fund

For the year ended December 31, 2022

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
REVENUES			
Water operations			
Water sales and penalties	\$ 4,450,000	\$ 4,374,165	\$ (75,835)
Inspection fees	5,000	8,640	3,640
Total water operations	<u>4,455,000</u>	<u>4,382,805</u>	<u>(72,195)</u>
Non-operating			
Water taps and permits	2,045,000	2,305,000	260,000
Deposits - line extensions, net of refunds	5,000	5,000	-
Net investment earnings	8,000	5,483	(2,517)
Miscellaneous income	500	16,298	15,798
Fruitdale agreement	2,400	2,200	(200)
Total non-operating	<u>2,060,900</u>	<u>2,333,981</u>	<u>273,081</u>
Total Revenues	<u>6,515,900</u>	<u>6,716,786</u>	<u>200,886</u>
EXPENDITURES			
Operations			
Denver water costs	2,600,000	2,659,749	(59,749)
Maintenance and repairs	400,000	200,780	199,220
Total operations	<u>3,000,000</u>	<u>2,860,529</u>	<u>139,471</u>
General			
Automobile and truck	17,000	15,614	1,386
Gas and electric	15,000	12,209	2,791
Insurance			
Group	143,000	134,443	8,557
Liability and workmen's compensation	30,000	23,502	6,498
Maintenance and repairs - office equipment	6,000	2,189	3,811
Mobile communications	4,500	2,686	1,814
Office supplies	30,000	27,929	2,071
Payroll taxes	36,000	38,179	(2,179)
Salaries	457,000	489,294	(32,294)
Sanitation	500	360	140
Telephone	4,500	4,814	(314)
Uniform and towel expense	3,000	1,472	1,528
Total general	<u>746,500</u>	<u>752,691</u>	<u>(6,191)</u>

(continued)

The Valley Water District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

Water Fund

For the year ended December 31, 2022
(continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Administration			
Accounting costs	\$ 7,200	\$ 7,100	\$ 100
Conservation water information program	5,000	-	5,000
County Clerk and recorder	400	-	400
Directors fees	6,500	5,900	600
Dues and subscriptions	4,000	2,650	1,350
Education and training	5,000	455	4,545
Election expense	2,000	-	2,000
Engineering	20,000	17,870	2,130
Legal fees	12,000	7,796	4,204
Total administration	62,100	41,771	20,329
Capital			
Line extensions - Construction	500,000	-	500,000
Line extensions - Engineering	30,000	9,830	20,170
Line extensions - Legal	2,000	-	2,000
Building and ground improvements	25,000	-	25,000
Office equipment	10,000	-	10,000
Other equipment	10,000	-	10,000
Line extensions - Developer engineering	10,000	-	10,000
Total capital	587,000	9,830	577,170
Total Expenditures	4,395,600	3,664,821	730,779
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,120,300	3,051,965	931,665
FUNDS AVAILABLE - beginning of year	17,407,486	17,006,888	(400,598)
FUNDS AVAILABLE - end of year	\$ 19,527,786	\$ 20,058,853	\$ 531,067

The Valley Water District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

General Fund

For the year ended December 31, 2022

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES	\$ -	\$ -	\$ -
EXPENDITURES	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-
FUNDS AVAILABLE - beginning of year	-	600,189	600,189
FUNDS AVAILABLE - end of year	<u>\$ -</u>	<u>\$ 600,189</u>	<u>\$ 600,189</u>

**RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Revenues (budgetary basis)	<u>\$ 6,716,786</u>
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>6,716,786</u>
Expenditures (budgetary basis)	3,664,821
Depreciation and amortization	<u>495,540</u>
Total expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>4,160,361</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$ 2,556,425</u></u>