

**Cherry Creek Valley
Water and Sanitation District**

Annual Financial Report

December 31, 2022 and 2021



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Independent Auditor's Report

Members of the Board of Directors
Cherry Creek Valley Water and Sanitation District
Arapahoe County, Colorado

Opinions

We have audited the accompanying financial statements of the business-type activities of 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 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 the 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 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.

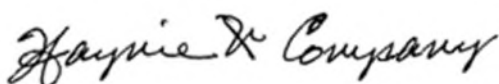
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, 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.

Other 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 supplementary information sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information as listed in table of contents is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling the 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado
July 27, 2023

Cherry Creek Valley Water & Sanitation District Management's Discussion and Analysis

This discussion and analysis (MD&A) of Cherry Creek Valley Water and Sanitation District's financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2022 and 2021. The MD&A should be read in conjunction with the District's financial statements.

Management has adopted the provisions of the Governmental Accounting Standards Board Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and other related statements as required for the years ended December 31, 2022 and 2021.

Financial Highlights

The activities that had a major impact on the District are as follows:

- Service fee revenue increased 11% during 2022 and decreased 3% during 2021.
- Investment income decreased by 5183% during 2022 and decreased by 97% during 2021. Investments are recorded at fair market value and include unrealized gains and losses. Therefore, investment income in any given year reflect both actual and unrealized gains and losses. The District normally holds all investments to maturity.

Overview of the Financial Statements

The financial statements of the District are presented as a special purpose government engaged only in business type activities – providing water and sewer services.

The ***Statements of Net Position*** present information on all the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Non-financial factors should also be considered to assess the overall position of the District.

The ***Statements of Revenues, Expenses and Changes in Fund Net Position*** report the changes that have occurred during the year to the District's net position. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statements for some items that will only result in cash flows in future fiscal periods.

The ***Statements of Cash Flows*** report the District's cash flows from operating, noncapital financing, capital and investing activities.

Financial Summary and Analysis

These financial statements distinguish functions of the District that will be principally supported by service charges. The functions of the District include effective and economical operation of District systems within the jurisdictional boundaries of the District. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

December 31,	2022	2021
ASSETS		
Current Assets	\$ 37,734,378	\$ 40,386,979
Capital Assets	15,918,936	14,134,141
Total Assets	53,653,314	54,521,120
LIABILITIES		
Current Liabilities	583,532	591,210
Long-term Liabilities	107,834	100,149
Total liabilities	691,366	691,359
NET POSITION		
Net investment in capital assets	15,918,936	14,134,141
Unrestricted	37,043,012	39,695,620
	\$ 52,961,948	\$ 53,829,761

A large portion of the District's net position reflects its investment in capital assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Overall the District's total net position decreased by \$867,813 during 2022 and decreased by \$467,033 during 2021.

Capital assets increased as of December 31, 2022, by \$1,784,795. The increase was due largely to building improvements, equipments acquisitions, and fewer asset retirements during the year.

Total money market and investment accounts, which reflect total account balances held at two separate investment management firms, decreased \$2,789,218 during 2022 as a result of both realized and unrealized gains and losses.

A decrease of \$7,678 in current liabilities as of December 31, 2022 consisted primarily of a decrease in accounts payable during the year.

Long term liabilities consist of the accrual for compensated absences which increased during 2022.

CHANGES IN NET POSITION

REVENUES	2022	2021
OPERATING REVENUE		
Water sales	\$ 4,721,406	\$ 4,218,813
Sewer sales	3,003,801	2,704,869
Total Operating Revenue	<u>7,725,207</u>	<u>6,923,682</u>
NONOPERATING REVENUES		
Net investment income (loss)	(2,249,196)	44,250
Other	35,042	26,901
Total Nonoperating Revenues	<u>(2,214,154)</u>	<u>71,151</u>
Total Revenue	<u>5,511,053</u>	<u>6,994,833</u>
EXPENSES		
OPERATING		
Water	5,301,907	5,101,465
Sewer	2,070,775	1,990,157
Total Operating Expenses	<u>7,372,682</u>	<u>7,091,622</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>819,621</u>	<u>749,573</u>
Total operating and general administrative expenses	<u>8,192,303</u>	<u>7,841,195</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(2,681,250)	(846,362)
CAPITAL CONTRIBUTIONS	<u>1,813,437</u>	<u>379,329</u>
CHANGES IN NET POSITION	(867,813)	(467,033)
NET POSITION BEGINNING OF YEAR	<u>53,829,761</u>	<u>54,296,794</u>
NET POSITION END OF YEAR	<u>\$ 52,961,948</u>	<u>\$ 53,829,761</u>

Water and sanitation service fees increased 11% for 2022, and decreased 3% during 2021.

Operating expenses for water and sanitation operations experienced an increase of \$281,060 during 2022 and an increase of \$61,634 during 2021. The 2022 increase was due primarily to the increase in water purchased. The 2021 increase was due primarily to increases in maintenance and payroll expenses in addition to an increase in sewage treatment fees.

General and Administrative expenses increased in 2022 by \$70,048 due primarily to increased payroll and insurance expense. General and Administrative expenses increased in 2021 by \$155,178 due primarily to increased payroll, legal, engineering, and miscellaneous expenses.

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 and contributions. Capital contribution of facilities and depreciation are not reflected on the budget, as they do not affect "available funds". The District operates as an enterprise under TABOR and prepares its budget accordingly.

Revenues were lower than budgeted mainly due to unanticipated losses on investments in the current year.

Capital expenditures were \$706,762 less than budget compared with \$2,127,528 less than budget in the prior year.

	December 31, 2021	Net Changes	December 31, 2022
Capital assets			
Land and easements	\$ 1,470,761	\$ -	\$ 1,470,761
Buildings	2,233,968	71,502	2,305,470
Water rights	698,300	-	698,300
Construction in progress	1,268,604	555,036	1,823,640
Water lines	10,539,326	1,063,538	11,602,864
Purchased capacity - water	1,887,400	-	1,887,400
Water wells and pump station	891,566	-	891,566
Sewer lines	4,253,372	488,742	4,742,114
Office equipment	213,448	(1,608)	211,840
Trucks and equipment	<u>575,651</u>	<u>(63,433)</u>	<u>512,218</u>
Total Capital Assets	\$ 24,032,396	\$ 2,113,777	\$ 26,146,173
Accumulated depreciation	<u>(9,898,255)</u>	<u>(328,982)</u>	<u>(10,227,237)</u>
Total capital assets - Net	<u>\$ 14,134,141</u>	<u>\$ 1,784,795</u>	<u>\$ 15,918,936</u>

	December 31, 2020	Net Changes	December 31, 2021
Capital assets			
Land and easements	\$ 1,468,203	\$ 2,558	\$ 1,470,761
Buildings	2,187,928	46,040	2,233,968
Water rights	698,300	-	698,300
Construction in progress	1,776,392	(507,788)	1,268,604
Water lines	9,587,091	952,235	10,539,326
Purchased capacity - water	1,887,400	-	1,887,400
Water wells and pump station	866,189	25,377	891,566
Sewer lines	4,160,828	92,544	4,253,372
Office equipment	205,060	8,388	213,448
Trucks and equipment	<u>478,633</u>	<u>97,018</u>	<u>575,651</u>
Total Capital Assets	\$ 23,316,024	\$ 716,372	\$ 24,032,396
Accumulated depreciation	<u>(9,454,973)</u>	<u>(443,282)</u>	<u>(9,898,255)</u>
Total capital assets - Net	<u>\$ 13,861,051</u>	<u>\$ 273,090</u>	<u>\$ 14,134,141</u>

Additional information on the District's capital assets can be found in the notes to financial statements.

Requests for Information

This financial report is designed to give its readers 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:

John R. Warford, Manager
Cherry Creek Valley Water & Sanitation District
2325 S. Wabash St.
Denver, CO 80231

Basic Financial Statements

Cherry Creek Valley Water & Sanitation District

Statements of Net Position

December 31, 2022 and 2021

Assets	2022	2021
Current Assets:		
Cash in bank/on hand	\$ 2,261,107	\$ 2,212,824
Cash held at broker	282,478	294,854
Investments	6,987,533	11,959,374
Investments - Designated	27,141,700	24,946,700
Accrued interest receivable	308,030	294,226
Accounts receivable - Service fees	611,003	520,021
Prepaid expenses	67,396	56,132
Inventory	75,131	102,848
Total Current Assets	<u>37,734,378</u>	<u>40,386,979</u>
Capital Assets		
Capital assests, not being depreciated	3,992,701	3,437,665
Capital assests, being depreciated (net of accumulated depreciation)	<u>11,926,235</u>	<u>10,696,476</u>
Total Capital Assets	<u>15,918,936</u>	<u>14,134,141</u>
Total Assets	<u>\$ 53,653,314</u>	<u>\$ 54,521,120</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 572,790	\$ 561,014
Deposits for line construction	<u>10,742</u>	<u>30,196</u>
Total Current Liabilities	<u>583,532</u>	<u>591,210</u>
Long-Term Liabilities		
Compensated absences	<u>107,834</u>	<u>100,149</u>
Total Long-Term Liabilities	<u>107,834</u>	<u>100,149</u>
Total Liabilities	<u>691,366</u>	<u>691,359</u>
Net Position		
Net investment in capital assets	15,918,936	14,134,141
Unrestricted	<u>37,043,012</u>	<u>39,695,620</u>
Total Net Position	<u>52,961,948</u>	<u>53,829,761</u>
Total Liabilities and Net Position	<u>\$ 53,653,314</u>	<u>\$ 54,521,120</u>

The accompanying notes are an integral part of these statements.

Cherry Creek Valley Water & Sanitation District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
Water Operations		
Revenues		
Service fees	\$ 4,662,717	\$ 4,188,820
Penalties	14,357	11,601
Parts sales	44,332	18,392
	<u>4,721,406</u>	<u>4,218,813</u>
Direct water expenses		
Water purchased	4,267,984	4,011,746
Maintenance	203,338	360,256
Wages, payroll tax and fringe benefits	378,242	314,933
Utilities	49,663	37,763
Miscellaneous	41	41
Depreciation	402,639	376,726
	<u>5,301,907</u>	<u>5,101,465</u>
Gross (Loss) from Water Operations	<u>(580,501)</u>	<u>(882,652)</u>
Sewer Operations		
Revenues		
Service fees	2,996,297	2,697,819
Swimming pool fees	7,504	7,050
	<u>3,003,801</u>	<u>2,704,869</u>
Direct sewer expenses		
Sewage treatment fees	1,669,323	1,512,490
Maintenance	76,263	191,937
Wages, payroll tax and fringe benefits	240,641	201,917
Depreciation	84,548	83,813
	<u>2,070,775</u>	<u>1,990,157</u>
Gross Income from Sewer Operations	<u>933,026</u>	<u>714,712</u>
Gross Income (Loss) From Operations	<u>352,525</u>	<u>(167,940)</u>
General and Administrative Expenses	<u>819,621</u>	<u>749,573</u>
Net (Loss) from Operations	<u>(467,096)</u>	<u>(917,513)</u>
Nonoperating Revenues		
Net investment earnings	(2,249,196)	44,250
Miscellaneous revenue	12,688	13,101
Gain (loss) on sale of property and equipment	22,354	13,800
Total Nonoperating Revenues	<u>(2,214,154)</u>	<u>71,151</u>
Income (Loss) Before Capital Contributions	<u>(2,681,250)</u>	<u>(846,362)</u>
Capital Contributions		
Water		
Tap fees	492,000	317,000
Development Fees	9,039	10,304
Contributed lines	776,856	-
Sewer		
Tap fees	46,800	45,600
Development Fees	-	6,425
Contributed lines	488,742	-
Total Capital Contributions	<u>1,813,437</u>	<u>379,329</u>
Change in Net Position	<u>(867,813)</u>	<u>(467,033)</u>
Net Position—Beginning of Year	<u>53,829,761</u>	<u>54,296,794</u>
Net Position—End of Year	<u><u>\$ 52,961,948</u></u>	<u><u>\$ 53,829,761</u></u>

The accompanying notes are an integral part of these statements.

Cherry Creek Valley Water & Sanitation District

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Cash received from customers	\$ 7,634,226	\$ 6,959,803
Cash payments to suppliers for goods and services	(6,649,939)	(6,561,922)
Cash payments to employees for services	(1,012,208)	(677,687)
Net Cash from Operating Activities	<u>(27,921)</u>	<u>(279,806)</u>
Cash Flows from Noncapital Financing Activities		
Miscellaneous revenue	<u>12,687</u>	<u>24,238</u>
Net Cash from Noncapital Financing Activities	<u>12,687</u>	<u>24,238</u>
Cash Flows from Capital and Related Financing Activities		
Metro Wastewater sewage tap received	205,750	518,910
Metro Wastewater sewage tap paid	(205,750)	(518,910)
Denver Water water tap received	383,145	836,994
Denver Water water tap paid	(383,145)	(801,559)
Contributed capital - tap fees	547,839	400,953
Construction deposits received	-	69,220
Construction deposits returned/(disbursed)	(19,453)	(105,806)
Acquisition of property, plant and equipment	(1,016,618)	(797,674)
Sale of property, plant and equipment	<u>25,528</u>	<u>13,800</u>
Net Cash from Capital and Related Financing Activities	<u>(462,704)</u>	<u>(384,072)</u>
Cash Flows from Investing Activities:		
Net investment earnings	(2,249,194)	31,978
Investments matured/sold	4,970,842	11,154,471
Investments purchased	(2,207,803)	(11,190,707)
Investment Fees	<u>-</u>	<u>(88,289)</u>
Net Cash from Investing Activities	<u>513,845</u>	<u>(92,547)</u>
Net Change in Cash and Cash Equivalents	<u>35,907</u>	<u>(732,187)</u>
Cash and cash equivalents—beginning of year	<u>2,507,678</u>	<u>3,239,865</u>
Cash and cash equivalents—end of year	<u>\$ 2,543,585</u>	<u>\$ 2,507,678</u>
Reconciliation of operating (loss) to net cash from operating activities		
(Loss) from operations	\$ (467,096)	\$ (917,513)
Adjustments to reconcile (loss) from operations to net cash provided (required) by operating activities		
Depreciation	494,249	466,078
Effects of changes in operating assets and liabilities:		
Receivables	(90,982)	61,214
Inventory	27,717	(102,848)
Prepaid expenses	(11,264)	(56,132)
Accrued liabilities	7,685	(8,860)
Accounts payable	<u>11,770</u>	<u>197,770</u>
Net cash from operating activities	<u>\$ (27,921)</u>	<u>\$ (156,690)</u>
Noncash Capital and Investing Activities		
Contribution of water and sewer lines	1,265,598	-
Change in fair value of investments	<u>(3,108,571)</u>	<u>(754,900)</u>
	<u>\$ (1,842,973)</u>	<u>\$ (754,900)</u>

The accompanying notes are an integral part of these statements.

Cherry Creek Valley Water & Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

1. Definition of Reporting Entity

Cherry Creek Valley Water & Sanitation District (the District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Arapahoe County, Colorado. The District was established to provide potable water and sewage treatment services to the properties within its service area.

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.

As of January 1, 2003, the District implemented the reporting requirements of the Governmental Accounting Standards Board GASB Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37 - *Basic Financial Statements - and Management's Discussions and Analysis -for State and Local Governments' Omnibus* and GASB Statement No. 38 - *Certain Financial Statement Disclosures*.

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.

The District has elected to follow Governmental Accounting Standards Board pronouncements.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for capital assets are shown as increases in assets. Tap fees are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and 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 and sanitation 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 assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

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 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. The appropriation is at the total fund expenditures level and lapses at year end.

Cash and Cash Equivalents

The District considers cash deposits and highly liquid investments with an intended maturity of three months or less to be cash equivalents.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Designated Investments

As of December 31, 2022 and 2021, the District has designated a portion of its investments to be used for future projects as follows:

	<u>2022</u>	<u>2021</u>
Current water replacements	\$ 1,196,200	\$ 1,017,300
Current sewer replacements	750,000	750,000
Future water replacements	13,719,900	11,898,800
Future sewer replacements	10,480,600	10,480,600
Wabash storage & reservoir development	795,000	600,000
Self insurance	200,000	200,000
	<u>\$ 27,141,700</u>	<u>\$ 24,946,700</u>

Inventory

Inventory consists of parts and materials and is recorded at cost using the first-in, first-out method.

Capital Assets

Capital assets, which include water rights, land and easements, waterlines, purchased capacity, water wells and pump stations, sewer lines, office building, office equipment, and trucks and equipment are reported by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. 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.

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 estimated economic useful lives:

Water Lines	40 years
Purchased capacity	40 years
Water wells and pump stations	10-50 years
Sewer lines	40-50 years
Office equipment	5-10 years
Trucks and equipment	4-50 years
Water rights, land and land contracts	not depreciated

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Water Rights

The cost of water rights includes acquisition cost, 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. None were capitalized in 2022 or 2021.

Accrual for Compensated Absences

The District has a policy which allows employees to accumulate vacation and sick leave benefits, up to certain maximum hours. Compensated absences are accrued when incurred.

Tap Fees and Contributed Assets

Tap fees are recorded as capital contributions when received. Assets contributed to the District by developers are also recorded as capital contributions and additions to the systems at estimated fair market value when received.

3. Cash, Cash Equivalents and Investments

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized.

The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool 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 equal to the aggregate uninsured deposits.

The State Regulatory Commissions for banks and financial institutions are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

3. Cash, Cash Equivalents and Investments (continued)

At December 31, 2022 and 2021, the District's cash deposits had a bank balance and a carrying balance as follows:

	2022		2021	
	Carrying Balance	Bank Balance	Carrying Balance	Bank Balance
Cash on hand	\$ 200	\$ 200	\$ 200	\$ 200
Cash in bank	2,260,907	2,325,481	2,212,624	2,418,657
Cash held at broker	282,478	282,478	294,854	294,854
	<u>\$ 2,543,585</u>	<u>\$2,608,159</u>	<u>\$2,507,678</u>	<u>\$2,713,711</u>

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. Deposits that are exposed to custodial credit risk are collateralized with securities held by the pledging financial institution through PDPA.

The District's cash deposits are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes deposits not covered by depository insurance and uncollateralized. Category 2 includes deposits not covered by depository insurance and collateralized with securities held by the pledging financial institution. Category 3 includes deposits not covered by depository insurance and collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

	2022	2021
Insured deposits	\$ 250,000	\$ 250,000
Category 1 deposits	200	200
Category 2 deposits	2,357,959	2,463,511
Total cash and equivalents	<u>\$2,608,159</u>	<u>\$2,713,711</u>

Investments

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

- obligations of the United States and certain U.S. government agency securities,
- certain international agency securities,
- general obligation and revenue bonds of U.S. local government entities,
- bankers' acceptances of certain banks,
- commercial paper,

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

3. Cash, Cash Equivalents and Investments (continued)

- written repurchase agreements collateralized by certain authorized securities,
- certain money market funds,
- guaranteed investment contracts, and
- local government investment pools.

The District's investments are recorded at fair value based on quoted market prices. District investments are securities that are held by the entity or its agent in the District's name, and are insured or registered by the District or its agent. The District's investment policy limits the maximum maturity of any investment to five years with the maximum extended to 10 years for U.S. Government-Backed Securities. The policy also states the intention of the District to diversify investments in the portfolio to reduce risk from excessive concentration in specific investments, individual banks and financial institutions, or maturities.

As of December 31, the District had the following investments:

	<u>2022</u>	<u>2021</u>
Direct U.S. Treasury Obligations	\$ 8,297,114	\$ 9,211,911
Bonds	<u>25,832,118</u>	<u>27,694,163</u>
Total investments	<u>\$ 34,129,232</u>	<u>\$ 36,906,074</u>

The mutual fund is held by the broker where the U.S. Treasury obligations were purchased. The broker is insured by SIPC and supplemental private insurance. All investments are rated AAAM by Standard and Poors.

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the maximum maturity of any investment in its portfolio to five years or less (ten for U.S Government-Backed Securities).

Credit Risk –The District's investment policy limits its investments to those authorized by law, as stated above. The District's corporate bonds at December 31, 2022 and 2021, are rated AAAM by Standard & Poor's

Concentration of Credit Risk –The District's investment policy indicates an intention to diversify investments in the portfolio to reduce risk from excessive concentration in specific investments, individual banks and financial institutions or maturities. State statutes do not limit the amount the District may invest in one issuer. At December 31, 2022 and 2021, 25% and 25%, respectively, of the District's investments are in U.S. Treasury obligations.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

3. Cash, Cash Equivalents and Investments (continued)

Cash deposits and investments are reflected on the December 31, 2022 and 2021 statements of net position as follows:

	<u>2022</u>	<u>2021</u>
Cash in bank/on hand	\$ 2,261,107	\$ 2,212,824
Cash held at broker	282,478	294,854
Investments	6,987,533	11,959,374
Investments - Designated	<u>27,141,700</u>	<u>24,946,700</u>
	<u>\$ 36,672,818</u>	<u>\$ 39,413,752</u>

The District designated \$27,141,700 in investments at December 31, 2022 and \$24,946,700 at December 31, 2021 for future capital needs. Designated investments can be released at the board's discretion.

The District has the ability and has customarily held its investments until maturity; therefore, there is usually no gain or loss recorded on the disposition of those investments.

4. Capital Assets

An analysis of the changes in net capital assets for the years ended December 31, 2022 and 2021 follows:

	Balance December 31, 2021	Additions	Transfers/ Retirements	Balance December 31, 2022
Capital assets, not being depreciated:				
Land and easements	\$ 1,470,761	-	\$ -	\$ 1,470,761
Water rights	698,300	-	-	698,300
Construction in progress	<u>1,268,604</u>	<u>860,646</u>	<u>(305,610)</u>	<u>1,823,640</u>
Total capital assets, not being depreciated	<u>3,437,665</u>	<u>860,646</u>	<u>(305,610)</u>	<u>3,992,701</u>

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

4. Capital Assets (continued)

	Balance December 31, 2021	Additions	Transfers/ Retirements	Balance December 31, 2022
Capital assets, being depreciated:				
Water lines	10,539,326	1,036,734	26,804	11,602,864
Purchased capacity - Water	1,887,400	-	-	1,887,400
Water wells and pump station	891,566	-	-	891,566
Sewer lines	4,253,372	488,742	-	4,742,114
Office equipment	213,448	14,024	(15,632)	211,840
Building	2,233,968	71,502	-	2,305,470
Trucks and equipment	<u>575,651</u>	<u>116,179</u>	<u>(179,612)</u>	<u>512,218</u>
Total capital assets, being depreciated	<u>20,594,731</u>	<u>1,727,181</u>	<u>(168,440)</u>	<u>22,153,472</u>
Less accumulated depreciation for:				
Water lines	(5,099,884)	(239,598)	(26,804)	(5,366,286)
Purchased capacity - water	(1,002,681)	(47,185)	-	(1,049,866)
Water wells and pump station	(594,713)	(17,686)	-	(612,399)
Sewer lines	(2,019,528)	(84,548)	-	(2,104,076)
Office equipment	(196,814)	(7,061)	15,632	(188,243)
Building	(622,812)	(45,970)	-	(668,782)
Trucks and equipment	<u>(361,823)</u>	<u>(52,201)</u>	<u>176,439</u>	<u>(237,585)</u>
Total accumulated depreciation	<u>(9,898,255)</u>	<u>(494,249)</u>	<u>165,267</u>	<u>(10,227,237)</u>
Total capital assets, being depreciated, net	<u>10,696,476</u>	<u>1,232,932</u>	<u>(3,173)</u>	<u>11,926,235</u>
Capital assets, net	<u>\$ 14,134,141</u>	<u>\$ 2,093,578</u>	<u>\$ (308,783)</u>	<u>\$ 15,918,936</u>

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

4. Capital Assets (continued)

	Balance			Balance
	December 31,		Transfers/	December 31,
	2020	Additions	Retirements	2021
Capital assets, not being depreciated:				
Land and easements	\$ 1,468,203	\$ 2,558	\$ -	\$ 1,470,761
Water rights	698,300	-	-	698,300
Construction in progress	<u>1,776,392</u>	<u>716,188</u>	<u>(1,223,976)</u>	<u>1,268,604</u>
Total capital assets, not being depreciated	<u>3,942,895</u>	<u>718,746</u>	<u>(1,223,976)</u>	<u>3,437,665</u>
Capital assets, being depreciated:				
Water lines	9,587,091	952,235	-	10,539,326
Purchased capacity - Water	1,887,400	-	-	1,887,400
Water wells and pump station	866,189	25,377	-	891,566
Sewer lines	4,160,828	92,544	-	4,253,372
Office equipment	205,060	8,388	-	213,448
Building	2,187,928	46,040	-	2,233,968
Trucks and equipment	<u>478,633</u>	<u>119,814</u>	<u>(22,796)</u>	<u>575,651</u>
Total capital assets, being depreciated	<u>19,373,129</u>	<u>1,244,398</u>	<u>(22,796)</u>	<u>20,594,731</u>
Less accumulated depreciation for:				
Water lines	(4,870,900)	(228,984)	-	(5,099,884)
Purchased capacity - water	(955,496)	(47,185)	-	(1,002,681)
Water wells and pump station	(577,939)	(16,774)	-	(594,713)
Sewer lines	(1,935,715)	(83,813)	-	(2,019,528)
Office equipment	(191,275)	(5,539)	-	(196,814)
Building	(580,189)	(42,623)	-	(622,812)
Trucks and equipment	<u>(343,459)</u>	<u>(41,160)</u>	<u>22,796</u>	<u>(361,823)</u>
Total accumulated depreciation	<u>(9,454,973)</u>	<u>(466,078)</u>	<u>22,796</u>	<u>(9,898,255)</u>
Total capital assets, being depreciated, net	<u>9,918,156</u>	<u>778,320</u>	<u>-</u>	<u>10,696,476</u>
Capital assets, net	<u>\$ 13,861,051</u>	<u>\$ 1,497,066</u>	<u>\$ (1,223,976)</u>	<u>\$ 14,134,141</u>

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

4. Capital Assets (continued)

Depreciation expense for the years ended December 31, 2022 and 2021 was charged to the following operations:

	<u>2022</u>	<u>2021</u>
Water operations	\$ 402,640	\$ 376,726
Sewer operations	84,548	83,813
General and administration	7,061	5,539
	<u>\$ 494,249</u>	<u>\$ 466,078</u>

5. Long-Term Liabilities

Changes in the District's accrued compensated absences for the years ended December 31, 2022 and 2021 follows:

	<u>Balance December 31, 2021</u>	<u>Incurred</u>	<u>Retired</u>	<u>Balance December 31, 2022</u>
Compensated absences	\$ 100,149	\$ 83,840	\$ (76,155)	\$ 107,834

	<u>Balance December 31, 2020</u>	<u>Incurred</u>	<u>Retired</u>	<u>Balance December 31, 2021</u>
Compensated absences	\$ 85,160	\$ 48,285	\$ (33,296)	\$ 100,149

6. Intergovernmental Agreements

Water Service Contract

The District is provided water under a distributor's contract with the Board of Water Commissioners of the City and County of Denver (Denver Water Board) through a master meter. Under the terms of the contract, the District is also entitled to a 1.81% participation in certain water supply projects that are offered in the future by the Denver Water Board for subscriber participation.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

6. Intergovernmental Agreements (continued)

Participation Agreement

During 1998, the District entered into a participation agreement to purchase capacity in the Denver Water Board's conduit 89 (the portion lying to the west of Yosemite Street) for \$1,887,400. The portion of conduit 89 lying to the west of Yosemite Street will continue to be owned and maintained by the Denver Water Board. The capacity is being amortized over 40 years using the straight-line method.

Sewage Treatment Contract

The District is a "special connector" by agreement with Metro Water Recovery (Metro) which provides the treatment of sewage collected within the District. The standard service agreement with Metro provides for annual charges to be assessed by formula against the District on an estimated basis. Corrections to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years. Metro assesses tap fees against the District for connections to the system.

The composition of the charges for 2022 and 2021 are as follows:

	2022	2021
Estimate for current year	\$ 1,560,683	\$ 1,498,049
Preliminary adjustment of preceding year estimate	57,104	8,314
Adjustment of second preceeding year estimate	49,535	-
to actual finding	-	4,173
Total annual charges	<u>\$ 1,667,322</u>	<u>\$ 1,510,536</u>

The 2022 sewer treatment estimate is \$1,667,322.

7. Simplified Employee Pension Plan

All employees of the District participate in a simplified employee pension plan administered by MorganStanley SmithBarney after three years of employment. In a simplified employee pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the plan by the District are not mandatory and are made at the discretion of the District. Contributions made under the plan are fully vested immediately.

District contributions for employees who leave employment before they are fully vested are used to reduce the District's benefit obligations or pay plan related expenses. The District's contributions are shown net of forfeitures (if any).

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

7. Simplified Employee Pension Plan (continued)

The District made a \$113,878 contribution to the plan during 2022 which was 20% of the covered payroll of \$569,388. The District's contribution in 2021 was \$82,876 which was 20% of the covered payroll of \$414,382.

All employees of the District are also covered under Social Security (FICA).

8. 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 is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2022 and 2021. 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.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2022 and 2021

9. Commitments and Contingencies

Water License and Easement Agreement

On July 31, 2000, the District sold approximately 32 acres of land to Los Verdes III, L.L.C. (Los Verdes). As part of the land sale, the District gave Los Verdes a license to use up to 225 acre feet of water per year to irrigate a golf course now known as Cherry Creek Country Club. The water can be used at no charge whenever Los Verde's own water supply is not adequate, provided that Los Verdes pays all of the cost and develops the water in accordance with the terms of the licensing agreement. Water used in excess of 225 acre feet up to 250 acre feet per year will be charged using a market rate. The license to use District water will terminate if and when the running average annual use first exceeds 250 acre feet per year or if the Los Verdes property is no longer used as a golf course.

As an additional part of the sale, the District received a permanent easement for the installation of water and/or sewer facilities, wells, storage ponds and any and all related facilities and appurtenances. In return for this easement, the sales price of the land was reduced and the easement was capitalized in the amount of \$700,000.

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 its operations qualify for this exclusion under current case law at the date of this audit.

However, TABOR is complex and subject to interpretation. Many of the provisions, including the qualification as an Enterprise will require further judicial interpretation.

Supplementary Information

Cherry Creek Valley Water & Sanitation District
Schedule of General and Administrative Expenses
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Wages, payroll tax and fringe benefits	\$ 401,008	\$ 301,872
Director's fees	7,800	8,000
Legal	29,339	72,143
Accounting and audit	11,300	10,300
Engineering	95,581	110,762
Consultant	7,470	16,635
Telephone and postage	28,995	24,563
Office expense	20,219	19,238
Truck and equipment expense	26,896	23,457
Insurance	67,722	46,128
Miscellaneous	116,230	110,936
Depreciation	7,061	5,539
	<u><u>\$ 819,621</u></u>	<u><u>\$ 749,573</u></u>

Cherry Creek Valley Water & Sanitation District
Schedules of Revenues, Expenditures and Changes in Funds
Available — Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2022

	Budget Amounts Original and Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues			
Water service fees	4,425,400	\$ 4,662,717	\$ 237,317
Sewer service fees	2,978,600	2,996,297	17,697
Swimming pool permits	7,050	7,504	454
Net investment earnings	1,055,000	(2,249,196)	(3,304,196)
Penalties	11,400	14,357	2,957
Parts sales	51,600	44,332	(7,268)
Miscellaneous	12,000	12,688	688
Water tap fees	401,000	492,000	91,000
Sewer tap fees	38,800	46,800	8,000
Contributed lines	1,987,500	1,265,598	(721,902)
Development fees	-	9,039	9,039
Denver Water tap surcharge	351,900	383,145	31,245
Metro Wastewater sewage tap surcharge	360,900	205,750	(155,150)
Proceeds from Sale of Equipment	-	22,354	22,354
Total revenue	<u>11,681,150</u>	<u>7,913,385</u>	<u>(3,767,765)</u>
Expenditures (Page 20)	<u>11,413,500</u>	<u>10,565,993</u>	<u>847,507</u>
Excess of Revenue Over (Under) Expenditures	267,650	(2,652,608)	(2,920,258)
Funds Available — Beginning of Year	<u>39,547,805</u>	<u>39,695,620</u>	<u>147,815</u>
Funds Available — End of Year	<u><u>\$ 39,815,455</u></u>	<u><u>\$ 37,043,012</u></u>	<u><u>\$ (2,772,443)</u></u>

Funds available at December 31, 2022 is computed as follows:

Current assets	\$ 37,734,378
Current liabilities	(583,532)
Accrued compensated absences	(107,834)
	<u><u>\$ 37,043,012</u></u>

Though the District considers itself exempt from TABOR as an "enterprise" as defined in Article X, Section 20 of the Colorado Constitution, it is noted that the District considers the entire balance of funds available as of December 31, 2022, to be reserved.

Cherry Creek Valley Water & Sanitation District
Schedule of Expenditures — Budget and Actual
(Budgetary Basis)
For the Year Ended December 31, 2022

	<u>Budget Amounts</u> <u>Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Operating			
Water			
Water purchased	\$ 4,164,050	\$ 4,267,984	\$ (103,934)
Maintenance	484,200	203,338	280,862
Wages, payroll tax and fringe benefits	330,400	378,242	(47,842)
Utilities	34,000	49,663	(15,663)
Miscellaneous	50	41	9
 Sewer			
Sewage treatment fees	1,669,300	1,669,323	(23)
Maintenance	76,300	76,263	37
Wages, payroll tax and fringe benefits	210,800	240,641	(29,841)
Total operating	<u>6,969,100</u>	<u>6,885,495</u>	<u>83,605</u>

(Continued)

Cherry Creek Valley Water & Sanitation District
Schedule of Expenditures — Budget and Actual
(Budgetary Basis)
For the Year Ended December 31, 2022
(continued)

	Budget Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual Amounts	
General and Administrative			
Wages, payroll tax and fringe benefits	\$ 365,900	\$ 401,008	\$ (35,108)
Director's fees	8,000	7,800	200
Legal	102,100	29,339	72,761
Accounting and Audit	11,300	11,300	-
Engineering	140,600	95,581	45,019
Consultant	17,300	7,470	9,830
Telephone and postage	26,600	28,995	(2,395)
Office expense	19,900	20,219	(319)
Truck and equipment expense	24,100	26,896	(2,796)
Insurance	48,900	67,722	(18,822)
Miscellaneous	105,000	116,230	(11,230)
	<u>869,700</u>	<u>812,560</u>	<u>57,140</u>
Capital Outlay			
Metro Wastewater sewage tap surcharge	360,900	205,750	155,150
Denver Water tap surcharge	351,900	383,145	(31,245)
Wabash water storage facility	600,000	-	600,000
Property and equipment	1,961,900	2,279,043	(317,143)
Contingency	300,000	-	300,000
Total capital outlay	<u>3,574,700</u>	<u>2,867,938</u>	<u>706,762</u>
Total Expenditures (page 18)	<u><u>\$ 11,413,500</u></u>	<u><u>\$ 10,565,993</u></u>	<u><u>\$ 847,507</u></u>

Cherry Creek Valley Water & Sanitation District
Reconciliation of Budgetary Basis (Actual)
to Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2022

Revenue (budgetary basis)	\$ 7,913,385
Denver Water tap surcharge	(383,145)
Metro Wastewater sewage tap surcharge	(205,750)
Total revenue per statement of revenues, expenses and changes in net position	<u>7,324,490</u>
Expenditures (budgetary basis)	10,565,993
Depreciation	494,249
Capital outlay	<u>(2,867,939)</u>
Total expenses per statement of revenues, expenses and changes in net position	<u>8,192,303</u>
Change in net position per statement of revenues, expenses and changes in net position	<u><u>\$ (867,813)</u></u>