

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT

Arapahoe, Jefferson, and Douglas Counties, Colorado

**FINANCIAL STATEMENTS
December 31, 2022 and 2021**

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Independent Auditor's Report

Board of Directors
Southwest Metropolitan
Water and Sanitation District
Arapahoe, Jefferson and Douglas Counties, Colorado

Opinions

We have audited the financial statements of the Southwest Metropolitan Water and Sanitation District (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 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 Southwest Metropolitan Water and Sanitation District, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows 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.

Responsibility 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, 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 Responsibility 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 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
March 24, 2023

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
YEARS ENDED December 31, 2022 and 2021**

The discussion and analysis is designed to provide an analysis of the District’s financial condition and operating results and to inform the reader on the District’s financial issues and activities.

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

Financial Highlights

- Net Position decreased \$2,440,528 (or 4.0%) from 2021 to 2022.
- In 2022, charges for services amounted to \$2,391,786.
- The District reported negative net investment income of \$1,305,946 due to fair value adjustments of investment holdings at December 31, 2022.
- Total capital contributions during 2022 amounted to \$651,280.
- Net Position decreased \$1,291,542 (or 2.1%) from 2020 to 2021.
- In 2021, charges for services amounted to \$1,947,316 representing 67.2% of the District’s total revenue and capital contributions.
- Total capital contributions during 2021 amounted to \$1,099,433.

Overview of the Financial Statements

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

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 the Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information which reflects how the District’s Net Position changed during the past 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 the statement for some items that will only result in cash flows in future fiscal periods.

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

These financial statements distinguish functions of the District that will be principally supported by investment income, service fees and tap fees. The functions of the District include effective and economical operation of water distribution and wastewater collection systems within the jurisdictional boundaries of the District. The *notes to the financial statements* provide additional

information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

| December 31, | <u>2022</u> | <u>2021</u> | <u>2020</u> |
|---|---------------------|----------------------|---------------------|
| ASSETS | | | |
| Current assets | \$ 7,307,870 | \$ 9,953,616 | \$22,754,118 |
| Noncurrent assets: | | | |
| Long-term cash deposits and investments | 15,691,390 | 14,809,780 | 1,978,680 |
| Capital assets, net | <u>35,983,558</u> | <u>36,629,300</u> | <u>38,081,531</u> |
| Total noncurrent assets | <u>51,674,948</u> | <u>51,439,080</u> | <u>40,060,211</u> |
| Total assets | <u>58,982,818</u> | <u>61,392,696</u> | <u>62,814,329</u> |
| LIABILITIES | | | |
| Current liabilities | <u>337,859</u> | <u>307,209</u> | <u>437,300</u> |
| Total liabilities | <u>337,859</u> | <u>307,209</u> | <u>437,300</u> |
| NET POSITION | | | |
| Investment in capital assets | 35,983,558 | 36,629,300 | 38,081,531 |
| Restricted - Emergency reserve | 51,000 | 87,000 | 65,100 |
| Unrestricted | <u>22,610,401</u> | <u>24,369,187</u> | <u>24,230,398</u> |
| Total net position | <u>\$58,644,959</u> | <u>\$ 61,085,487</u> | <u>\$62,377,029</u> |

As noted earlier, Net Position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$58,644,959, \$61,085,487, and \$62,377,029 at December 31, 2022, 2021, and 2020 respectively. The largest 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. Unrestricted Net Position may be used to meet the District's ongoing obligations to maintain the water and sewer systems within the jurisdictional boundaries.

Comparing 2021 to 2022, Current assets decreased \$2,645,746 and long-term cash deposits and investments increased \$881,610. These changes are due to the rising investment market and shift in the District portfolio from cash and cash equivalents to investment holdings. As the District does not levy property taxes, the District relies heavily on its cash and investment reserves to fund operations as well as its investment in capital. This funding explains the overall decrease in assets. With the steady decline in cash and investment reserves, the District's imposition of a service charge on District customers has become necessary to continue to effectively maintain the District facilities.

Comparing 2020 and 2021, Current assets decreased \$12,800,502 while long-term cash deposits and investments increased \$12,831,100 due to the shift from liquid cash holdings to longer term investment holdings. Investment in capital assets decreased \$1,452,231 due to annual depreciation and amortization exceeding capital replacements and contributions of water and sewer facilities. The decrease in total liabilities of \$130,091 is due to an amount due a contractor

for emergency sewer maintenance performed at the end of 2020. There was no such repair in 2021.

REVENUES, EXPENSES AND CHANGES IN NET POSITION

| Years ending December 31, | 2022 | 2021 | 2020 |
|--|----------------------|----------------------|----------------------|
| REVENUE | | | |
| OPERATING REVENUE | | | |
| Charges for services | \$ 2,391,786 | \$ 1,947,316 | \$ 1,544,569 |
| Total operating revenue | <u>2,391,786</u> | <u>1,947,316</u> | <u>1,544,569</u> |
| NONOPERATING REVENUE | | | |
| Net investment income (loss) | <u>(1,305,946)</u> | <u>(147,741)</u> | <u>308,259</u> |
| Total nonoperating revenue | <u>(1,305,946)</u> | <u>(147,741)</u> | <u>308,259</u> |
| CAPITAL CONTRIBUTIONS | | | |
| Tap fees | 600,857 | 1,093,933 | 315,947 |
| Contributed capital assets from developers | <u>50,423</u> | <u>5,500</u> | <u>995,544</u> |
| Total capital contributions | <u>651,280</u> | <u>1,099,433</u> | <u>1,311,491</u> |
| Total revenue | <u>1,737,120</u> | <u>2,899,008</u> | <u>3,164,319</u> |
| EXPENSES | | | |
| OPERATING EXPENSES | | | |
| Water operations | 2,077,584 | 2,033,766 | 1,810,310 |
| Sewer operations | 1,191,485 | 1,213,361 | 1,411,052 |
| General and administrative | <u>908,579</u> | <u>941,791</u> | <u>859,974</u> |
| Total operating expenses | <u>4,177,648</u> | <u>4,188,918</u> | <u>4,081,336</u> |
| NONOPERATING EXPENSES | | | |
| Loss on disposal of property and equipment | <u>-</u> | <u>1,632</u> | <u>33,191</u> |
| Total nonoperating expenses | <u>-</u> | <u>1,632</u> | <u>33,191</u> |
| Total expenses | <u>4,177,648</u> | <u>4,190,550</u> | <u>4,114,527</u> |
| CHANGE IN NET POSITION | <u>(2,440,528)</u> | <u>(1,291,542)</u> | <u>(950,208)</u> |
| NET POSITION - BEGINNING OF YEAR | <u>61,085,487</u> | <u>62,377,029</u> | <u>63,327,237</u> |
| NET POSITION - END OF YEAR | <u>\$ 58,644,959</u> | <u>\$ 61,085,487</u> | <u>\$ 62,377,029</u> |

Total revenue decreased \$1,161,888 or 40.1% from 2021 to 2022. The District's charges for services increased \$444,470. This change is attributed to the increase in service fee from \$8.00 to \$12.00 per month per 3/4" equivalent water tap. The increases in the service fee imposed over the last few years is necessary to contribute to the shortfall in the funding of District operations, maintenance and rehabilitation of District facilities. Negative net investment income of \$1,305,946 was reported at December 31, 2022 due to significant fair market value adjustments to current market holdings. It is the District's policy to hold all investments to maturity, therefore, any fair value adjustment is considered unrealized over the life of the investment.

Total capital contributions decreased \$448,153 due to the progress of various developments within the District and the timing of tap fee revenue collections.

Total revenue decreased \$265,311 or 8.4% from 2020 to 2021. The increase in operating revenue of \$402,747 is primarily due to the District obtaining reimbursement from a contractor for damages to a sewer interceptor line in the amount of \$342,108. Net investment income is reported at a negative \$147,741 due to fair market value adjustments to investment holdings at December 31, 2021 compared to positive net investment income of \$308,259 reported in 2020. Capital contributions decreased \$212,058 due to the progress of various developments within the District and the timing of tap fee revenue collections.

The decrease in total expenses from 2021 to 2022 amounted to \$11,270 or .3%. While expenses related to sewer operations and administration decreased from 2021 levels, water operations increased by \$43,818 from 2021 to 2022 due to unexpected equipment failures when performing emergency repairs to the Hogback Pump Station which resulted in five water main breaks.

Total expenses increased \$76,023 or 0.2% from 2020 to 2021. District contracts with Platte Canyon Water & Sanitation District to provide administrative and maintenance services under an Intergovernmental Agreement (See Note 6 – Intergovernmental Agreement – Management and Maintenance). The cost of labor and overhead is allocated to the District based on the administrative and maintenance hours devoted to water operations, sewer operations, and general and administrative activities.

Budgetary Highlights

The District prepares its budget on a non-GAAP budgetary basis of accounting to recognize the fiscal impact of sale of assets, capital outlay, in addition to operations and nonoperating revenues and contributions. Capital contributions of facilities and depreciation are not reflected on the budget as they do not affect “funds available”. This budgetary accounting is required by State statutes.

Actual revenue for the District was less than amended budgeted revenues by \$1,323,341. Actual net investment income amounted to a negative \$1,305,946 resulting in a negative budget variance of \$1,404,876. A fair value mark down of investments at December 31, 2022 amounted to \$1,566,195. Actual water tap fees collected during 2022 were less than the budgeted amount by \$28,000 and actual sewer tap fees were more than the budgeted amount by \$21,719. Actual charges for services were more than the budgeted amount by \$87,816. This variance is due to significant plan review and construction inspections of the various developments underway in the District.

Amended budgeted expenditures exceeded actual expenditures by \$546,520. The budget was amended during the year increasing the total appropriation by \$400,000 from \$3,628,003 to \$4,028,003. Actual total operating expenditures exceeded the budget amount by \$45,125. The budget amount for repair and maintenance for water operations was increased by \$100,000 due to significant costly water system failures requiring emergency repair.

In addition to budgeting for emergency reserve, the District budgeted an additional 20% of the projected water capital expenses to cover unanticipated increases in construction costs. The percentage applied fluctuates from year to year depending on the predictability of the construction industry. The amount budgeted for contingencies and emergency reserves was \$292,624. The actual cost for the water distribution replacement project was \$263,062 less than the amended budgeted amount. The original budget amount was increased by \$300,000 due to the actual construction contract being higher than anticipated. Asphalt paving for the project has been delayed until the spring of 2023 and the related construction commitment amounts to \$289,288.

Capital Assets

The District's investment in capital assets at December 31, 2022, 2021, and 2020 amounted to \$35,983,558, \$36,629,300, and \$38,081,531, (net of accumulated depreciation/amortization), respectively.

Analysis of changes in capital assets from 2021 to 2022 is as follows:

| | <u>2022</u> | <u>2021</u> | <u>Percentage Change</u> |
|----------------------------|----------------------|----------------------|------------------------------|
| Land and easements | \$ 64,819 | \$ 64,819 | 0.0% |
| Construction in progress | 993,202 | 37,882 | 2521.8% |
| Water distribution systems | 16,594,676 | 17,474,460 | -5.0% |
| Sewage collection system | 17,314,578 | 17,958,653 | -3.6% |
| Office building | 1,001,197 | 1,093,486 | -8.4% |
| Other | 15,086 | - | 100.0% |
| Total net capital assets | <u>\$ 35,983,558</u> | <u>\$ 36,629,300</u> | |

The District planned for one major water capital project replacing 2,239 feet of 16-inch ductile iron pipe with 2,239 feet of 16-inch inch PVC pipe. The project cost to date amounts to \$969,702 and will be finalized during 2023 when permanent asphalt overlay is completed. The District completed one major sewer capital project replacing 227 feet of 12-inch PVC pipe amounting to \$157,370. In accordance with District standard procedures, engineering design of the water and sewer projects was initiated and contracted during 2021. Additionally, the District installed a security camera system during 2022 amounting to \$17,125. Total depreciation and amortization expense for 2022 amounted to \$1,858,080.

Analysis of changes in capital assets from 2020 to 2021 is as follows:

| | <u>2021</u> | <u>2020</u> | <u>Percentage Change</u> |
|----------------------------|----------------------|----------------------|------------------------------|
| Land and easements | \$ 64,819 | \$ 64,819 | 0.0% |
| Construction in progress | 37,882 | 22,346 | 69.5% |
| Water distribution systems | 17,474,460 | 18,176,693 | -3.9% |
| Sewage collection system | 17,958,653 | 18,741,704 | -4.2% |
| Office building | 1,093,486 | 1,073,557 | 1.9% |
| Other | - | 2,412 | -100.0% |
| Total net capital assets | <u>\$ 36,629,300</u> | <u>\$ 38,081,531</u> | |

The District completed one major water capital project replacing 300 feet of 12-inch cast iron pipe amounting to \$228,229. The engineering design of this projects began during 2020. As a result of the damage to the sewer interceptor by the boring contractor during 2020, the District rehabilitated 141 feet of the interceptor with the installation of a UV lining which amounted to \$54,497. Improvements to the office building amounted to \$111,340 and included a new roof and skylights as well the replacement of the second-floor deck and stairs. Total depreciation and amortization expense for 2021 amounted to \$1,865,701.

Additional information on the District’s capital assets can be found in NOTE 4 of this report.

Economic Factors and Next Year’s Budget

- Total 2023 revenue is budgeted at \$2,754,340, 8.5% less than 2022 budget revenue of \$3,010,038. Investment income is budgeted at \$297,700 which is based on a projected average yield of 1.25%.
- The District will continue to impose a service fee to customers. In 2023, the fee will remain \$12.00 per month per ¾” equivalent. Service fee revenue budgeted for 2023 is \$2,224,600 based on 15,449 ¾” equivalents.
- The budget for operating expenditures and capital expenditures is \$2,587,133 and \$1,873,200, respectively.
- Total expenditures for 2023 are projected to exceed revenue by \$1,705,993 which will be funded by the District’s current funds available.

Requests for Information

This report is designed to provide a general overview of the District’s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Financial Administrator, Southwest Metropolitan Water and Sanitation District, 8739 W. Coal Mine Ave., Littleton, Colorado 80123.

FINANCIAL STATEMENTS

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2022 and 2021

| | 2022 | 2021 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 3,627,820 | \$ 9,397,791 |
| Cash deposits and investments | 3,418,530 | 395,000 |
| Accounts receivable | 192,007 | 133,535 |
| Accrued interest receivable | 40,618 | 25,788 |
| Prepaid expenses | 28,895 | 1,502 |
| Total current assets | 7,307,870 | 9,953,616 |
| NONCURRENT ASSETS | | |
| Long-term cash deposits and investments | 15,691,390 | 14,809,780 |
| Capital assets: | | |
| Land and easements | 64,819 | 64,819 |
| Construction in progress | 993,202 | 37,882 |
| Water distribution system | 44,846,949 | 45,382,218 |
| Sewage collection system | 36,274,409 | 36,086,792 |
| Office building | 2,686,334 | 2,686,334 |
| Other | 24,120 | 6,995 |
| Less accumulated depreciation | (48,906,275) | (47,635,740) |
| Total capital assets (net of accumulated depreciation) | 35,983,558 | 36,629,300 |
| Total noncurrent assets | 51,674,948 | 51,439,080 |
| Total assets | 58,982,818 | 61,392,696 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts payable | 192,485 | 172,610 |
| Retainage payable | 44,549 | - |
| Deposits from developers | 100,825 | 134,599 |
| Total current liabilities | 337,859 | 307,209 |
| NET POSITION | | |
| Investment in capital assets | 35,983,558 | 36,629,300 |
| Restricted for emergencies | 51,000 | 87,000 |
| Unrestricted | 22,610,401 | 24,369,187 |
| TOTAL NET POSITION | \$ 58,644,959 | \$ 61,085,487 |

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|--|---------------|---------------|
| OPERATING REVENUE | | |
| Charges for services | \$ 2,391,786 | \$ 1,605,208 |
| Contractor reimbursement for facility damages | - | 342,108 |
| Total operating revenue | 2,391,786 | 1,947,316 |
| OPERATING EXPENSES | | |
| Water operations | 2,077,584 | 2,033,766 |
| Sewer operations | 1,191,485 | 1,213,361 |
| General and administrative | 908,579 | 941,791 |
| Total operating expenses | 4,177,648 | 4,188,918 |
| (LOSS) FROM OPERATIONS | (1,785,862) | (2,241,602) |
| NONOPERATING REVENUE | | |
| Investment income | 260,249 | 134,153 |
| Net increase (decrease) in fair value of investments | (1,566,195) | (281,894) |
| Total nonoperating revenue | (1,305,946) | (147,741) |
| NONOPERATING EXPENSES | | |
| Loss on disposal of property and equipment | - | (1,632) |
| Total nonoperating expenses | - | (1,632) |
| (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (3,091,808) | (2,390,975) |
| CAPITAL CONTRIBUTIONS | | |
| Tap fees | 600,857 | 1,093,933 |
| Contributed capital assets | 50,423 | 5,500 |
| Total capital contributions | 651,280 | 1,099,433 |
| CHANGE IN NET POSITION | (2,440,528) | (1,291,542) |
| NET POSITION - BEGINNING OF YEAR | 61,085,487 | 62,377,029 |
| NET POSITION - END OF YEAR | \$ 58,644,959 | \$ 61,085,487 |

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 2,299,540 | \$ 2,032,121 |
| Cash payments to suppliers for goods and services | (2,301,372) | (2,562,872) |
| Cash flows (used) for operating activities | (1,832) | (530,751) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Contributed capital - Tap and annexation fees | 600,857 | 1,093,933 |
| Acquisition of property, plant and equipment | (1,143,080) | (383,443) |
| Cash flows provided (used) by capital and related financing activities | (542,223) | 710,490 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received | 220,586 | 191,707 |
| Purchase of investments | (5,446,502) | (12,959,180) |
| Matured investments | - | 8,000,000 |
| Cash provided (used) by investing activities | (5,225,916) | (4,767,473) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (5,769,971) | (4,587,734) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 9,397,791 | 13,985,525 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 3,627,820 | \$ 9,397,791 |

(Continued)

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

(Continued)

| | 2022 | 2021 |
|---|----------------|----------------|
| Reconciliation of (loss) from operations to net cash used for operating activities | | |
| (Loss) from operations | \$ (1,785,862) | \$ (2,241,602) |
| Adjustments to reconcile (loss) from operations to net cash used for operating activities | | |
| Depreciation and amortization | 1,858,080 | 1,865,701 |
| Effects of changes in operating assets and liabilities: | | |
| Accounts receivable | (58,472) | (9,589) |
| Prepaid expenses | (27,393) | 10,989 |
| Accounts payable | 45,589 | (250,644) |
| Deposits from developers | (33,774) | 94,394 |
| Total adjustments | 1,784,030 | 1,710,851 |
| Cash flows (used) for operating activities | \$ (1,832) | \$ (530,751) |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | |
| Contributions of capital assets from developers | \$ 50,423 | \$ 5,500 |
| Loss on disposal of capital assets | \$ - | \$ (1,632) |
| Fair Value decrease of investments | \$ (1,566,195) | \$ (281,894) |

These financial statements should be read only in connection with the accompanying notes to financial statements.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 – DEFINITION OF REPORTING ENTITY

Southwest Metropolitan Water and 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 Jefferson, Arapahoe and Douglas Counties, Colorado. The District was established to provide water and sanitation services.

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

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 and amortization are computed and recorded as operating expenses. Expenditures for property and equipment are shown as increases in assets. Tap fees, inclusion fees and contributed water and sewer lines are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes between operating revenue and expenses from nonoperating items. 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 sewer services to its customers. Charges to customers for services provided are performed by a third-party (see Note 5 - Denver Water Board). Operating expenses include cost of service, administrative

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
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expenses, and depreciation and amortization of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenue 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 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 appropriation can only be modified upon completion of notification and publication requirements. A budget is legally adopted for the District and is presented on a Non-GAAP budgetary basis.

For the year ended December 31, 2022, the District Board of Directors approved the amendment of the budget increasing total appropriations from \$3,628,003 to \$4,028,003.

Restricted Resources

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.

Cash Equivalents and Investments

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets which include property, equipment, and infrastructure are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution or at developer’s cost. Capital assets are defined by the District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Depreciation and amortization expense has been computed using the straight-line method over the estimated economic useful lives:

| | |
|-------------------------------------|---------------|
| Distribution and collection systems | 20 – 40 years |
| Office building and improvements | 15 – 40 years |
| Other | 3 – 5 years |

Net Position

Net Position is categorized as investment in capital assets, restricted and unrestricted. Investment in capital assets is intended to reflect the portion of Net Position which are associated with non-liquid, capital assets. Restricted Net Position are liquid assets, which have third party limitations

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on their use. Unrestricted Net Position represent assets that do not have any third party limitations on their use.

NOTE 3 – CASH DEPOSITS AND INVESTMENTS

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

| | <u>2022</u> | <u>2021</u> |
|---------------|----------------------|----------------------|
| Cash deposits | \$ 512,344 | \$ 627,058 |
| Investments | <u>22,225,396</u> | <u>23,975,513</u> |
| Total | <u>\$ 22,737,740</u> | <u>\$ 24,602,571</u> |

Cash deposits and investments are reflected on the December 31, Statement of Net Position as follows:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------|----------------------|
| Cash and cash equivalents | \$ 3,627,820 | \$ 9,397,791 |
| Cash deposits and investments | 3,418,530 | 395,000 |
| Long-term cash deposits and investments | <u>15,691,390</u> | <u>14,809,780</u> |
| | <u>\$ 22,737,740</u> | <u>\$ 24,602,571</u> |

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires deposits of all units of local government to be made in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the 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 102% of the uninsured deposits.

Investments

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

- . Obligations of the U.S. and certain U.S. government agency securities and the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Certain reverse repurchase agreements
- . Certain securities lending agreements
- . Certain corporate bonds
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market mutual funds

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- . Guaranteed investment contracts
- . Local government investment pools

The investment policy adopted by the Board of Directors of the District establishes additional restrictions to the requirements specified by state statutes.

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

| Investment | Rating | Investment Maturities (in Years) | | | 2022 |
|--|---------|----------------------------------|----------------------|---------------------|---------------------|
| | | 1 or less | 1 - 5 | More than 5 | Total |
| U.S. Government Instrumentalities | AAA/AA+ | \$ - | \$ 3,533,900 | \$ 1,580,660 | \$ 5,114,560 |
| U.S. Treasury Notes | N/A | 2,924,530 | 10,576,830 | - | 13,501,360 |
| Local Government Investment Pool - COLOTRUST PLUS+ | AAA/Am | 1,739,544 | - | - | 1,739,544 |
| Local Government Investment Pool - COLOTRUST EDGE | AAA/S1 | 1,326,693 | - | - | 1,326,693 |
| Local Government Investment Pool - CSAFE Core | AAA/S1 | 543,239 | - | - | 543,239 |
| | | <u>\$ 6,534,006</u> | <u>\$ 14,110,730</u> | <u>\$ 1,580,660</u> | <u>\$22,225,396</u> |

| Investment | Rating | Investment Maturities (in Years) | | | 2021 |
|--|---------|----------------------------------|----------------------|---------------------|---------------------|
| | | 1 or less | 1 - 5 | More than 5 | Total |
| U.S. Government Instrumentalities | AAA/AA+ | \$ - | \$ 3,938,680 | \$ 1,924,300 | \$ 5,862,980 |
| U.S. Treasury Notes | N/A | - | 8,847,800 | - | 8,847,800 |
| Local Government Investment Pool - COLOTRUST PLUS+ | AAA/Am | 1,484,394 | - | - | 1,484,394 |
| Local Government Investment Pool - COLOTRUST EDGE | AAA/S1 | 4,297,621 | - | - | 4,297,621 |
| Local Government Investment Pool - CSAFE Core | AAA/S1 | 3,482,718 | - | - | 3,482,718 |
| | | <u>\$ 9,264,733</u> | <u>\$ 12,786,480</u> | <u>\$ 1,924,300</u> | <u>\$23,975,513</u> |

Interest Rate Risk – In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting investments in U.S. Treasuries and U.S. Agencies to an original maturity of ten years or less.

Credit risk – The District’s investment policy limits investments to U.S. Treasury obligations and U.S. Government agency securities, local government investment pools, and certain money market mutual funds approved by the Board of Directors. At the time of purchase, investments must have a credit rating equal to or greater than that specified by state statutes.

Concentration of Credit Risk – It is the policy of the District to diversify its investment portfolio to eliminate risk of loss resulting from over concentration of assets in a specific maturity, a specific class, and specific issuer of securities. The District policy includes cash deposits in the total portfolio when determining concentration of investments. The policy provides that the total portfolio of the District may be comprised of 100% U.S. Treasury Notes. However, investment in U.S. agency and instrumentalities may not exceed 50% of the District’s total portfolio and investment in any one issuer may not exceed 20% of the total portfolio. Investments in local government investment pools as well as money market mutual funds may not exceed 50%, of the District’s total portfolio. A maximum of 35% of the District’s total portfolio may be invested in any one local government investment pool. A maximum of 25% of the District’s total portfolio may be invested in approved fixed income money market mutual funds. The policy provides for

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variances in the stated maximum percentage limitations not to exceed 10% at any given time and the Board may ratify exceptions as deemed necessary. As of December 31, 2022, the District's investments in the Federal Home Loan Bank, Federal Farm Credit Banks, and Federal Home Loan Mortgage Corp were 7.98%, 7.92%, and 7.11%, respectively, of the District's total investments and 7.80%, 7.75%, and 6.95%, respectively, of the District's total portfolio. As of December 31, 2021, the District's investments in the Federal Home Loan Bank, Federal Farm Credit Banks, and Federal Home Loan Mortgage Corp were 8.28%, 8.15%, and 8.03%, respectively, of the District's total investments and 8.07%, 7.94%, and 7.82%, respectively, of the District's total portfolio.

Local Government Investment pools:

COLOTRUST – As of December 31, 2022 and 2021, the District has invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing COLOTRUST. It operates similarly to a money market fund. COLOTRUST offers shares in three portfolios: PRIME, PLUS+, and EDGE. All portfolios may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies and instrumentalities, and repurchase agreements collateralized with certain U.S. government agencies or instrumentalities. Both PLUS+ and EDGE may also invest in the highest rated commercial paper. The PRIME and PLUS portfolios are restricted to a weighted average maturity (WAM) of 60 days or less while the EDGE portfolio incorporates longer-dated securities with a WAM of 60 days or more. Both PRIME and PLUS+ portfolios are rated AAAM by Standard and Poor's and the EDGE portfolio is rated AAAs/S1 by FitchRatings. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at net asset value as determined by fair value. Each share of PRIME and PLUS is equal in value to \$1.00 and the redemption frequency is daily with no redemption notice period. EDGE's net asset value is managed to approximate a \$10.00 transactional share price and the redemption frequency is five business days. The principal value of an EDGE investment may fluctuate and could be greater or less than \$10.00 per share at time of purchase, prior to redemption, and at the time of redemption. There are no unfunded commitments.

CSAFE – As of December 31, 2022 and 2021, the District has invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established by State statute for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces the requirements of creating and operating CSAFE. CSAFE operates similarly to money market funds, and each share of CSAFE Cash is equal in value to \$1.00 and each share of CSAFE Core is equal in value to \$2.00. The District's investment is in the CSAFE Core fund. Fitch Ratings rates CSAFE AAAs/S1. Investments are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments. CSAFE Core calculates the net asset value on a fair value basis as provided for by GASB Statements 31 and 72, and the District records its investment in CSAFE Core at this net asset value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Investment Valuation

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District also has certain investments not categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is calculated using the net asset value (NAV) per share, or its equivalent of the investment. These investments include 2a7-like external investment pools and money market investments. The District held investments in COLOTRUST and CSAFE which are not categorized within the fair value hierarchy. As of December 31, 2022 and 2021 fair value and NAV measurements of the District's investments are as follows:

| | <u>Carrying Amount</u> | |
|--|------------------------|----------------------|
| | <u>2022</u> | <u>2021</u> |
| Investment measured at fair value: | | |
| U.S. Government Instrumentalities (Level 1 inputs) | \$ 5,114,560 | \$ 5,862,980 |
| U.S. Treasury Notes (Level 1 inputs) | 13,501,360 | 8,847,800 |
| Total investments by fair value level | <u>18,615,920</u> | <u>14,710,780</u> |
| Investments measured at NAV: | | |
| Local Government Investment Pool - COLOTRUST PLUS+ | 1,739,544 | 1,484,394 |
| Local Government Investment Pool - COLOTRUST EDGE | 1,326,693 | 4,297,621 |
| Local Government Investment Pool - CSAFE Core | 543,239 | 3,482,718 |
| Total investments at NAV | <u>3,609,476</u> | <u>9,264,733</u> |
| Total investments at carrying amount | <u>\$ 22,225,396</u> | <u>\$ 23,975,513</u> |

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SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 4 – CAPITAL ASSETS

An analysis of the changes in capital assets for the year ended December 31, 2022 follows:

| | Balance at December 31, 2021 | Additions | Deletions | Balance at December 31, 2022 |
|--|------------------------------------|---------------------|------------------|------------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and easements | \$ 64,819 | \$ - | \$ - | \$ 64,819 |
| Construction in progress | 37,882 | 962,139 | 6,819 | 993,202 |
| Total capital assets not being depreciated | <u>102,701</u> | <u>962,139</u> | <u>6,819</u> | <u>1,058,021</u> |
| Capital assets, being depreciated: | | | | |
| Water distribution system | 45,382,218 | 50,423 | 585,692 | 44,846,949 |
| Sewage collection system | 36,086,792 | 189,470 | 1,853 | 36,274,409 |
| Office building | 2,686,334 | - | - | 2,686,334 |
| Other | 6,995 | 17,125 | - | 24,120 |
| Total capital assets being depreciated | <u>84,162,339</u> | <u>257,018</u> | <u>587,545</u> | <u>83,831,812</u> |
| Less accumulated depreciation/amortization: | | | | |
| Water distribution system | (27,907,758) | (930,207) | (585,692) | (28,252,273) |
| Sewage collection system | (18,128,139) | (833,545) | (1,853) | (18,959,831) |
| Office building | (1,592,848) | (92,289) | - | (1,685,137) |
| Other | (6,995) | (2,039) | - | (9,034) |
| Total accumulated depreciation | <u>(47,635,740)</u> | <u>(1,858,080)</u> | <u>(587,545)</u> | <u>(48,906,275)</u> |
| Total capital assets, being depreciated, net | <u>36,526,599</u> | <u>(1,601,062)</u> | <u>-</u> | <u>34,925,537</u> |
| Net Capital Assets | <u>\$36,629,300</u> | <u>\$ (638,923)</u> | <u>\$ 6,819</u> | <u>\$35,983,558</u> |

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

An analysis of the changes in capital assets for the year ended December 31, 2021 follows:

| | Balance at December 31, 2020 | Additions | Deletions | Balance at December 31, 2021 |
|---|------------------------------------|-----------------------|------------------|------------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and easements | \$ 64,819 | \$ - | \$ - | \$ 64,819 |
| Construction in progress | 22,346 | 37,882 | 22,346 | 37,882 |
| Total capital assets not being depreciated | <u>87,165</u> | <u>37,882</u> | <u>22,346</u> | <u>102,701</u> |
| Capital assets, being depreciated: | | | | |
| Water distribution system | 45,153,298 | 233,729 | 4,809 | 45,382,218 |
| Sewage collection system | 36,032,295 | 54,497 | - | 36,086,792 |
| Office building | 2,574,994 | 111,340 | - | 2,686,334 |
| Other | 37,955 | - | 30,960 | 6,995 |
| Total capital assets being depreciated | <u>83,798,542</u> | <u>399,566</u> | <u>35,769</u> | <u>84,162,339</u> |
| Less accumulated depreciation/amortization: | | | | |
| Water distribution system | (26,976,605) | (935,962) | (4,809) | (27,907,758) |
| Sewage collection system | (17,290,591) | (837,548) | - | (18,128,139) |
| Office building | (1,501,437) | (91,411) | - | (1,592,848) |
| Other | (35,543) | (780) | (29,328) | (6,995) |
| Total accumulated depreciation | <u>(45,804,176)</u> | <u>(1,865,701)</u> | <u>(34,137)</u> | <u>(47,635,740)</u> |
| Total capital assets, being depreciated, net | <u>37,994,366</u> | <u>(1,466,135)</u> | <u>1,632</u> | <u>36,526,599</u> |
| Net Capital Assets | <u>\$38,081,531</u> | <u>\$ (1,428,253)</u> | <u>\$ 23,978</u> | <u>\$36,629,300</u> |

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

| | <u>2022</u> | <u>2021</u> |
|----------------|---------------------|---------------------|
| Water | \$ 930,207 | \$ 935,962 |
| Sewer | 833,545 | 837,548 |
| Administration | 94,328 | 92,191 |
| | <u>\$ 1,858,080</u> | <u>\$ 1,865,701</u> |

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 – CONTRACTS

Denver Water Board

The District has a distributor contract with the Denver Water Board (Denver) whereby Denver provides water in the District's service area and charges the users directly ("read and bill" type of distributor's contract). The District is responsible for maintenance and replacement of the water mains owned by the District.

During 2014, under the distributor contract with Denver, the District entered into an Intergovernmental Agreement with Denver to impose a service fee of \$1.00 per month per ¾" equivalent to District customers. The service fee is to be used for operations, maintenance, and rehabilitation, of the District facilities. The fee is imposed on customers' Denver Water bills, with the revenue collected by Denver Water and remitted to the District less a collection fee. The District increased the service fee to \$3.00 in 2017, \$5.00 in 2018, \$7.00 in 2019, and the fee imposed during 2020 and 2021 was \$8.00. The service fee imposed in 2022 was \$12.00. Service fee revenue amounted to \$2,214,935 and \$1,482,909 in 2022 and 2021, respectively.

In 1975, the District entered into an agreement with Denver whereby the District constructed water mains and conveyed them to Denver in exchange for a water supply of 5,500,000 gallons per day. Denver is responsible for the operation, maintenance and replacement of these mains.

The District participated in the cost to construct facilities owned by Denver (agreement date 1977). The District acquired the right to sufficient capacities in the water line to serve taps reserved to the District for \$6,742,264. This amount is included in the water distribution system and is being amortized over 40 years using the straight-line method. Accumulated amortization at December 31, 2022 and 2021 is \$5,933,662 and, \$5,875,913 respectively.

The District has additional contracts with Denver for its participation costs in facilities. These facilities were deemed complete during 2005 and the District has no further commitments under the contracts. The District's participation amounted to \$4,484,958, which reserves additional capacity in the Denver system for the District. This amount has been included in the water distribution system and is being amortized over 40 years using the straight-line method. Accumulated amortization at December 31, 2022 and 2021 is \$1,906,107 and \$1,793,983, respectively.

City of Littleton

The District has a contract with the City of Littleton (the City) whereby the City provides sewage treatment for the District and bills users directly. The District is responsible for maintenance and replacement of the sewer mains within the District and will retain title to them.

In 1969, the District entered into an agreement with the City of Littleton whereby the City is allowed to connect with the District's sewer lines for \$15,000 per year. The agreement is subject to renewal annually. The District recorded contract service fee income of \$15,000 for each of the years ended December 31, 2022 and 2021.

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

Meadowbrook-Fairview

In 1976, the District agreed to reserve for Meadowbrook-Fairview Metropolitan District (Meadowbrook-Fairview) sewer capacity for 1,550 single family or equivalent sanitary sewer taps in its facilities. The agreement provides that sewer lines described as outfalls “A” & “B” that were constructed by Meadowbrook-Fairview remain the property of Meadowbrook-Fairview until its bonded indebtedness incurred in construction is fully paid.

During 1997, the agreement was amended and the outfall lines “A” & “B” and all easements relating thereto were conveyed to the District as provided in the original agreement. The amendment extended the contract for twenty years and for an additional period of time the outfall lines are being utilized. During 1999, the contract was again amended, increasing the total allowable taps by 336 to 1,886.

A third amendment to the agreement was made during 2019 increasing the total allowable taps by 114 to 2,000. Meadowbrook-Fairview must pay the sum of \$227 for each single-family residential equivalent together with Southwest’s applicable tap fee at the time of connection. As of December 31, 2022 and 2021, remaining taps to be issued under the contract amounted to 129 and 134, respectively.

Grant Water and Sanitation District

On August 14, 1962, the District entered into an agreement with Grant Water and Sanitation District (Grant) to accommodate the future transmission of sewage from 5,000 single family equivalent taps. Grant agreed to pay the District \$50 at the time each individual tap is connected.

During 1983, an additional agreement provided for an alternate point of connection to the Districts sewer system for 300 single family equivalent taps, within Grant at \$450 per individual tap. The 300 sewer taps are part of, and not in addition to the 5,000 sewer taps allowed under the 1962 Agreement. At December 31, 2022 and 2021 the remaining taps to be issued under the agreements amounted to 999.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Intergovernmental Agreement – Management and Maintenance

In 1986, the District entered into an agreement with Platte Canyon Water and Sanitation District (Platte Canyon) wherein Platte Canyon provides management, maintenance, inspection and clerical services to the District. Under the agreement, Platte Canyon bills the District monthly for its proportionate share of costs. During 2014, the contract was renewed for ten years with an option for the District to renew for successive five-year periods after December 31, 2024. During 2022 and 2021 the District reimbursed Platte Canyon \$1,323,131 and \$1,320,332 respectively for services provided.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Intergovernmental Agreement – Joint Office and Garage Facility

On March 27, 1998, the District entered into an intergovernmental agreement with Platte Canyon, which provides for cost sharing of a new office and garage facility. The cost of the new facility was \$1,816,148, of which, the District paid 70% or \$1,271,303. Upon termination of the agreement, Platte Canyon will be entitled to 30% of the appraised replacement value of the joint facility excluding land value.

In accordance with the agreement, Platte Canyon pays the District a proportionate share of the operation and maintenance expense as well as approved capital improvements determined on a quarterly basis. The Intergovernmental Agreement was amended on January 1, 2019 and will be effective until December 31, 2029. Reimbursement of operation, maintenance, and capital improvement costs received from Platte Canyon during 2022 and 2021 amounted to \$41,205 and \$59,771, respectively.

Water Tap Deposit Agreement

Advance deposits for the purchase of future water taps were received during 1978. At December 31, 2022, remaining advance deposits amounted to \$552,750, which represents the District's intention to issue 737 water taps. This amount was recorded as contributions when received. No advance deposits were used or refunded in 2022 and 2021.

Construction Commitments

As of December 31, 2022, the District had an unexpended construction contract commitment for permanent asphalt overlay related to the water main replacement in the amount of \$289,288.

NOTE 7 – RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as amended from time to time, the District may be 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). 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 property, general liability, and boiler and machinery. In the event aggregate 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.

The District maintains commercial insurance for injuries to employees (worker's compensation). Settled claims have not exceeded this coverage in any of the past three fiscal years.

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 8 – 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 adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

On November 4, 2003, a majority of the District’s electors authorized the District to collect, retain and spend all revenues and other funds received from District rates, fees, tolls, charges, fines, penalties and investments commencing January 1, 2004, for general operations, maintenance, and capital improvements as a voter approved revenue change and exception to the limits which would otherwise apply under Article X, Section 20.

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.

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 emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. At December 31, 2022 and 2021, the District’s reserve of \$51,000 and \$87,000 was recorded as a restriction of Net Position.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|------------------------------------|--------------|--------------|
| WATER OPERATIONS | | |
| Repair and maintenance | \$ 1,038,725 | \$ 960,980 |
| Utilities | 61,292 | 48,801 |
| Engineering and legal | 47,360 | 88,023 |
| Depreciation | 760,334 | 766,089 |
| Amortization | 169,873 | 169,873 |
| Total water operations | 2,077,584 | 2,033,766 |
| SEWER OPERATIONS | | |
| Repair and maintenance | 295,524 | 355,704 |
| Utilities | 10,357 | 15,706 |
| Engineering and legal | 52,059 | 4,403 |
| Depreciation | 831,389 | 835,392 |
| Amortization | 2,156 | 2,156 |
| Total sewer operations | 1,191,485 | 1,213,361 |
| GENERAL AND ADMINISTRATIVE | | |
| General office administration | | |
| Administration | 582,581 | 647,904 |
| Office supplies | 50 | 1,969 |
| Other | 17,983 | 16,851 |
| Public Relations | 30,621 | 27,155 |
| Professional and consulting | | |
| Accounting and audit | 6,000 | 5,700 |
| Legal | 36,239 | 38,774 |
| Other | - | 3,750 |
| Insurance | 17,580 | 15,647 |
| Building maintenance and utilities | 117,599 | 85,391 |
| Miscellaneous | 5,598 | 6,459 |
| Depreciation | 94,328 | 92,191 |
| Total general and administrative | 908,579 | 941,791 |
| Total operating expenses | \$ 4,177,648 | \$ 4,188,918 |

SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (Non-GAAP BUDGETARY BASIS)
Year Ended December 31, 2022

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|---|----------------------------|---------------------------|----------------------|---|
| REVENUE | | | | |
| Net investment income (loss) | \$ 98,930 | \$ 98,930 | \$ (1,305,946) | \$ (1,404,876) |
| Tap fees - water | 469,000 | 469,000 | 441,000 | (28,000) |
| Tap fees - sewer | 138,138 | 138,138 | 159,857 | 21,719 |
| Charges for services | 2,303,970 | 2,303,970 | 2,391,786 | 87,816 |
| Total revenue | <u>3,010,038</u> | <u>3,010,038</u> | <u>1,686,697</u> | <u>(1,323,341)</u> |
| EXPENDITURES | | | | |
| OPERATIONS AND ADMINISTRATION | | | | |
| Operations and maintenance - water | | | | |
| Repair and maintenance | 893,000 | 993,000 | 1,038,725 | (45,725) |
| Utilities | 55,100 | 55,100 | 61,292 | (6,192) |
| Engineering and legal | 29,354 | 29,354 | 47,360 | (18,006) |
| Operations and maintenance - sewer | | | | |
| Repair and maintenance | 373,500 | 373,500 | 295,524 | 77,976 |
| Utilities | 10,700 | 10,700 | 10,357 | 343 |
| Engineering and legal | 19,146 | 19,146 | 52,059 | (32,913) |
| General office administration | 587,653 | 587,653 | 600,614 | (12,961) |
| Public Relations | 28,200 | 28,200 | 30,621 | (2,421) |
| Professional and consulting | 45,750 | 45,750 | 42,239 | 3,511 |
| Insurance | 17,290 | 17,290 | 17,580 | (290) |
| Office maintenance | 72,500 | 72,500 | 79,895 | (7,395) |
| Office utilities | 34,220 | 34,220 | 37,704 | (3,484) |
| Other | 8,030 | 8,030 | 5,598 | 2,432 |
| Total operations and maintenance | <u>2,174,443</u> | <u>2,274,443</u> | <u>2,319,568</u> | <u>(45,125)</u> |
| CAPITAL OUTLAY | | | | |
| Water distribution system | 925,201 | 1,225,201 | 962,139 | 263,062 |
| Sewage collection system | 171,735 | 171,735 | 182,651 | (10,916) |
| Other | 64,000 | 64,000 | 17,125 | 46,875 |
| Contingency | 292,624 | 292,624 | - | 292,624 |
| Total capital outlay | <u>1,453,560</u> | <u>1,753,560</u> | <u>1,161,915</u> | <u>591,645</u> |
| Total expenditures | <u>3,628,003</u> | <u>4,028,003</u> | <u>3,481,483</u> | <u>546,520</u> |
| EXCESS OF REVENUE (UNDER) EXPENDITURES | (617,965) | (1,017,965) | (1,794,786) | (776,821) |
| FUNDS AVAILABLE - BEGINNING OF YEAR | <u>24,731,691</u> | <u>24,731,691</u> | <u>24,456,187</u> | <u>(275,504)</u> |
| FUNDS AVAILABLE - END OF YEAR | <u>\$ 24,113,726</u> | <u>\$ 23,713,726</u> | <u>\$ 22,661,401</u> | <u>\$ (1,052,325)</u> |

Funds available is computed as follows:

| | |
|---|----------------------|
| Current assets | \$ 7,307,870 |
| Long-term cash deposits and investments | 15,691,390 |
| Current liabilities | (337,859) |
| | <u>\$ 22,661,401</u> |

**SOUTHWEST METROPOLITAN WATER AND SANITATION DISTRICT
RECONCILIATION OF ACTUAL (Non-GAAP BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended December 31, 2022**

| | |
|--|----------------|
| REVENUE (BUDGETARY BASIS) | \$ 1,686,697 |
| Contributed capital assets | 50,423 |
| Total revenue per statement of revenues, expenses, and changes in net position | 1,737,120 |
| EXPENDITURES (BUDGETARY BASIS) | 3,481,483 |
| Depreciation | 1,686,051 |
| Amortization | 172,029 |
| Capital outlay | (1,161,915) |
| Total expenses per statement of revenues, expenses, and changes in net position | 4,177,648 |
| Change in net position per statement of revenues, expenses, and changes in net position | \$ (2,440,528) |