

East River Regional Sanitation District

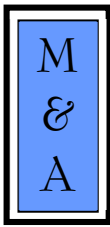
Financial Report

December 31, 2023 and 2022

**East River Regional Sanitation District
Financial Report
December 31, 2023 and 2022**

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
East River Regional Sanitation District
Crested Butte, Colorado**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of East River Regional Sanitation District (the "District"), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, based on our audit, the accompanying financial statements present fairly, in all material respects, the respective financial position of East River Regional Sanitation District, as of December 31, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 opinion.

Responsibilities of Management for the Financial Statements

The District's management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, 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 one year after the date that the financial statements are issued.

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INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
East River Regional Sanitation District

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. 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 U.S. 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

U.S. GAAP require the Management's Discussion and Analysis in section B 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 U.S. GAAS, 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.

**INDEPENDENT AUDITOR'S REPORT
To the Board of Directors
East River Regional Sanitation District**

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 individual fund budgetary schedule in section E is presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund budgetary schedule is the responsibility of management and is derived from and relates 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 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 U.S. GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**McMahan and Associates, L.L.C.
Avon, Colorado
July 19, 2024**

MANAGEMENT'S DISCUSSION AND ANALYSIS

EAST RIVER REGIONAL SANITATION DISTRICT

Management's Discussion and Analysis
December 31, 2023 and 2022

We, the financial managers of the East River Regional Sanitation District (the "District"), offer readers of the District's financial statements this narrative summary of the financial activities of the District for the fiscal years ended December 31, 2023 and 2022.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) financial statements; and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements. These components are discussed below.

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

The Statement of Net Position presents information on all the District's assets, liabilities, and deferred inflows of resources. The difference between the total of assets and the total of liabilities and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Fund Net Position shows how the government's net position changed during the year presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes.)

The Statement of Cash Flows shows the District's sources of cash inflows and outflows during the years presented. Cash flows are categorized among operating, non-capital financing, capital and related financing and investing activities, and unlike items reported in the Statement of Revenues, Expenses and Changes in Fund Net Position, these amounts are reported on the cash basis of accounting.

The District's financial statements can be found on pages C1 through C3 of this report.

Proprietary Funds: The District maintains a proprietary fund commonly known as an enterprise fund. Enterprise funds are used to report business-type activities. The District uses an enterprise fund to account for its sanitation services.

Notes to the Financial Statements: The notes provide a background of the entity, certain required statutes, and accounting policies utilized by the District. They also provide additional information that will aid in the interpretation of the financial statements. The Notes to the Financial Statements can be found in Section D of this report.

Other Information: The Schedule of Revenues and Expenditures - Budget (Non-GAAP Basis) and Actual with Reconciliation to GAAP Basis on page E1 provides a detailed comparison of the District's actual revenues and expenditures to budgeted amounts. As the District's budget was adopted in a manner that is not consistent with generally accepted accounting principles ("GAAP"), this schedule is presented on a non-GAAP basis with reconciliation to GAAP basis.

The business-type activity of the District relates to sanitation services. There are currently no governmental-type activities occurring at the District.

Financial Analysis of the District:

The following chart shows the District's assets, liabilities, deferred inflows of resources, and net position for December 31, 2023 and 2022:

East River Regional Sanitation District's Net Position

| | <u>2023</u> | <u>2022</u> <u>(Restated)</u> |
|--|---------------------|----------------------------------|
| Assets: | | |
| Current assets | \$ 5,843,085 | 5,300,270 |
| Capital assets | 1,514,223 | 1,531,615 |
| Total Assets | <u>7,357,308</u> | <u>6,831,885</u> |
| Liabilities: | | |
| Current liabilities | 37,801 | 56,995 |
| Long-term liabilities | 49,645 | 67,565 |
| Total Liabilities | <u>87,446</u> | <u>124,560</u> |
| Deferred Inflows of Resources | <u>115,239</u> | <u>115,174</u> |
| Net Position: | | |
| Net invested in capital assets | 1,514,223 | 1,531,615 |
| Restricted | 29,000 | 23,000 |
| Unrestricted | 5,611,400 | 5,037,536 |
| Total Net Position | <u>\$ 7,154,623</u> | <u>6,592,151</u> |

The District's assets increased \$525,423 during 2023. Cash and investments increased by \$540,295, and capital assets decreased by \$17,392.

In 2023, the District's net position increased \$562,472. Non-operating revenues exceeded non-operating expenses by \$407,599 in 2023, while tap fees totaled \$257,020. These changes in net position were partially offset by an operating loss of \$102,148.

The District's liabilities decreased by \$37,114 in 2023 and deferred inflows of resources increased by \$65.

Approximately 21% of the District's net position reflects its investment in capital assets, as of December 31, 2023.

At the end of the years 2023 and 2022, the District reported positive balances in all three categories of net position.

Financial Analysis of the District (continued):

The following chart is a summary of information relating to the District's Statement of Revenues, Expenses and Changes in Fund Net Position:

EAST RIVER REGIONAL SANITATION DISTRICT'S CHANGE IN FUND NET POSITION

| | <u>2023</u> | <u>2022</u> <u>(Restated)</u> |
|---------------------------------|---------------------|----------------------------------|
| Revenues: | | |
| Program revenues: | | |
| Service fees | \$ 302,970 | 284,320 |
| Rents | 900 | 900 |
| Miscellaneous revenues | 2,752 | 1,334 |
| Total Programs Revenues | <u>306,622</u> | <u>286,554</u> |
| General Revenues: | | |
| Tap fees | 257,020 | 279,388 |
| Property taxes | 115,132 | 115,402 |
| Specific ownership taxes | 6,594 | 7,185 |
| Interest income | 269,359 | 80,617 |
| Gain from sale of assets | 22,000 | - |
| Total General Revenues | <u>670,105</u> | <u>482,592</u> |
| Total Revenues | <u>976,727</u> | <u>769,146</u> |
| Expenses: | | |
| Operating expenses | 317,446 | 294,712 |
| Depreciation and amortization | 91,323 | 79,538 |
| Interest | 2,021 | 776 |
| Treasurers fees | 3,465 | 3,483 |
| Total Expenses | <u>414,255</u> | <u>378,509</u> |
| Change in Net Position | 562,472 | 390,637 |
| Net Position - Beginning | <u>6,592,151</u> | <u>6,201,514</u> |
| Net Position - Ending | <u>\$ 7,154,623</u> | <u>6,592,151</u> |

As mentioned earlier, the increase in net position is partially attributable to \$257,020 of tap fees received by the District in 2023. These tap fees, which are set in excess of actual costs, are used for capital purposes.

There was no significant change in service revenues from the prior year.

When compared to 2022, total 2023 general revenues increased by \$187,513. The increase was mainly due to the increase in interest income of \$188,742 and a gain from sale of asset of \$22,000 which is partially offset by a decrease in tap fees of \$22,368. The increase in interest income is mainly due to the overall economic condition.

Total expenses of the District for 2023 increased \$35,746 from 2022 levels mainly due to an increase in salaries and payroll benefits, and depreciation and amortization expenses from the prior year. Salaries and payroll benefits and repair and maintenance totaled \$219,954 in 2023, or expressed as a percentage, represented 54% of the total expenses incurred by the District in 2023; and depreciation and amortization accounted for 22% of the total expenses of the District in 2023.

Financial Analysis of the District (continued):

Budget Variances in the Enterprise Fund

The District amended the budget for the 2023 fiscal year to reflect additional revenues and a decrease in total expenditures; the expenses of the District's enterprise fund did not exceed the final budget.

Significant budget variances were as follows:

| <u>Account</u> | <u>Original Budget Variance Positive (Negative)</u> | <u>Reason</u> |
|------------------------|---|--|
| <i>Revenues:</i> | | |
| Interest | \$ 234,359 | Increase in monthly average yield due to increase in interest rate |
| Tap fees | 169,300 | More than anticipated construction activities in the District |
| <i>Expenditures:</i> | | |
| Repair and maintenance | 24,206 | Due to lease principal expenditure reflected on separate line and budgeted as repair and maintenance |
| Legal | 14,822 | Conservative budgeting |
| Capital outlay | 95,189 | Budgeted, but unspent |
| Lease - principal | (17,449) | Budgeted under repair and maintenance |

Capital Asset and Debt Administration

Capital Assets. The District continued developing a master plan during 2023. Additional information as well as a detailed classification of the District's net capital assets can be found in the Notes to the Financial Statements in Section D.

Long-term Debts. The District currently has a lease payable, and additional information as well as a detailed classification of the District's total long-term liabilities can be found in the Notes to the Financial Sections in Section D.

Next Year's Budget and Rates

The District's budgeted net position at the end of the current fiscal year was \$5,531,094. The District's 2024 budget anticipates an ending balance of approximately \$5,654,296.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: East River Regional Sanitation District, 350 Country Club Drive, Suite 112A, Crested Butte, CO 81224.

FINANCIAL STATEMENTS

East River Regional Sanitation District
Statement of Net Position
December 31, 2023 and 2022

| | 2023 | 2022 (Restated) |
|---|------------------|----------------------------|
| Assets: | | |
| Current Assets: | | |
| Cash and investments | 5,711,116 | 5,170,821 |
| Property taxes receivable | 115,239 | 115,174 |
| Accounts receivable - Customers, net of allowance of \$0 in 2023 and 2022 | 1,351 | 424 |
| Due from County Treasurer | 557 | 557 |
| Prepaid insurance | 14,322 | 12,794 |
| Other prepaids | 500 | 500 |
| Total Current Assets | 5,843,085 | 5,300,270 |
| Non-Current Assets: | | |
| Capital Assets: | | |
| Non-depreciable capital assets | 128,842 | 670,200 |
| Depreciable/amortizable capital assets, net of accumulated depreciation/amortization | 1,385,381 | 861,415 |
| Total Capital Assets | 1,514,223 | 1,531,615 |
| Total Non-Current Assets | 1,514,223 | 1,531,615 |
| Total Assets | 7,357,308 | 6,831,885 |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts payable | 10,370 | 31,878 |
| Accrued payroll taxes | 5,990 | 5,226 |
| Prepaid revenue | 3,522 | 2,442 |
| Lease payable - Current portion | 17,919 | 17,449 |
| Long-Term Liabilities: | | |
| Accrued compensated absences | 1,089 | 1,089 |
| Lease payable, net of current portion | 48,556 | 66,476 |
| Total Liabilities | 87,446 | 124,560 |
| Deferred Inflows of Resources: | | |
| Unavailable property tax revenue | 115,239 | 115,174 |
| Total Deferred Inflows of Resources | 115,239 | 115,174 |
| Net Position: | | |
| Net invested in capital assets | 1,514,223 | 1,531,615 |
| Restricted for emergencies | 29,000 | 23,000 |
| Unrestricted | 5,611,400 | 5,037,536 |
| Total Net Position | 7,154,623 | 6,592,151 |

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

East River Regional Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Years Ended December 31, 2023 and 2022

| | 2023 | 2022 (Restated) |
|--|------------------|----------------------------|
| Operating Revenues: | | |
| Service fees | 302,970 | 284,320 |
| Rents | 900 | 900 |
| Miscellaneous revenues | 2,752 | 1,334 |
| Total Operating Revenues | 306,622 | 286,554 |
| Operating Expenses: | | |
| Accounting and auditing | 8,952 | 8,591 |
| Salaries and payroll benefits | 198,280 | 158,756 |
| Directors' fees | 4,300 | 4,700 |
| Repair and maintenance | 21,674 | 32,025 |
| Legal services | 10,178 | 10,959 |
| Utilities | 30,585 | 28,406 |
| Insurance | 13,432 | 12,499 |
| Office expense | 9,586 | 13,820 |
| Fees and dues | 2,283 | 2,550 |
| Travel and education | - | 867 |
| Tests | 4,622 | 4,141 |
| Supplies and chemicals | 4,558 | 3,471 |
| Engineering and consulting | - | 180 |
| Telephone | 1,673 | 4,269 |
| Depreciation and amortization | 91,323 | 79,538 |
| Miscellaneous expense | 2,342 | 3,522 |
| Truck expense | 4,981 | 5,956 |
| Total Operating Expenses | 408,769 | 374,250 |
| Operating (Loss) | (102,147) | (87,696) |
| Non-Operating Revenues (Expenses): | | |
| Property taxes | 115,132 | 115,402 |
| Specific ownership taxes | 6,594 | 7,185 |
| Interest income | 269,359 | 80,617 |
| Gain on disposal of assets | 22,000 | - |
| Treasurer's fees | (3,465) | (3,483) |
| Interest expense | (2,021) | (776) |
| Net Non-Operating Revenues (Expenses) | 407,599 | 198,945 |
| Net Income | 305,452 | 111,249 |
| Contributions - Tap Fees | 257,020 | 279,388 |
| Change in Net Position | 562,472 | 390,637 |
| Net Position - Beginning | 6,592,151 | 6,201,514 |
| Net Position - Ending | 7,154,623 | 6,592,151 |

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

East River Regional Sanitation District
Statement Cash Flows
For the Years Ended December 31, 2023 and 2022

| | 2023 | 2022 (Restated) |
|---|------------------|----------------------------|
| Cash Flows From Operating Activities: | | |
| Cash received from customers | 303,123 | 284,610 |
| Other cash received | 3,652 | 2,234 |
| Cash payments for goods and services | (142,205) | (113,236) |
| Cash payments to employees - Salaries and benefits | (197,516) | (158,268) |
| Net Cash Provided (Used) by Operating Activities | (32,946) | 15,340 |
| Cash Flows From Non-Capital Financing Activities: | | |
| Property and specific ownership taxes, net of collection fees | 118,261 | 119,104 |
| Net Cash Provided by Non-Capital Financing Activities | 118,261 | 119,104 |
| Cash Flows From Capital and Related Financing Activities: | | |
| Tap fees collected | 257,020 | 279,388 |
| Capital outlay | (73,931) | (397,681) |
| Principal paid on long-term debt | (17,450) | (7,337) |
| Interest paid | (2,021) | (776) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 163,618 | (126,406) |
| Cash Flows From Investing Activities: | | |
| Gain on disposal of assets | 22,003 | - |
| Interest | 269,359 | 80,617 |
| Net Cash Provided by Investing Activities | 291,362 | 80,617 |
| Net Change in Cash and Cash Equivalents | 540,295 | 88,655 |
| Cash and Investments - Beginning | 5,170,821 | 5,082,166 |
| Cash and Investments - Ending | 5,711,116 | 5,170,821 |
| Reconciliation of Operating (Loss) to Net Cash From Operating Activities: | | |
| Operating (loss) | (102,147) | (87,696) |
| Adjustments to reconcile operating (loss) to net cash from operating activities: | | |
| Depreciation and amortization | 91,323 | 79,539 |
| (Increase) decrease in prepaid expenses | (1,528) | (565) |
| (Increase) decrease in accounts receivable | (927) | 2,190 |
| Increase (decrease) in accounts payable and accrued payroll taxes | (20,747) | 23,772 |
| Increase (decrease) in prepaid revenue | 1,080 | (1,900) |
| Total Adjustments | 69,201 | 103,036 |
| Net Cash From Operating Activities | (32,946) | 15,340 |

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

NOTES TO THE FINANCIAL STATEMENTS

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022

I. Summary of Significant Accounting Policies

The East River Regional Sanitation District (the "District") is a quasi-governmental corporation and governmental subdivision of the State of Colorado located in Gunnison, Colorado. The District was organized on April 25, 1984, for the purpose of providing waste water treatment and transmission service facilities for the District. The District currently is comprised of seven subdivisions covering an area of approximately 1,000 acres.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

B. Accounting Policies

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its sole activity, providing sewage disposal services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Financial Statement Accounts

1. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within 3 months of the date acquired by the District.

The District follows Colorado statutes specifying specific investment instruments meeting defined rating criteria in which local governments may invest, which include:

- U.S. Treasury Obligations (maximum maturity of 60 months)
- Federal Instrumentality Securities (maximum maturity of 60 months)
- FDIC-insured Certificates of Deposit (maximum maturity of 60 months)
- Corporate Bonds (maximum maturity of 60 months)
- Prime Commercial Paper (maximum maturity of 60 months)
- Eligible Bankers Acceptances
- Repurchase Agreements
- General Obligations and Revenue Obligations
- Local Government Investment Pools
- Money Market Mutual Funds

**East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)**

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. However, no allowance for uncollectible accounts has been established at December 31, 2023 and 2022.

3. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with generally accepted accounting principles, the assessed but uncollected property taxes have been recorded as a receivable and as unavailable revenue.

4. Prepaid Expenses

Prepaid expenses are amounts paid in advance for expenses related to subsequent years.

5. Capital Assets

Capital assets, which include land, sewer collection systems and related improvements and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Measurement of right-to-use leased assets is discussed in Note I.D.9.

Capital outlay for projects is capitalized as projects are constructed.

The land and easements on which the waste water treatment plant is situated is recorded at cost plus legal fees incurred for acquisition.

The treatment and sewer collection facilities are recorded at their cost, which includes engineering and capitalized net interest costs and legal fees.

The District's tangible capital assets are depreciated, using the straight-line method, over the following estimated useful lives of the underlying assets. Intangible right-to-use assets are amortized, using the straight-line method, over the shorter of the lease term or estimated useful life of the underlying asset as follows:

| <u>Assets</u> | <u>Years</u> |
|--|--------------|
| Sewer collection system and improvements | 10-33 |
| Equipment | 3-10 |
| Right-to-use leased asset | 5 |

6. Compensated Absences

Earned but unused vacation benefits are accrued when incurred in the financial statements.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

7. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. This amount is deferred and recognized as an inflow of resources in the period that these amounts become available.

8. Tap Fees

Accounting and Financial Reporting for Non-Exchange Transactions, GASB 33, requires that government entities that receive tap fees record the tap fees as revenue for accounting periods beginning after June 15, 2000. The District has reported tap fees for the year ended December 31, 2023 as revenue in the accompanying financial statements; for periods prior to December 31, 2001, the tap fees were recorded as contributed capital by the District.

9. Leases

District as Lessee:

The District is a lessee in a non-cancellable lease agreement for a right-to-use asset as further described in Note III.C.1. In such arrangements, the District recognizes right-to-use leased assets (and corresponding lease liabilities) with an initial, individual value of \$5,000 or more. Right-to-use leased assets and lease liabilities are reported on the Statement of Net Position.

At the commencement of the lease, the District initially measures the liability at the present value of payments expected to be made during the agreement term. Subsequently, the lease liability is reduced by the principal portion of payments made.

The leased asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the leased asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Key estimates and judgments related to leases include how the District determines the following:

Discount Rate: When the interest rate charged by the lessor is not provided, the District uses a United States Treasury bond rate which bond term approximates the term of the lease.

Lease Term: The lease term includes a non-cancellable period.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

9. Leases (continued)

District as Lessee (continued):

Lease Payments: Lease payments included in the measurement of the lease liability are composed of fixed payments.

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

E. Significant Accounting Policies

1. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

2. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The proprietary fund was adopted on a non-GAAP budgetary basis and has been reconciled to a GAAP basis in the financial statements.

Annual appropriations are adopted for all funds. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

As required by Colorado statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for 2023.

1. For the 2023 budget year, prior to August 25, 2022, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The Manager of the District submitted, on or before October 15, 2022, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

A. Budgetary Information (continued)

3. Prior to December 15, 2022, after a required publication of “Notice of Proposed Budget” and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; supplemental appropriations were made for the year 2022; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2022 were collected in 2023 and taxes certified in 2023 will be collected in 2024. Taxes are due on January 1st in the year of collection; however, they may be paid in either one installment (no later than April 30th) or two equal installments (not later than February 28th and June 15th) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16th.

During the year, a supplemental appropriation ordinance was necessary. The budgetary comparison statements reflect the original budget and the final budget after legally authorized revisions were made.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights (“TABOR”). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The District has provided for an emergency reserve of \$29,000 in compliance with TABOR at December 31, 2023.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

The electorate of the District approved the following ballot questions:

- 1) An increase of up to \$700,000 in the final year of a phased-in tax increase by a certification of additional mill levies for general fund operating expenses in addition to debt service, which increase may be levied and spend regardless of any limitations imposed by C.R.S. § 29-1-301, *et seq.* and Article X, Section 20 of the Colorado Constitution; and
- 2) An increase in East River's revenues and spending up to \$700,000 in any one fiscal year to the extent that revenues and spending in each fiscal year are in excess of applicable revenue and spending limits.

The District's management believes that it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

III. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the District's deposits at each financial institution. Deposit balances over \$250,000 are collateralized as required by PDPA. There were no investments requiring disclosure of the fair value hierarchy.

At years ended 2023 and 2022, the District had the following deposits and maturities:

| | | December 31, 2022 | | |
|---------------------------|---------------|----------------------------|-------------------------------|---------------------------------|
| | | Carrying Amount | Maturities | |
| Type | Rating | | Less Than One Year | Less Than Five Years |
| <i>Deposits:</i> | | | | |
| Checking | Not rated | \$ 10,723 | - | - |
| Money market | Not rated | 335,527 | - | - |
| COLOTRUST investment pool | AAAm | 4,824,571 | 4,824,571 | - |
| | | <u>\$ 5,170,821</u> | <u>4,824,571</u> | <u>-</u> |

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

III. Detailed Notes on All Funds

Deposits and Investments (continued)

| December 31, 2022 | | | | |
|---------------------------|-----------|---------------------|--------------------|----------------------|
| Type | Rating | Carrying Amount | Maturities | |
| | | | Less Than One Year | Less Than Five Years |
| <i>Deposits:</i> | | | | |
| Checking | Not rated | \$ 10,723 | - | - |
| Money market | Not rated | 335,527 | - | - |
| COLOTRUST investment pool | AAAm | 4,824,571 | 4,824,571 | - |
| | | <u>\$ 5,170,821</u> | <u>4,824,571</u> | <u>-</u> |

The Investment Pool represents an investment in Colorado Liquid Asset Trust (“COLOTRUST”). The investment is measured at the net asset value, and the fair value of the pool is determined by the pool’s share price. The District has no regulatory oversight for the pool.

1. Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. As a result of the limited length of maturities the District has limited its interest rate risk.

2. Credit Risk

State law and District policy limit investments to those authorized by State statutes including U.S. Agencies and 2a7-like pools. The District’s general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

3. Concentration of Credit Risk

The District diversifies its investments by security type and institution.

Investments may only be made in those financial institutions which are insured by the Federal Deposit Insurance Corporation, the Federal Home Mortgage Association, the Federal Savings and Loan Insurance Corporation, Congressionally authorized mortgage lenders and investments that are federally guaranteed.

Financial institutions holding District funds must provide the District with a statement of collateral in the form of a listing of securities pledged, and a copy of the certificate from the Banking Authority that states that the institution is an eligible public depository. Colorado’s PDPA requirement noted above mitigates concentration of credit risk.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2023 was as follows:

| | Beginning Balance (Restated) | Additions | Deletions | Ending Balance |
|---|---|------------------|------------------|---------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | 128,842 | - | - | 128,842 |
| Construction in Progress | 541,358 | 29,496 | (570,854) | - |
| Total capital assets not being depreciated/amortized | 670,200 | 29,496 | (570,854) | 128,842 |
| Depreciable/amortizable capital assets: | | | | |
| Office space | 61,087 | - | - | 61,087 |
| Equipment | 132,994 | 44,435 | (37,276) | 140,153 |
| Plant and collection system | 3,305,288 | 570,854 | (17,143) | 3,858,999 |
| Right-to-use leased asset | 91,261 | - | - | 91,261 |
| Total depreciable/amortizable capital assets | 3,590,630 | 615,289 | (54,419) | 4,151,500 |
| Less accumulated depreciation for: | | | | |
| Office space | (41,514) | (2,036) | - | (43,550) |
| Equipment | (107,249) | (12,709) | 37,276 | (82,682) |
| Plant and collection system | (2,573,115) | (59,129) | 17,143 | (2,615,101) |
| Right-to-use leased asset | (7,337) | (17,449) | - | (24,786) |
| Total accumulated depreciation/amortization | (2,729,215) | (91,323) | 54,419 | (2,766,119) |
| Total depreciable/amortizable capital assets, net | 861,415 | 523,966 | - | 1,385,381 |
| Total capital assets, net | \$ 1,531,615 | 553,462 | (570,854) | 1,514,223 |

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

III. Detailed Notes on All Funds (continued)

B. Capital Assets (continued)

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

| | (Restated) | | | Ending Balance |
|---|----------------------|-----------------|-----------|--------------------|
| | Beginning Balance | Additions | Deletions | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 128,842 | - | - | 128,842 |
| Construction in Progress | 143,679 | 397,679 | - | 541,358 |
| Total capital assets not being depreciated/amortized | 272,521 | 397,679 | - | 670,200 |
| Depreciable/amortizable capital assets: | | | | |
| Office space | 61,087 | - | - | 61,087 |
| Equipment | 132,994 | - | - | 132,994 |
| Plant and collection system | 3,305,288 | - | - | 3,305,288 |
| Right-to-use leased asset | - | 91,261 | - | 91,261 |
| Total depreciable/amortizable capital assets | 3,499,369 | 91,261 | - | 3,590,630 |
| Less accumulated depreciation for: | | | | |
| Office space | (39,478) | (2,036) | - | (41,514) |
| Equipment | (93,278) | (13,971) | - | (107,249) |
| Plant and collection system | (2,516,921) | (56,194) | - | (2,573,115) |
| Right-to-use leased asset | - | (7,337) | - | (7,337) |
| Total accumulated depreciation/amortization | (2,649,677) | (79,538) | - | (2,729,215) |
| Total depreciable/amortizable capital assets, net | 849,692 | 11,723 | - | 861,415 |
| Total capital assets, net | \$ 1,122,213 | 409,402 | - | 1,531,615 |

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

III. Detailed Notes on All Funds (continued)

C. Long-term Liabilities

1. Lease Payable

In January 2022, the District entered into a lease agreement for equipment and monitoring services for the District. The non-cancellable lease expires in August 2027. Under the terms of the lease, the District is to monthly pay a base rental fee.

The lease liability is measured using an estimated incremental borrowing rate of 2.66%.

During 2023 and 2022, the District recorded principal reduction of \$17,449 and \$7,337, respectively, against the lease payable, and incurred \$2,021 and \$775, respectively in interest expense, in respect of the lease.

At December 31, 2023 and 2022, the District's liability for lease payments was \$66,475, and \$83,925, respectively. The value of the right-to-use asset at December 31, 2023 and 2022 was \$91,261 and \$91,261, respectively, with accumulated amortization of \$24,786 and \$7,337, respectively.

The following is a schedule of future principal and interest lease payments due under the terms of the Ground Lease, absent future adjustments for inflation, at December 31, 2023:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|------------------|-----------------|------------------|
| 2024 | \$ 17,919 | \$ 1,551 | \$ 19,470 |
| 2025 | 18,402 | 1,068 | 19,470 |
| 2026 | 18,897 | 573 | 19,470 |
| 2027 | 11,257 | 100 | 11,357 |
| Total | \$ 66,475 | \$ 3,292 | \$ 69,767 |

2. Summary

The District's long-term liability activity for the year ended December 31, 2023 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|---------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Lease payable | \$ 83,925 | - | (17,450) | 66,475 | 17,919 |
| Total | \$ 83,925 | - | (17,450) | 66,475 | 17,919 |

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

III. Detailed Notes on All Funds (continued)

C. Long-term Liabilities (continued)

2. Summary (continued)

The District's long-term liability activity for the year ended December 31, 2022 was as follows:

| | Restated | | | | |
|---------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
| Lease payable | \$ - | 91,262 | (7,337) | 83,925 | 17,449 |
| Total | \$ - | 91,262 | (7,337) | 83,925 | 17,449 |

IV. Other Information

A. Risk Management

The District is exposed to various risks of loss related to workers compensation; general liability, unemployment, torts, theft of, damage to, and destruction of assets; and errors and omissions. The District has acquired commercial coverage for these risks and claims, if any, are not expected to exceed the commercial insurance coverage.

B. Section 401(a) Retirement Plan

The District offers its employees a retirement savings plan created in accordance with Internal Revenue Code Section 401(a) (the "Plan"). The Plan is administered and invested by Colorado Retirement Association ("CRA"). The benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

The District Manager has the ability to amend benefit terms and has authorized the following terms. Employees of the District, who work at least 12 months per year and 24 hour per week, with 12 months of continuous service, are eligible to participate in the Plan. All participants make required contributions equal to 5% of compensation, as defined in the Plan, and the District makes a matching contribution of 5%. Employee contributions are fully vested upon contribution. The District's contributions vest 25% after two years, and the vesting percentage increase 25% each year after that, and become fully vested after five years.

Effective April 2022, the District makes matching contributions, up to 7%, into the Plan for employees who make elective contributions to the IRC Section 457 deferred compensation plan. The District's contributions vest 25% after two years, and the vesting percentage increase 25% each year after that, and become fully vested after five years

The District's 2023 and 2022 covered payroll was \$130,678 and \$153,989, respectively. During 2023 and 2022, the District's required and actual contributions amounted to \$15,212 and \$10,102, respectively. No forfeited contributions were used to reduce the District's contributions. Participants' required and actual contributions for 2023 and 2022 amounted to \$6,534 and \$7,699, respectively.

As of December 31, 2023 and 2022, there were no outstanding contribution liabilities.

East River Regional Sanitation District
Notes to the Financial Statements
December 31, 2023 and 2022
(Continued)

IV. Other Information (continued)

C. Section 457 Deferred Compensation Plan

The District has adopted an IRC Section 457 deferred compensation plan administered by CRA. Participants may defer up to the lesser of \$20,500 or 100% of the participant's includable compensation. The District has elected not to make employer contributions under the plan. Participants over age 50 are eligible to contribute more than the \$20,500 limit due to a catch up provision in the plan. The District is neither the trustee nor the administrator and has no liability under the plan.

D. Restatements of Net Positions

The District has restated beginning net position for 2023 as follows:

| | 12/31/22 | Error Correction | |
|-------------------------------|----------------------|-------------------------|--------------------|
| | As Previously | Increase / | 12/31/22 |
| | Reported | Decrease | As Restated |
| Proprietary Fund | \$ 6,592,151 | - | 6,592,151 |
| Total Proprietary Fund | \$ 6,592,151 | - | 6,592,151 |

A \$0 change to the beginning net position was to reflect an addition of right-of-use leased equipment and monitoring services and related accumulated amortization of \$91,261 and \$7,336, respectively, and a lease payable of \$83,925.

SUPPLEMENTARY INFORMATION

**East River Regional Sanitation District
Schedule of Revenues and Expenditures
Budget (Non-GAAP Basis) and Actual
with Reconciliation to GAAP Basis
For the Year Ended December 31, 2023
(With Comparative Totals for 2022)**

| | 2023 | | | 2022 (Restated) |
|---|--------------------|-----------------|----------------|--|
| | Original Budget | Final Budget | Actual | Final Budget Variance Positive (Negative) Actual |
| Revenues: | | | | |
| Service fees | 294,000 | 300,000 | 302,970 | 2,970 |
| Property taxes | 115,174 | 115,174 | 115,132 | (42) |
| Specific ownership taxes | 6,000 | 6,000 | 6,594 | 594 |
| Interest | 35,000 | 220,000 | 269,359 | 49,359 |
| Tap fees | 87,720 | 214,037 | 257,020 | 42,983 |
| Miscellaneous and rents | 1,900 | 1,900 | 3,652 | 1,752 |
| Gain from sale of assets | - | - | 22,000 | 22,000 |
| Total Revenues | <u>539,794</u> | <u>857,111</u> | <u>976,727</u> | <u>119,616</u> |
| Expenditures: | | | | |
| Accounting and auditing | 9,100 | 9,300 | 8,952 | 348 |
| Salaries and payroll benefits | 198,500 | 205,500 | 198,280 | 7,220 |
| Directors' fees | 7,000 | 7,000 | 4,300 | 2,700 |
| Treasurer's fees | 3,555 | 3,555 | 3,465 | 90 |
| Repair and maintenance | 40,000 | 40,000 | 15,794 | 24,206 |
| Legal | 25,000 | 15,000 | 10,178 | 4,822 |
| Utilities | 27,000 | 27,000 | 30,585 | (3,585) |
| Insurance | 13,000 | 14,500 | 13,432 | 1,068 |
| Office expense | 10,000 | 10,000 | 9,586 | 414 |
| Operational engineering and consulting | 5,000 | 5,000 | - | 5,000 |
| Fees and dues | 3,000 | 3,000 | 2,283 | 717 |
| Tests | 5,000 | 5,000 | 4,622 | 378 |
| Chemicals and supplies | 5,000 | 5,000 | 4,558 | 442 |
| Miscellaneous expense | 500 | 500 | 2,342 | (1,842) |
| Telephone | 4,700 | 4,700 | 1,673 | 3,027 |
| Travel and education | 3,000 | 3,000 | - | 3,000 |
| Truck expense | 6,000 | 6,000 | 4,981 | 1,019 |
| Capital outlay | 175,000 | 95,000 | 79,811 | 15,189 |
| Lease: | | | | |
| Interest | - | - | 2,021 | (2,021) |
| Principal | - | - | 17,449 | (17,449) |
| Total Expenditures | <u>540,355</u> | <u>459,055</u> | <u>414,312</u> | <u>44,743</u> |
| Excess of Revenues Over Expenditures | <u>(561)</u> | <u>398,056</u> | <u>562,415</u> | <u>164,359</u> |
| Reconciliation to GAAP Basis: | | | | |
| Capitalized assets | | | 73,931 | 488,940 |
| Depreciation and amortization | | | (91,323) | (79,538) |
| Principal payments | | | 17,449 | 7,337 |
| Net GAAP Basis Adjustments | | | <u>57</u> | <u>416,739</u> |
| Change in Net Position | | | <u>562,472</u> | <u>390,637</u> |

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