

LOMA LINDA SANITATION DISTRICT

**ANNUAL FINANCIAL REPORT AND
INDEPENDENT AUDITORS' REPORT**

December 31, 2023 and 2022




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Independent Auditors' Report

1221 W. Mineral Avenue, Suite 202
Littleton, CO 80120

 303-734-4800

 303-795-3356

 www.HaynieCPAs.com

Members of the Board of Directors
Loma Linda Sanitation District

Opinion

We have audited the accompanying financial statements of the business-type activity of Loma Linda Sanitation District (the District) as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity of Loma Linda Sanitation District, as of December 31, 2023, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Loma Linda Sanitation District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Prior Period Financial Statements

The 2022 financial statements were reviewed by us, and our report thereon, dated May 30, 2023, stated we were not aware of any material modifications that should be made to those statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Loma Linda Sanitation 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.

Auditors' 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 auditors' 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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Loma Linda Sanitation 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 Loma Linda Sanitation District's ability to continue as a going concern for a reasonable period of time.

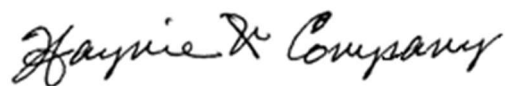
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 Loma Linda Sanitation District's financial statements as a whole. The supplementary information 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado
September 26, 2024

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2023

The management of the Loma Linda Sanitation District (the "District") has provided this narrative overview and analysis of the financial affairs of the District for the fiscal year ended December 31, 2023, as part of the District's Financial Statements and Independent Auditors' Report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts: Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, and Supplemental Information.

BASIC FINANCIAL STATEMENTS

Statement of Net Position. The statement of net position includes all the District's assets and liabilities, with the difference between the two reported as *net position*. It provides information pertaining to the nature of the District's current assets and utility plant in service (assets) and its current and non-current obligations (liabilities). The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position. The statement of revenues, expenses and changes in net position includes all the revenues and expenses. 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 years. These statements measure the success of the District's overall operation and can be used to determine if the District's user fees, tap fees and other charges are adequate to cover expenses and develop adequate reserves.

Statement of Cash Flows. The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments and net cash from operating, non-capital financing, capital and related financing activities and investing.

FINANCIAL HIGHLIGHTS

1. The District's total net position on December 31, 2023, was \$1,864,998, an increase of \$392,550 from the prior year. This increase was primarily the result of an increase in developer donated lines.
2. In 2023, Operating Expenses of \$355,327 exceeded Operating Revenues totaling \$315,086 resulting in an operating loss of \$40,241. In 2022, the operating loss was \$29,107. Operating expenses in 2023 increased compared to 2022 while operating revenues increased slightly from the prior year.
3. Charges for services were \$315,086 in 2023, an increase of \$8,545 from 2022 sanitation services charged.

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2023

FINANCIAL ANALYSIS OF THE LOMA LINDA SANITATION DISTRICT

The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

FINANCIAL POLICY PRIORITIES

The financial goal of the District is to operate in a cost-efficient manner similar to the practices of private enterprise. The Board of Directors of the District annually reviews its financial policies to assess their impact upon financial activities.

Day-to-Day Operational Control of the District

For operational control, the District has segmented its budget into two primary categories: (i) operating expenses including costs for sewage collection, sewage treatment and administration; and (ii) non-operating expenses consisting of capital projects, debt service for loans used to fund capital projects, and lease purchase obligations for funding equipment used in daily operations. This allows the District to track operating and non-operating revenues and expenditures to determine if the District's financial policy priorities are being achieved. Based on current growth trends and projections the District will be able to pay non-operating expenses from non-operating revenues except where those expenses are properly allocated to capital projects serving existing customers or lease purchase expenditures for equipment used in daily operations. Those expenses are paid with user fees.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. Monthly financial reports are submitted to the District Board of Directors. The reports contain revenue and expenditure comparisons to the adopted budget. It is an essential tool for the District's long-range financial planning efforts.

Financial Analysis

Net Position

A summary of the statement of net position is included as Table A which appears below. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net position can be indicators of improving or deteriorating financial health. This, coupled with factors such as population growth and regulatory or policy changes, provide an integrated assessment of the District's health.

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2023

TABLE A
Summary Statement of Net Position

	2023	2022
Current assets	\$ 107,971	\$ 116,455
Net utility plant in service	2,691,493	2,353,457
Total assets	<u>\$ 2,799,464</u>	<u>\$ 2,469,912</u>
Current liabilities	\$ 92,287	\$ 87,708
Long-term liabilities	842,179	909,756
Total liabilities	<u>\$ 934,466</u>	<u>\$ 997,464</u>
Net position		
Invested in capital assets (net)	\$ 1,781,736	\$ 1,377,454
Restricted for debt service	56,198	51,770
Unrestricted	27,064	43,224
Total net position	<u>\$ 1,864,998</u>	<u>\$ 1,472,448</u>

From December 31, 2022, to December 31, 2023, total assets increased \$329,552. Total net position increased \$392,550 from 2022 which is due to developer donated lines of \$436,542.

Revenues, Expenses and Changes in Net Position

Table B shows the revenues, expenses and changes in net position for 2022 and 2023 for the District. On a year-to-year basis, the District plans to operate in accordance with its financial policies.

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2023	2022
Operating revenues	\$ 315,086	\$ 306,541
Operating expenses	355,327	335,648
Operating loss	<u>(40,241)</u>	<u>(29,107)</u>
Non-operating revenues	18,481	14,000
Non-operating expenses	22,232	20,082
Total non-operating revenue (expenses)	<u>(3,751)</u>	<u>(6,082)</u>
Income before developer donated lines	(43,992)	(35,189)
Developer donated lines	436,542	-
Beginning net position	1,472,448	1,507,637
Ending net position	<u>\$ 1,864,998</u>	<u>\$ 1,472,448</u>

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2023

Table B shows an increase in net position of the District from 2022 to 2023 of \$392,550. As noted in the highlights, this increase is primarily the result of developer donated lines. The District anticipates its financial statements will show an increase in net position in future years from increases in revenue as the District continues to accumulate cash reserves for replacement of equipment and future capital needs.

ECONOMIC FACTORS; NEXT YEAR'S BUDGET AND RATES

The District has two primary sources of revenue: sewage treatment fees and tap fees. Tap fee revenue has been limited for several years. In 2023 the District sold one sewer tap. The Mesa Ridge subdivision has completed the installation of all infrastructure and will have lots ready for development in 2024. The 2024 budget conservatively projects five sewer tap sales next year based on the availability of lots at the Mesa Ridge infrastructure and recent inquiries for ADU service.

In 2017 the District made improvements to the wastewater treatment facility which were necessary to achieve treatment to meet new ammonia limits required by the District's discharge permit. The District's wastewater treatment plant is now able to meet the new ammonia limits and discharge effluent of a substantially higher quality than prior to the improvements. Funding for the \$2.3 million project was provided by loans, grants, and district reserves. The Board of Directors of the District raised monthly user fees to \$60 per ERT (equivalent residential tap) in 2018 to provide adequate funding for the debt service payments. Rates were increased again in 2021 to \$65 per ERT. The District is required by its loan agreement to establish rates which provide adequate revenue to meet operating expenses and 110% of debt service expenses. The District was able to achieve compliance with the debt coverage requirement in 2023 and will be able to meet the requirement in 2024 so no increase in user fees is proposed.

The 2024 budget projects operating expenditures of \$247,147, slightly more than the estimated operating expenditures for 2023. Significant increase in sludge processing expenditures will be offset by a decrease in salaries and benefits due to a reallocation of those expenses with South Durango Sanitation District. A small capital expenditure of \$20,000 for improvements at the treatment plant is projected for 2024. Since tap fee revenue is likely to increase in 2024 and subsequent years, the District intends to develop a capital improvements plan to address projects that could not be completed due to lack of adequate revenue.

In 2021 the District developed a financial model to project expenses and revenues for 20 years. The model projects capital costs for improvements that may be required to meet new nutrient removal standards that are being developed by the state which are projected to be adopted in 2028. To develop sufficient funding for those improvements, user fees and tap fees will need to be increased over the next few years. In October 2020, the Board increased the tap fee to \$12,500. This was the first increase since January 1, 2005. No additional increases are projected by the model in 2024.

The District does not receive any tax revenues and qualifies as an enterprise under TABOR and the Colorado Water Activity Enterprise Statute. The District uses the modified accrual method as the basis for budgetary accounting.

LOMA LINDA SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2023

CONTACTING THE DISTRICT

This financial report is designed to provide our residents, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information, please contact the Loma Linda Sanitation District at PO Box 2024, Durango, Colorado 81302-2024 or by telephone at (970)382-2623. Information is also available on the District website: <https://www.southdurangosanitation.org/loma-linda-sanitation-district-billing>

BASIC FINANCIAL STATEMENTS

Loma Linda Sanitation District
STATEMENTS OF NET POSITION

December 31,

	2023	2022 (unaudited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 13,272	\$ 5,549
Investments	79,578	89,114
Accounts receivable	1,820	3,162
Due from developer	4,973	10,690
Prepaid expenses	8,328	7,940
Total current assets	<u>107,971</u>	<u>116,455</u>
Utility Plant in Service		
Land and easements	65,900	65,900
Buildings and improvements	283,463	251,435
Developer Donated Lines	436,542	-
Plant and improvements	2,541,271	2,541,271
Equipment	1,065,037	1,065,037
	<u>4,392,213</u>	<u>3,923,643</u>
Less accumulated depreciation	(1,700,720)	(1,570,186)
Net utility plant in service	<u>2,691,493</u>	<u>2,353,457</u>
Total assets	<u>\$ 2,799,464</u>	<u>\$ 2,469,912</u>
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	\$ 12,666	\$ 11,272
Accrued compensated absences	8,128	3,209
Revenue received in advance of service	881	6,980
Accrued interest expense	3,034	-
Current portion of long-term debt	67,578	66,247
Total current liabilities	<u>92,287</u>	<u>87,708</u>
Non-current liabilities		
Long-term debt, net of current portion	842,179	909,756
Total liabilities	<u>934,466</u>	<u>997,464</u>
Net Position		
Net investment in capital assets	1,781,736	1,377,454
Restricted for debt service	56,198	51,770
Unrestricted	27,064	43,224
Total net position	<u>1,864,998</u>	<u>1,472,448</u>
Total liabilities and net position	<u>\$ 2,799,464</u>	<u>\$ 2,469,912</u>

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

Loma Linda Sanitation District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31,

	2023	2022 (unaudited)
Operating Revenues		
Charges for services	\$ 315,086	\$ 306,541
Operating Expenses		
Collection and treatment	279,344	266,540
General and administrative	75,983	69,108
	Total operating expenses	335,648
	Operating income (loss)	(40,241) (29,107)
Non-operating Revenues (Expenses)		
Tap fees	12,600	12,500
Investment earnings	5,881	1,500
Interest expense	(22,232)	(20,082)
	Total non-operating revenues (expenses)	(3,751) (6,082)
	Income (loss) before developer donated lines	(43,992) (35,189)
Developer Donated Lines	436,542	-
	Change in net position	392,550 (35,189)
Net position at beginning of year	1,472,448	1,507,637
Net position at end of year	\$ 1,864,998	\$ 1,472,448

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

Loma Linda Sanitation District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2023	2022 (unaudited)
Cash Flows from Operating Activities		
Cash received from customers	\$ 310,329	\$ 311,009
Cash paid to suppliers	(180,455)	(181,432)
Cash paid to employees	(32,696)	(35,970)
Net Cash Provided (Used) by Operating Activities	<u>97,178</u>	<u>93,607</u>
Cash Flows from Non-capital Financing Activities		
Tap fees	<u>12,600</u>	<u>12,500</u>
Net Cash Provided (Used) by Non-capital Financing Activities	12,600	12,500
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(32,028)	(11,565)
Debt principal payments	(66,246)	(65,363)
Interest on debt	(19,198)	(20,082)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(117,472)</u>	<u>(97,010)</u>
Cash Flows from Investing Activities		
Sale (purchase) of investments	9,536	(28,499)
Interest income	<u>5,881</u>	<u>1,500</u>
Net Cash Provided (Used) by Investing Activities	<u>15,417</u>	<u>(26,999)</u>
Net Cash Increase (Decrease)	7,723	(17,902)
Cash at beginning of year	<u>5,549</u>	<u>23,451</u>
Cash at end of year	<u><u>\$ 13,272</u></u>	<u><u>\$ 5,549</u></u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Net operating income (loss)	\$ (40,241)	\$ (29,107)
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	130,534	128,569
(Increase) Decrease in accounts receivable	1,342	800
(Increase) Decrease in prepaid expenses	(388)	296
(Increase) Decrease in due from / to developers	5,717	(9,738)
(Increase) Decrease in other receivables	-	978
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	1,394	1,608
Increase (Decrease) in accrued compensated absences	4,919	(2,489)
Increase (Decrease) in revenue received in advance of service	(6,099)	2,690
Total Adjustments	<u>137,419</u>	<u>122,714</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 97,178</u></u>	<u><u>\$ 93,607</u></u>

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

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE A – DEFINITION OF REPORTING ENTITY

The Loma Linda Sanitation District (the District) was formed November 4, 1985, for the purpose of providing sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

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

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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

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

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

Proprietary Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operations are accounted for as one enterprise fund.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Unbilled sewer system utility service receivables are recorded at year end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Tap fees received are recorded as non-operating revenues.

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the person designated by the Board of Directors submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.
2. Public hearings are conducted to obtain public comment.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The person designated by the Board is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.
5. State statutes require the adoption of a summary budget for proprietary funds.
6. Appropriations lapse at the end of each calendar year.
7. The District Board may authorize supplemental appropriations during the year.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Prepaid Items

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

Allowances for Uncollectible Accounts

No allowance for uncollectible accounts has been provided because the District has a statutory lien against the property served for all unpaid charges. The Board of Directors of the District believes it will collect on all past due accounts because by statute the lien is perpetual until paid.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives range from 5 to 50 years.

Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. The District's policy with regard to the order of spending is to spend the restricted funds first.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

Estimates

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

Operating Revenues and Expenses

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

NOTE C – CASH AND INVESTMENTS

Cash is stated at cost, which approximates fair value, and consists of cash in checking and certificates of deposit. Investments are with Colotrust as subsequently described. The differences between the carrying amount and the bank balances are due to outstanding checks and deposits not yet processed by the bank.

Cash balances at December 31, 2023 and 2022, are as follows:

	2023			2022 (unaudited)		
	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
Cash and cash equivalents	\$ 13,272	\$ 28,750	\$ -	\$ 5,549	\$ 6,490	\$ -

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the

PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

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

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE C – CASH AND INVESTMENTS – CONTINUED

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

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

Investments represent the District’s holdings in Colotrust. Colotrust is a liquid asset trust holding pooled investments meeting the legal requirements for Colorado local governments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk.

Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial risk for investments that are in the possession of another party.

Colorado Revised Statutes limit investment maturities to five years or less (depending on the type of investment) unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

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

- obligations of the United States and certain U.S. government agency securities,
- certain international agency securities,
- general obligation and revenue bonds of U.S. local government entities,
- bankers' acceptances of certain banks,
- commercial paper,
- written repurchase agreements collateralized by certain authorized securities,
- certain money market funds,
- guaranteed investment contracts, and
- local government investment pools(*).

As of year-end the District had the following investments:

	<u>2023</u>	<u>2022</u>
		(unaudited)
ColoTrust: PLUS+	\$ 79,578	\$ 89,114
Total	<u>\$ 79,578</u>	<u>\$ 89,114</u>

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE C – CASH AND INVESTMENTS – CONTINUED

COLOTRUST

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), 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 the Trust. The District invested in COLOTRUST PLUS+ (PLUS), one of the three portfolios offered by COLOTRUST.

PLUS+ operates similarly to a money market fund and each share is equal in value to \$1.00. There are no unfunded commitments, the redemption period frequency is daily and there is no redemption period. Allowable investments in the PLUS+ portfolio include U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies.

A designated custodial bank serves as custodian for COLOTRUST's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for COLOTRUST's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by COLOTRUST. PLUS+ is rated AAAM by S&P Global Ratings.

Certain investments measured at fair value on a recurring basis are categorized within the fair value hierarchy established by generally accepted accounting principles. The hierarchy 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's investments are not required to be categorized within the fair value hierarchy. These investments are measured at amortized cost or in certain circumstances the value is estimated 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 at year end for which the investment evaluations were determined as follows.

COLOTRUST determines the NAV of the shares of each portfolio as of the close of business on each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs to determine value in accordance with FASB guidance. It is the goal of PLUS+ to maintain a NAV of \$1.00 per share, however changes in interest rates may affect the fair value of the securities held by COLOTRUST and there can be no assurance that the NAV will not vary from \$1.00 per share.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE D – TAX SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District qualifies as an “Enterprise” because it is a government owned business authorized to issue revenue bonds and it receives less than 10% of its annual revenue in grants from state and local grants. It is therefore exempt from some provisions of the 1992 amendment. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

NOTE E – LONG TERM DEBT

	2023	2022 (unaudited)
CWRPDA 2014 Note Payable	\$ 556,595	\$ 599,273
CWRPDA 2016 Note Payable	353,162	376,730
	909,757	976,003
Less current portion	67,578	66,247
Noncurrent portion	\$ 842,179	\$ 909,756

Changes in long-term debt for 2023 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Due Within One Year
CWRPDA 2014 note payable	\$ 599,273	\$ -	\$ 42,678	\$ 556,595	\$ 43,536
CWRPDA 2016 note payable	376,730	-	23,568	353,162	24,042
Total	\$ 976,003	\$ -	\$ 66,246	\$ 909,757	\$ 67,578

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE E – LONG TERM DEBT – CONTINUED

Changes in long-term debt for 2022 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Due Within One Year
(unaudited)					
CWRPDA 2014 note payable	\$ 641,533	\$ -	\$ 42,260	\$ 599,273	\$ 42,678
CWRPDA 2016 note payable	399,833	-	23,103	376,730	23,569
Total	<u>\$ 1,041,366</u>	<u>\$ -</u>	<u>\$ 65,363</u>	<u>\$ 976,003</u>	<u>\$ 66,247</u>

CWRPDA 2014 Note Payable

On November 13, 2014, the District obtained an \$878,792 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District’s wastewater treatment facility. The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through May, 2035. The loan is secured by a pledge of the District’s wastewater treatment facility revenues.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE E – LONG TERM DEBT – CONTINUED

CWRPDA 2016 Note Payable

On September 16, 2016, the District obtained a \$500,000 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District’s wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through November, 2036. The loan is secured by a lien on the District’s wastewater treatment facility.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

The following is a summary of the debt service requirements to maturity on the District’s CWRPDA notes payable:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	67,578	17,868	85,446
2025	68,937	16,509	85,446
2026	70,322	15,124	85,446
2027	71,735	13,711	85,446
2028	73,178	12,268	85,446
2029-2033	388,550	38,680	427,230
2034-2036	169,457	4,770	174,227
	<u>\$ 909,757</u>	<u>\$ 118,930</u>	<u>\$ 1,028,687</u>

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE F – CAPITAL ASSETS

A summary of changes in capital assets during 2023 is as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Adjustments / Deletions</u>	<u>End of Year</u>
Non-depreciable assets:				
Land and easements	\$ 65,900	\$ -	\$ -	\$ 65,900
	<u>65,900</u>	<u>-</u>	<u>-</u>	<u>65,900</u>
Depreciable assets:				
Plant and improvements	2,541,271	-	-	2,541,271
Equipment	1,065,037	-	-	1,065,037
Developer donated lines	-	436,542	-	436,542
Building and improvements	251,435	32,028	-	283,463
	<u>3,923,643</u>	<u>468,570</u>	<u>-</u>	<u>4,392,213</u>
Less accumulated depreciation	<u>1,570,186</u>	<u>130,534</u>	<u>-</u>	<u>1,700,720</u>
Net Utility Plant in Service	<u>\$ 2,353,457</u>	<u>\$ 338,036</u>	<u>\$ -</u>	<u>\$ 2,691,493</u>

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE F – CAPITAL ASSETS – CONTINUED

A summary of changes in capital assets during 2022 is as follows:

(unaudited)	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land and easements	\$ 65,900	\$ -	\$ -	\$ 65,900
	65,900	-	-	65,900
Depreciable assets:				
Plant and improvements	2,529,706	11,565	-	2,541,271
Equipment	1,065,037	-	-	1,065,037
Building and improvements	251,435	-	-	251,435
	3,912,078	11,565	-	3,923,643
Less accumulated depreciation	1,441,617	128,569	-	1,570,186
Net Utility Plant in Service	\$ 2,470,461	\$ (117,004)	\$ -	\$ 2,353,457

NOTE G – RISK OF LOSS

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2023. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery and workers compensation coverage to its members.

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

The District continues to carry commercial insurance coverage for other risks of loss including workers compensation. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Loma Linda Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

NOTE H – Intergovernmental Agreement

The District and South Durango Sanitation District provide wastewater collection and treatment services within their respective service areas which are adjacent to one another. The Colorado statutes encourage and authorize local governments to “cooperate or contract with one another to provide any function, service, or facility lawfully authorized to each of the cooperating or contracting units, including the sharing of costs” (Section 29-1-203). The boards of directors of Districts have approved a Shared Services Agreement that provides for the shared use of certain employees and equipment. This allows each District to provide services more efficiently and at a lower cost. The agreement is reviewed annually for any changes that are needed for allocation of costs, addition or deletion of services and any other necessary changes.

SUPPLEMENTAL INFORMATION

Loma Linda Sanitation District

SCHEDULES OF OPERATING EXPENSES

For the year ended December 31,

	2023	2022 (unaudited)
Collection and treatment		
Depreciation	\$ 130,534	\$ 128,569
Employee payroll	37,615	35,970
Utilities	40,660	41,313
Operator	23,280	23,280
System maintenance	25,129	15,608
Payroll tax expense	11,610	12,432
Supplies	3,218	3,056
Testing	4,126	3,478
Vehicle expense	3,172	2,834
	<u>279,344</u>	<u>266,540</u>
Total collection and treatment	\$ <u>279,344</u>	\$ <u>266,540</u>
General and Administrative		
Accounting and legal	\$ 54,349	\$ 49,968
Insurance	7,679	7,797
Postage and office	5,704	5,390
Board of directors	3,552	3,230
Dues and licenses	2,088	2,068
Other	1,006	505
Engineering costs	1,605	150
	<u>75,983</u>	<u>69,108</u>
Total general and administrative expenses	\$ <u>75,983</u>	\$ <u>69,108</u>

Loma Linda Sanitation District

SCHEDULES OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31,

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures Reported on the GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
2023						
Total expenditures	\$ 343,595	\$ 343,595	\$ 377,559	\$ (64,288)	\$ 313,271	\$ 30,324
2022						
Total expenditures	\$ 315,080	\$ 315,080	355,730	\$ (63,206)	292,524	22,556

Adjustments to budgetary basis are comprised of principal reductions on long-term debt, capital expenditures, and depreciation expense.

Loma Linda Sanitation District

**SCHEDULE OF COLORADO WATER RESOURCES AND
POWER DEVELOPMENT AUTHORITY LOAN COMPLIANCE**

For the year ended December 31, 2023

Rate Covenant

Gross Revenue:			
Charges for services			\$ 315,086
Tap fees			12,600
Investment earnings			5,881
Other income			-
			333,567
Operation and maintenance expenses:			
Total operating expenses	355,327		
Less depreciation expense	(130,534)		
		224,793	
Current year debt service requirements for CWRPDA loan and parity lien obligations:			
2014 Colorado Water Resources and Power Development Authority Loan	54,460		
2016 Colorado Water Resources and Power Development Authority Loan	30,986		
	85,446		
Required coverage	110%		
		93,991	
Current year required payments into debt service reserve account for CWRPDA loan and parity lien obligations			
			-
Current year debt service requirements on subordinate lien obligations			
			-
Current year debt service requirements on other obligations			
		-	
			318,784
Excess (deficiency) of gross revenues over covered expenses			\$ 14,783

Operations and Maintenance Reserve Covenant

Required reserve equal to three months operations and maintenance expenses	\$ 56,198
Restricted net position on the Statement of Net Position	56,198

Lien Representation

No new obligations with liens on the revenues from the wastewater treatment facility were incurred during the year.