

**MORRISON CREEK METROPOLITAN
WATER AND SANITATION DISTRICT**

Financial Statements

December 31, 2023

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morrison Creek Metropolitan Water and Sanitation District
Oak Creek, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Morrison Creek Metropolitan Water and Sanitation District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Morrison Creek Metropolitan Water and Sanitation District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities of Morrison Creek Metropolitan Water and Sanitation District, as of December 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Morrison Creek Metropolitan Water and Sanitation District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Morrison Creek Metropolitan

Water and 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morrison Creek Metropolitan Water and Sanitation District's basic financial statements. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) is

presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2024 on our consideration of Morrison Creek Metropolitan Water and Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Morrison Creek Metropolitan Water and Sanitation District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morrison Creek Metropolitan Water and Sanitation District's internal control over financial reporting and compliance.

Watson Coon Ryan, LLC

CENTENNIAL, COLORADO
July 26, 2024

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
Statement of Net Position
December 31, 2023

Assets:

Current assets:	
Cash and investments	\$ 3,743,848
Accounts receivable	189,932
Property taxes receivable	911,820
Prepaid expenses and other assets	<u>39,263</u>
Total current assets	4,884,863
Noncurrent assets:	
Capital assets, net	<u>9,024,635</u>
Total assets	<u>13,909,498</u>

Liabilities:

Current liabilities:	
Accounts payable and accruals	526,038
Deferred revenue	132,473
Other liabilities	10,799
Promissory note payable	<u>5,181,334</u>
Total liabilities	<u>5,850,644</u>

Deferred Inflows of Resources:

Deferred property tax revenues	<u>911,820</u>
Total deferred inflows of resources	<u>911,820</u>

Net Position:

Net investment in capital assets	3,843,301
Restricted for:	
Emergencies	40,000
Unrestricted	<u>3,263,733</u>
Total net position	<u>\$ 7,147,034</u>

The notes to the financial statements are an integral part of this statement

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended December 31, 2023

Operating revenues:	
Charges for services	\$ 945,541
Other	<u>75,761</u>
Total operating revenues	<u>1,021,302</u>
Operating expenses:	
Wages and benefits	\$ 495,090
Repairs and maintenance	3,474
Professional fees	186,763
Engineering	39,513
Electric	38,073
Supplies and operations	74,692
Outside services	47,745
Insurance	17,896
Water storage	23,394
Office	20,020
Directors fees	8,479
Other	56,265
Depreciation	<u>130,224</u>
Total operating expenses	<u>1,141,628</u>
Operating income (loss)	<u>(120,326)</u>
Nonoperating revenues (expenses):	
Property taxes, net of treasurer fees	403,317
Specific ownership taxes	31,062
Grant revenue, capital purpose	102,769
Interest expense and loan issuance costs	(162,774)
Interest income	<u>182,292</u>
Total nonoperating revenues (expense)	<u>556,666</u>
Income before other revenues, expenses, gains and losses	<u>436,340</u>
Other revenues, expenses, gains and losses:	
Vault impact fees	<u>18,682</u>
Other revenues, expenses, gains and losses	<u>18,682</u>
Change in net position	455,022
Net position, beginning of year	<u>6,692,012</u>
Net position, end of year	<u><u>\$ 7,147,034</u></u>

The notes to the financial statements are an integral part of this statement

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2023

Cash flows from operating activities:	
Cash received from customers	\$ 889,910
Cash received from other sources	75,761
Cash payments to employees for services and benefits	(469,293)
Cash payments to other suppliers of goods or services	<u>(573,468)</u>
Net cash used by operating activities	<u>(77,090)</u>
Cash flows from noncapital financing activities:	
Specific ownership taxes received	31,062
Taxes collected, net of treasurer fees	<u>403,317</u>
Net cash provided by noncapital financing activities	<u>434,379</u>
Cash flows from capital and related financing activities:	
Payments to acquire, construct, or improve capital assets	(2,751,918)
Proceeds from issuance of promissory note	2,916,579
Interest payments	(162,774)
Proceeds from capital grants	102,769
Vault impact fees collected	<u>18,682</u>
Net cash provided (used) by capital and related financing activities	<u>123,338</u>
Cash flows from investing activities:	
Interest received	<u>182,292</u>
Net cash provided by investing activities	<u>182,292</u>
Net change in cash and cash equivalents	662,919
Cash and cash equivalents, beginning of year	<u>3,265,098</u>
Cash and cash equivalents, end of year	<u>\$ 3,928,017</u>
Reconciliation of operating income (loss) to net cash provided by activities:	
Operating income (loss)	\$ (304,495)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Loss on disposal of capital assets	3,326
Depreciation	130,224
(Increase) decrease in:	
Accounts receivable	(54,396)
Prepaid expenses and other assets	(565)
Increase in:	
Accounts payable and accruals	(59,915)
Deferred revenue	(1,235)
Other liabilities	<u>25,797</u>
Net cash used by operating activities	<u>\$ (261,259)</u>

The notes to the financial statements are an integral part of this statement

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1: Summary of Significant Accounting Policies

The Morrison Creek Metropolitan Water and Sanitation District (the District) was formed in 1972 to provide water and sanitation services for the Stagecoach Development located in Routt County, Colorado. Stagecoach is a rural community of approximately 500 residents located between the Town of Oak Creek and the City of Steamboat Springs. The District was formed as a special district pursuant to Title 32 of Colorado Revised Statutes (CRS).

The District's financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

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 does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The District engages entirely in business-type activities and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

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

Accounts Receivable

Amounts due to the District from charges for services provided are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible as of December 31, 2023. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets include sewage treatment plant and distribution systems, water systems, and furniture, fixtures and equipment. Capital assets are defined by the District as assets with an initial cost of \$500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or fair value if contributed to the District. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Sewage treatment plant and distribution systems	30-40
Water tank	30
Furniture, fixtures and equipment	5-7

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist solely of property tax revenues not available until the following year.

Operating and Nonoperating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Nonoperating revenues and expenses are all those that do not meet the criteria described previously.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and, generally, sale of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Net Position

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

The restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed. Restricted assets is comprised of amounts restricted for emergencies in compliance with TABOR.

Use of Estimates

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

Subsequent Events

Events occurring subsequent to the statement of net position date have been evaluated for financial statement impact or disclosure through the date the financial statements were available to be issued.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-GAAP basis wherein depreciation is not budgeted and capital expenditures are budgeted and recorded as expenditures. Additionally, loan payments and proceeds are considered revenue and expenses for budget purposes.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District Manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental appropriations for the year ended December 31, 2023.

Compliance

The District did not have expenditures in excess of appropriations in any fund for the year ended December 31, 2023.

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 tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. 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.

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

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 requires local governments to establish emergency reserves. These reserves must be at least 3% of current fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved \$40,000 of the December 31, 2023 fund net position for this purpose.

The District's voters passed a ballot question on November 4, 2003, authorizing the District to collect, retain and spend for any lawful purpose the full revenues generated from all sources in fiscal year 2003 and in each fiscal year thereafter.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

Note 3: Cash and Investments

Deposits

As of December 31, 2023, all of the District's deposits were either held in deposit accounts insured by the Federal Deposit Insurance Corporation or in eligible depositories as required by Public Deposit Protection Act in Colorado Revised Statutes 11-10.2-107(5).

The PDPA requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The collateral pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must equal or exceed 102% of the aggregate uninsured deposits.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

Investments

As of December 31, 2023, the District had \$3,382,700, invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) PLUS+ fund. COLOTRUST PLUS+ is a short-term money market fund organized in conformity with Part 7 of Article 75 of Title 24, CRS. The portfolio offers Colorado governmental entities a convenient and efficient means to pool their funds to take advantage of short-term investments and maximize net interest earnings. The investment objective of COLOTRUST PLUS+ is to obtain as high a level of current income as is consistent with the preservation of capital and liquidity. The investment adviser for COLOTRUST PLUS+ is Public Trust Advisors LLC, a Colorado-based investment adviser, registered with the SEC. The portfolio manager is responsible for making all of the investment decisions for the portfolio. Wells Fargo Bank, N.A. is custodian of the portfolio's securities and cash. The COLOTRUST PLUS+ portfolio invests in U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits, the highest rated commercial paper, and highly-rated corporate bonds. The portfolio's weighted average maturity to reset is kept under 60 days, which helps to enhance liquidity and limits market price exposure. The COLOTRUST PLUS+ fund holds a 'AAAm' rating from Standard and Poor's.

The District's investments are subject to interest rate risk, credit risk, and concentration of credit risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District currently invests only in investment pools which may be redeemed at any time.

As of December 31, 2023, the District had \$152,888 invested in nonnegotiable certificates of deposit, that do not consider market rates and are measured at amortized cost.

Cash and investments as of December 31, 2023 are classified in the accompanying financial statements as follows:

Deposits with financial institutions	\$	208,260
COLOTRUST		3,382,700
Certificate of deposit, nonnegotiable		152,888
Cash and investments	\$	3,743,848

Note 4: Capital Assets

Capital asset activity for the year ended December 31, 2023 is summarized below:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:				
Land easement	\$ 5,538	\$ -	\$ -	\$ 5,538
Engineering plans	190,000	-	-	190,000
Construction in Process	3,185,054	2867190	-	6,052,244
Total non-depreciable capital assets	3,380,592	2,867,190	-	6,247,782
Depreciable capital assets:				
Sewage treatment plant and distribution systems;	4,341,858	-	-	4,341,858
Water systems	3,112,544	-	-	3,112,544
Furniture, fixtures and equipment	467,562	69,309	(14,000)	522,871
Total depreciable capital assets	7,921,964	69,309	(14,000)	7,977,273
Less accumulated depreciation:				
Sewage treatment plant and distribution systems;	(2,379,929)	(70,978)	-	(2,450,907)
Water systems	(2,295,101)	(39,635)	-	(2,334,736)
Furniture, fixtures and equipment	(405,840)	(19,611)	10,674	(414,777)
Total accumulated depreciation	(5,080,870)	(130,224)	10,674	(5,200,420)
Net depreciable capital assets	2,841,094	(60,915)	(3,326)	2,776,853
Total capital assets, net	\$ 6,221,686	\$ 2,806,275	\$ (3,326)	\$ 9,024,635

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2023

Note 5: Long-Term Debt

The District entered into a \$6,297,000 promissory note with the US Department of Agriculture (USDA). The promissory note is expected to be funded in full, upon completion of the Districts waste water treatment plant, which began construction during 2022. The District obtained interim financing for the construction of the treatment plant from Yampa Valley Bank (The Bank) on June 28, 2022. The construction loan agreement, allows the District to draw up to \$6,297,000, and is payable in full upon completion of the construction of the treatment plant.

The Bank was granted a security interest in the USDA promissory note, and funds will be disbursed to the Bank upon completion of the treatment plant. The construction loan agreement has a maturity date on June 28, 2024. Interest payments are required every month, at an interest rate of 4.25%.

Long-term debt for the year ended December 31, 2023 was as follows:

<u>December 31, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2023</u>
\$2,264,755	\$2,916,579	\$-	\$ 5,181,334

At December 31, 2023 the District has borrowed \$5,181,334 to date under the interim construction loan, both principal and any unpaid interest are due in a lump sum payment on June 28, 2024, and will be funded though the USDA promissory note.

Note 6: Other Information

Intergovernmental Agreements

Stagecoach Reservoir Storage Agreement

The District entered into an agreement with the Upper Yampa Water Conservancy District (UYWCD) on December 5, 1986 to purchase annually on a "take or pay basis" 500 acre feet of storage water in Stagecoach Reservoir at a price of \$35.00 per acre foot for a term of thirty years. At the end of the thirty-year period the District has five successive 10-year options to renew the right of purchase at the same price.

Yamcolo Reservoir Storage Agreement

The District entered into an extension and amendment agreement with the UYWCD effective July 15, 2011 for 60 acre feet of storage water in the Yamcolo Reservoir for thirty years terminating July 15, 2041. The purchase price for the storage water is subject to an annual CPI increase. The District paid \$86.88 per acre foot of storage water for the year ended December 31, 2022.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members. The District has not had losses of a material amount in any of the preceding three years.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

Contingencies

In conjunction with ongoing construction of the waste water treatment plan, potential obligations for unapproved change orders are being requested by the Contractor. These amounts are disputed by the District. As of the date of this report,

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

no additional liability has been recognized for these change orders as District management and legal counsel do not believe the amounts will be owed.

As of the date of these financial statements, the total potential liability for change orders on the ongoing construction projects is not determined. The ultimate amount of additional costs and liabilities related to change orders will depend on several factors, including the nature and extent of the changes, and any legal or contractual obligations.

Retirement Plan

District employees may voluntarily contribute to a deferred compensation plan, an Internal Revenue Code Section 457 defined contribution plan administered by Lincoln Financial Group. The plan, available to all full-time employees, permits them to defer a portion of their salary until future years. Plan assets are held in trust for the exclusive benefit of participating employees and are not accessible by the District or its creditors. Plan provisions and contribution requirements are established and may be amended by the District.

The District's contribution for each employee and investment earnings allocated to the employee's account are fully vested. The District contributes up to 6% of full-time employees' wages. The District's contributions to the plan were \$20,346 during the years ended December 31, 2023.

Note 7: Subsequent Events

The District levied a 20-mill property tax levy in December of 2023, collectible in 2024. The Department of Local Affairs ("DOLA") of the State of Colorado asserted by letter in May of 2024 that the District violated the Colorado statutory revenue limit of 5.5% increase from 2023 revenues, and has demanded that the District refund approximately \$353,000 of property tax revenues collected or to be collected in 2024 to its customers/electors. The District has disputed such violation. Nevertheless, the course of conduct of the District in response to the DOLA notice of violation will be (a) possible placement of a ballot issue on the November 2024 ballot to District electors requesting approval for the District to retain and keep the \$353,000, but if either no such ballot issue is submitted or, if submitted, fails at the election, then the District will likely either (b) refund the disputed excess to the taxpayers of the District in proportion to the taxes paid by them, or (c) insert a "mill levy credit" in its 2024 mill levy collectible in 2025 to reduce the effective property taxes collected by the District in 2025 by approximately \$353,000. If the District refunds disputed excess the refund will be made from funds in the administrative account of the District, not in the Water or Sewer Enterprise funds.

MORRISON CREEK METROPOLITAN WATER AND SANITATION DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance
Revenues:			
Charges for services	\$ 1,108,245	\$ 945,541	\$ (162,704)
Other	7,192	75,761	68,569
Tap fees	60,000	-	(60,000)
Vault impact fees	17,000	18,682	1,682
Property taxes, net of treasurer fees	382,000	403,317	21,317
Specific ownership taxes	22,000	31,062	9,062
Grant revenue, capital purpose	1,773,000	102,769	(1,670,231)
Loan revenue	2,800,000	2,916,579	116,579
Interest income	17,000	182,292	165,292
			-
Total revenue	<u>6,186,437</u>	<u>4,676,003</u>	<u>(1,510,434)</u>
Expenses:			
Wages and benefits	520,000	495,090	24,910
Repairs and maintenance	215,500	3,474	212,026
Professional fees	55,000	186,763	(131,763)
Engineering	100,000	39,513	60,487
Electric	39,000	38,073	927
Supplies and operations	75,000	74,692	308
Outside services	83,500	47,745	35,755
Insurance	22,300	17,896	4,404
Water storage	23,000	23,394	(394)
Office	20,000	20,020	(20)
Directors fees	7,500	8,479	(979)
Interest expense and loan issue costs	400	162,774	(162,374)
Loan repayment	220,000	-	220,000
Other	155,237	56,265	98,972
Capital improvements	4,650,000	2,751,918	1,898,082
Total expenses	<u>6,186,437</u>	<u>3,926,096</u>	<u>2,260,341</u>
Change in net position-budgetary basis	<u>\$ -</u>	<u>\$ 749,907</u>	<u>\$ (3,770,775)</u>
Adjustments to GAAP basis:			
Capital improvements		2,751,918	
Loan revenue		(2,916,579)	
Depreciation		<u>(130,224)</u>	
Change in net position - GAAP basis		455,022	
Net position, beginning of year		<u>6,692,012</u>	
Net position, end of year		<u>\$ 7,147,034</u>	

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morrison Creek Metropolitan Water and Sanitation District
Oak Creek, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Morrison Creek Metropolitan Water and Sanitation District as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Morrison Creek Metropolitan Water and Sanitation District's basic financial statements, and have issued our report thereon date July 26, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morrison Creek Metropolitan Water and Sanitation District's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morrison Creek Metropolitan Water and Sanitation District's internal control. Accordingly, we do not express an opinion on the effectiveness of Morrison Creek Metropolitan Water and Sanitation District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morrison Creek Metropolitan Water and Sanitation District's financial statements are free from material misstatement, we performed tests of its compliance with

certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Morrison Creek Metropolitan Water and Sanitation District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Morrison Creek Metropolitan Water and Sanitation District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned. Morrison Creek Metropolitan Water and Sanitation District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watson Coon Ryan, LLC

CENTENNIAL, COLORADO
July 26, 2024

Morrison Creek Metropolitan Water and Sanitation District
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2023

Finding 2023-001

Criteria: The preparation of the financial statements and the related notes are the responsibility of management.

Condition: Auditor is required to report on whether the District is able to prepare financial statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over both 1) recording, processing, and summarizing accounting data, and 2) the presentation of the District's financial statements, disclosures, supplementary information, schedule of federal and state financial assistance in conformity with generally accepted accounting principles (GAAP) of the United States. Internal control system does not include a process for preparing the annual financial statements and related disclosures in accordance with GAAP. The District keeps its books on a cash basis of accounting, whereas GAAP requires transactions to be recorded on an accrual basis. The auditor was required to post several entries to convert the cash basis of accounting to accrual, including loan payable and capital asset additions for the year. The District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the District's internal controls. Material adjustments were required to present the statements in accordance with GAAP.

Cause: There are a limited number of office employees and resources available to allow for adequate preparation of the financial statements.

Effect or Potential Effect: Potential for undetected errors, or material misstatements. Completeness of the financial statement disclosures and accuracy of the overall financial presentation are negatively impacted as outside auditors do not have the same comprehensive understanding of the District as its internal financial staff.

Questioned Costs: None.

Repeat Finding: Yes.

Recommendation: The District should implement controls to ensure material adjustments are posted prior to the audit. Additionally, the District should continue to review the cost/benefit of utilizing the auditors to assist with the preparation of the financial statements.

Views of Responsible Official: Management is aware of the condition. The District's staff is familiar with the day to day accounting requirements; however, due to limited staffing and funding, they do not consider it practical to provide sufficient training to eliminate this condition and will continue to rely on the auditor to prepare the financial statements at this time.