

SOUTH DURANGO SANITATION DISTRICT
Financial Statements and Independent Auditor's Report

FOR THE YEARS ENDED

DECEMBER 31, 2022 and 2021




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Board of Directors and Management
South Durango Sanitation District

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of South Durango Sanitation District, as of December 31, 2022 and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of South Durango Sanitation District as of December 31, 2021 were audited by other auditors whose report dated February 10, 2022 expressed an unmodified opinion on those statements.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of South Durango 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about South Durango Sanitation District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 South Durango 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 South Durango Sanitation District's ability to continue as a going concern for a reasonable period of time.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

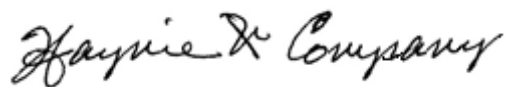
Other Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise South Durango Sanitation District's financial statements as a whole. The supplementary

information section is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information, as listed in the table of contents, 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. Such 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 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 financial statements as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Haynie & Company". The signature is written in black ink and is positioned below the word "Sincerely,".

Littleton, Colorado
May 9, 2023

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2022

The management of the South Durango 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, 2022, as part of the District's Financial Statements and Independent Auditor's Report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts: Independent Auditor's 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, 2022, was \$11,781,687, an increase of \$1,032,726 from the prior year. This increase was primarily the result of increases in cash, investments and accounts receivable.
2. In 2022 Operating Revenues totaling \$1,155,506 exceeded Operating Expenses of \$1,022,116 resulting in an operating income of \$133,390. In 2021 the operating income was \$30,996. The increase in operating income 2022 was due to an increase in user fee revenue as the District's customer base continues to expand and a slight reduction in operating expenses.
3. Cash receipts from tap fees were \$865,850 in 2022, an increase of \$381,100 more than 2021 tap fee revenue. Numerous large developments are currently planned in the

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2022

District service area. Tap fee revenue is expected to continue to be a substantial revenue source in future years.

FINANCIAL ANALYSIS OF THE SOUTH DURANGO 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. Policies that affected financial activities are:

1. Growth pays its own way;
2. Cost of administration and operations are funded from user fees;
3. User fees will fund a portion of capital improvement costs when it is determined that the improvement is needed to serve current customers, make improvements to meet new regulatory requirements or when tap fees are not sufficient; and,
4. Tap fees are used for capital improvements or debt service for capital improvements that are required to serve new customers.

In order to develop and monitor financial policies that adhere to the financial policy priorities, the District completed a comprehensive master plan in 2003. The District made substantial improvements to its treatment and collection system as outlined in the master plan with the last major expansion completed in 2012. The District completed a substantial upgrade to the treatment facility in 2022 to provide increased technological capability.

The District Board authorized the development of an updated master plan in 2017. A financial model has been developed as part of the plan which has allowed the District Board to better analyze future capital needs. Based on the projections in the financial model the Board increased user and tap fees in 2019 for the first time in several years. Additional increases were approved in 2020. The next projected increase is scheduled for 2023. The financial model is updated each year to reflect actual revenues and expenditures as well as changes to future capital expenditures.

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 bonds and 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 (tap fees) except where those expenses are properly allocated to capital

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2022

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. The staff presents monthly financial reports 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.

TABLE A
Summary Statement of Net Position

	2022	2021
Current assets	\$ 2,933,678	\$ 1,679,261
Net utility plant in service	<u>8,972,647</u>	<u>9,212,856</u>
 Total assets	 \$11,906,325	 \$10,892,117
Current liabilities	\$ 124,638	\$ 143,156
Long-term liabilities	<u>0</u>	<u>0</u>
Total liabilities	\$ 124,638	\$ 143,156
 Net position:		
Invested in capital assets (net)	\$ 8,972,647	\$ 9,212,856
Unrestricted	<u>2,809,040</u>	<u>1,536,105</u>
Total net position	\$11,781,687	\$10,748,961

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2022

From December 31, 2021, to December 31, 2022, total assets increased significantly. There was an increase \$1,014,208 in total net position which is likely to continue due to expected increases in user fee and tap fee revenue.

Revenues, Expenses and Changes in Net Position

Table B shows the revenues, expenses and changes in net position for 2021-2022 for the District. Table B demonstrates that immediate financial needs are being budgeted and can be reasonably expected to be met. On a year-to-year basis, the District plans to operate in accordance with its financial policies. Tap fee revenue is expected to provide sufficient revenue in future years to pay all debt service except any portion which the Board has determined is properly allocated to existing customers.

Although non-cash expenditures such as depreciation are not always covered by operating revenue, beginning in 2020 the District's operating revenue exceeded operating expense including depreciation resulting a small amount of net operating income. The 2021 operating income was much larger resulting in much larger amount of operating income, a trend which the District believes will continue. When no tap fee revenue was available, user fee revenues were used to pay debt service so the amount available to cover depreciation was reduced. Future tap fee revenue is projected to be substantial and should provide adequate funds for payment of debt service, so operating revenue in excess of operating expenses is now available to fund reserves for depreciation. The District is also increasing budgeted amounts for equipment which is projected for replacement with a useful life of less than 10 years.

Future needs for revenue for increased operating expenses and treatment plant improvements to meet new regulatory requirements as demonstrated by the financial model developed as part of the updated master plan project when fee increases are required. Increases in fees were approved in 2020 and will be necessary in future years as operating costs increase and to accumulate adequate reserves for treatment plant improvements.

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

	2022	2021
Total operating revenues	\$1,155,506	\$ 1,107,128
Total operating expenses	<u>1,022,116</u>	<u>1,076,132</u>
Operating income	133,390	30,996
Non-operating revenue	\$ 899,336	\$ 492,961
Non-operating expense	<u>0</u>	<u>(10,191)</u>
Total non-operating revenue	\$ 899,336	482,770
Net income	\$ 1,032,726	\$ 513,766
Beginning net position	\$10,748,961	\$ 10,235,195
Ending net position	\$11,781,687	\$ 10,748,961

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2022

Table B shows an increase in net position of the District from 2021 to 2022 of \$1,032,726. As noted in the highlights, this increase is primarily the result of increased revenue. 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 Board of Directors and the management of the South Durango Sanitation District considered many factors when it established the budget for 2022. Projected revenue from user fees and changes in operating costs were evaluated and considered before a final budget was adopted. The budget projects substantial tap fee revenue based on projects in the District service area currently planned for 2023.

The Capital Improvements Plan (CIP) of the District is being updated in accordance with the recommendations in the master plan. In addition to major improvements projected in 2027 to meet new regulatory requirements, the CIP also includes expenditures in the next 4 years for replacements and upgrades to the treatment plant which will allow for more efficient operations as growth increases treatment demands.

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 South Durango 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: <http://www.southdurangosanitation.org>.

South Durango Sanitation District
STATEMENTS OF NET POSITION

December 31, 2022 and 2021

	2022	2021
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,255,790	\$ 665,512
Investments	1,132,194	886,881
Accounts receivable	515,357	92,450
Other receivables	1,102	1,102
Prepaid expenses	17,561	19,571
Inventory	615	615
Due from Loma Linda Sanitation District	1,329	1,320
Due from developers	9,730	11,810
	Total current assets	1,679,261
Utility Plant in Service		
Land and easements	243,120	243,120
Furniture and fixtures	5,035	5,035
Well	15,124	15,124
Plant and improvements	15,400,966	15,167,732
Storage building	20,828	20,828
Equipment	654,724	654,724
	16,339,797	16,106,563
Less accumulated depreciation	(7,367,150)	(6,893,707)
	Net utility plant in service	9,212,856
	Total assets	\$ 11,906,325
		\$ 10,892,117
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	19,430	34,642
Accrued compensated absences	7,487	13,915
Revenue received in advance of service	97,721	94,599
	Total current liabilities	143,156
	Total liabilities	143,156
Net Position		
Net investment in capital assets	8,972,647	9,212,856
Unrestricted	2,809,040	1,536,105
	Total net position	10,748,961
	Total liabilities and net position	\$ 11,906,325
		\$ 10,892,117

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

December 31, 2022 and 2021

	2022	2021
Operating Revenues		
Charges for services	\$ 1,155,506	\$ 1,107,128
Operating Expenses		
Collection and treatment	787,376	852,508
General and administrative	234,740	223,624
	<u>1,022,116</u>	<u>1,076,132</u>
Total operating expenses	1,022,116	1,076,132
Operating income (loss)	133,390	30,996
Non-operating Revenues (Expenses)		
Tap fees	865,850	484,750
Investment earnings	27,486	2,211
Other income (expense)	6,000	(4,191)
	<u>899,336</u>	<u>482,770</u>
Total non-operating revenues (expenses)	899,336	482,770
Income (loss) before developer donated lines	1,032,726	513,766
Developer donated lines	-	-
Change in Net Position	<u>1,032,726</u>	<u>513,766</u>
Net position at beginning of year, previously reported	<u>10,748,961</u>	<u>10,235,195</u>
Net position at end of year	<u>\$ 11,781,687</u>	<u>\$ 10,748,961</u>

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF CASH FLOWS

December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Cash received from customers	\$ 735,721	\$ 1,125,580
Cash paid to suppliers	(476,111)	(484,838)
Cash paid to employees	(90,121)	(112,869)
Net Cash Provided (Used) by Operating Activities	<u>169,489</u>	<u>527,873</u>
Cash Flows from Non-capital Financing Activities		
Tap fees	865,850	484,750
Sludge Fees	6,000	6,000
Net Cash Provided (Used) by Non-capital Financing Activities	<u>871,850</u>	<u>490,750</u>
Cash Flows from Capital and Related Financing Activities		
Debt and capital lease principal payments	-	(669,356)
Interest on debt	-	(11,225)
Purchases of capital assets	(233,234)	(252,711)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(233,234)</u>	<u>(933,292)</u>
Cash Flows from Investing Activities		
Sale (purchase) of investments	(245,313)	(271,425)
Interest income	27,486	2,211
Net Cash Provided (Used) by Investing Activities	<u>(217,827)</u>	<u>(269,214)</u>
Net Cash Increase (Decrease)	590,278	(183,883)
Cash at beginning of year	665,512	849,395
Cash at end of year	<u>\$ 1,255,790</u>	<u>\$ 665,512</u>
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Net operating income (loss)	\$ 133,390	\$ 30,996
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	473,443	460,792
(Increase) Decrease in accounts receivable	(422,907)	7,807
(Increase) Decrease in other receivables	-	(1,102)
(Increase) Decrease in prepaid expenses	2,010	819
(Increase) Decrease in due from Loma Linda Sanitation District	(9)	555
(Increase) Decrease in due from / to developers	2,080	(5,240)
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	(15,212)	15,690
Increase (Decrease) in accrued payroll	(6,428)	5,809
Increase (Decrease) in revenue received in advance of service	3,122	11,747
Total Adjustments	<u>36,099</u>	<u>496,877</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 169,489</u>	<u>\$ 527,873</u>
Noncash Capital and Related Financing Activities		
Accounts payable incurred for capital assets	\$ -	\$ 2,850
Developer donated lines	\$ -	\$ -

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

1. Organization

The South Durango Sanitation District (the District) was formed November 9, 1983, 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.

2. 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.

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies (continued)

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. 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.

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

2. 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 Uncollectibles

No allowance for uncollectibles 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.

Inventories

Inventories are stated at cost.

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 40 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

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

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.

3. Cash Deposits, Marketable Securities and Investments

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

Balances in these accounts at December 31, 2022 and 2021, are as follows:

	2022			2021		
	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
Cash and cash equivalents	\$1,255,790	\$1,280,906	\$ -	\$ 665,512	\$ 680,512	\$ -

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.

Pledged collateral must be held in an escrow account with another financial institution approved by the state banking commission. The pledged collateral cannot be released unless approval is obtained from the banking commission.

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

3. Cash Deposits, Marketable Securities and Investments (continued)

Investments

Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosure (GASB 40) establishes disclosure requirements related to investment risks including credit risk, custodial risk, interest rate risk and foreign currency risk.

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenues bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or all collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

3. Cash Deposits, Marketable Securities and Investments (continued)

Included in investments is \$1,132,194 (2022) and \$886,881 (2021) held in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Trust offers shares in three portfolios, COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE. The three portfolios differ in the types of the investments held, but all invest in investments allowed by Colorado statutes for local governments. COLOTRUST PRIME AND COLOTRUST PLUS+ invest in securities with a weighted average maturity of 60 days or less, while COLOTRUST EDGE invests in securities with a weighted average maturity of less than five years. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. These pools are not required to be, and are not, registered with the SEC.

COLOTRUST's PRIME and PLUS+ funds are rated AAAM by Standard & Poor's rating service. The COLOTRUST EDGE fund is rated AAAsf/S1 by FitchRatings rating service. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2022, the District had \$0 invested in COLOTRUST PRIME, \$174,093 COLOTRUST PLUS+, and \$958,101 invested in COLOTRUST EDGE. As of December 31, 2021, District had \$0 invested in COLOTRUST PRIME, \$0 invested in COLOTRUST PLUS+ and \$886,881 invested in COLOTRUST EDGE. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at fair value. There are no unfunded commitments. The redemption frequency is daily for COLOTRUST PRIME and COLOTRUST PLUS+, and weekly for COLOTRUST EDGE. There is no redemption notice period.

Investments in local government investment pools are not categorized in terms of custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

The District's investments consisted of:	2022	2021
ColoTrust	<u>\$ 1,132,194</u>	<u>\$ 886,881</u>
Total	<u>\$ 1,132,194</u>	<u>\$ 886,881</u>

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

4. Property, Plant and Equipment

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.

5. Long Term Debt

CWRPDA Note Payable

On May 15, 2012, the District obtained an \$800,000 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, 2032. The loan is secured by a pledge of the District’s wastewater system revenue.

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 loan was paid off during 2021. Rate covenants and operations and maintenance reserve requirements no longer apply and the pledge of the District’s wastewater treatment facility has been released.

Changes in long-term debt for 2021 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Due Within One Year
CWRPDA note payable	\$ 520,810	\$ -	\$ -	\$ 520,810	\$ -
Total	<u>\$ 520,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,810</u>	<u>\$ -</u>

South Durango Sanitation District
Notes to Financial Statements
December 31, 2022 and 2021

6. Lease Purchase Obligation

NBH Bank Lease Purchase

On June 24, 2016, the District entered into a \$392,250 lease purchase agreement to finance the purchase of equipment.

The lease purchase agreement bears interest at 2.68% per annum and requires quarterly principal and interest payments of \$15,411 through June, 2023. The lessor owns the equipment until the obligation is satisfied in full. Though the lease payments are subject to annual appropriation, accounting standards require that the principal portion of future scheduled payments be presented as a liability of the District.

In 2021, the lease obligation was paid off in full.

The following is a schedule of the changes in the capital lease obligation for 2021:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
NBH Bank lease purchase	\$ 148,546	\$ -	\$ 148,546	\$ -	\$ -

The obligation was fully satisfied during 2021 and the District owns the related equipment.

7. Capital Assets

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

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land	\$ 243,120	\$ -	\$ -	\$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	654,724	-	-	654,724
Well	15,124	-	-	15,124
Storage building	20,828	-	-	20,828
Plant and improvements	15,167,732	233,234	-	15,400,966
	16,106,563	233,234	-	16,339,797
Less accumulated depreciation	6,893,707	473,443	-	7,367,150
Net Utility Plant in Service	\$ 9,212,856	\$ (240,209)	\$ -	\$ 8,972,647

South Durango Sanitation District
Notes to Financial Statements
December 31, 2022 and 2021

7. Capital Assets (continued)

A summary of changes in capital assets during 2021 is as follows:

	<u>Beginning of Year, Restated</u>	<u>Additions</u>	<u>Adjustments / Deletions</u>	<u>End of Year</u>
Non-depreciable assets:				
Land	\$ 243,120	\$ -	\$ -	\$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	660,345	27,609	(33,230)	654,724
Well	15,124	-	-	15,124
Storage building	20,828	-	-	20,828
Plant and improvements	14,970,750	196,982	-	15,167,732
	<u>15,915,202</u>	<u>224,591</u>	<u>(33,230)</u>	<u>16,106,563</u>
Less accumulated depreciation	<u>6,466,145</u>	<u>460,792</u>	<u>(33,230)</u>	<u>6,893,707</u>
Net Utility Plant in Service	<u>\$ 9,449,057</u>	<u>\$ (236,201)</u>	<u>\$ -</u>	<u>\$ 9,212,856</u>

8. Tap Purchase Agreements

The District entered into a tap purchase agreement with the Tierra Group, LLC and its anticipated successor, GRVP, LLC (Developer), both of whom are wholly owned subsidiaries of the Southern Ute Indian Tribe (the Tribe) on April 16, 2004. This agreement grants the Developer exclusive right to purchase 490 taps between 2004 and 2009. The agreement also required the Developer to purchase taps when requested by the District (Guaranty Taps) when tap sales did not provide sufficient funds for payment of debt service on the District's 2004 revenue bonds. The Developer purchased 182 Guaranty Taps from the District which were assigned to various lots as development occurred. The final Guaranty Tap owned by the Developer was assigned in 2015.

The agreement recognizes the credit enhancement provided by the Tribe, which enabled the District to obtain funds necessary to complete Phase 1 of the Wastewater Treatment Plant and the Grandview Interceptor. In recognition of that enhancement, the District agreed to guarantee the Developer exclusive right to 40% of the capacity in the interceptor. The district maintains records of new taps connecting to the interceptor and reviews the records annually to ensure that the guarantee can be satisfied.

South Durango Sanitation District

Notes to Financial Statements

December 31, 2022 and 2021

9. Risk of Loss

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance. The District is insured for property, general liability, miscellaneous property and public official liability through membership in the Colorado Special District Property and Liability Insurance Pool (CSDPLP). The CSDPLP has a legal obligation for claims against its members to the extent that funds are available in its annually established loss fund and amounts are available from insurance providers under excess specific and aggregate insurance contracts. Losses incurred in excess of loss funds and amounts recoverable from excess insurance are direct liabilities of the participating members. The CSDPLP has indicated that the amount of any excess losses would be billed to members in proportion to their contributions in the years such excess occurs, although it is not legally require to do so. Ultimate liability to the District resulting from claims not covered by CSDPLP is not presently determinable. There were no material reductions in insurance coverage provided to the District and any amounts of settlements have not exceeded insurance coverage for the past three years.

CSDPLP has contracted with other third parties to operate, administer and manage the Pool. The Pool is responsible for its own budgets. CSDPLP's summary audited financial information as of December 31, 2021 (the most recent available), is as follows:

Assets	\$ 27,095,168
Liabilities	\$ 26,917
Surplus	21,901,392
	\$ 21,928,309
Revenues	\$ 2,054,842
Expenses	1,051,278
Net Income (Loss)	\$ 1,003,564

Supplementary Information

South Durango Sanitation District

SCHEDULE OF OPERATING EXPENSES

December 31, 2022 and 2021

	2022	2021
Collection and treatment		
Depreciation	\$ 473,443	\$ 460,792
System maintenance	107,144	138,344
Employee payroll	83,693	118,678
Utilities	64,653	74,788
Engineering costs	20,763	25,650
Insurance	19,607	20,732
Chemical testing	18,073	13,524
	<u>787,376</u>	<u>852,508</u>
Total collection and treatment	\$ 787,376	\$ 852,508
General and Administrative		
Accounting and legal	\$ 131,491	\$ 121,245
Operators	39,300	37,500
Payroll tax expense	27,006	31,673
Postage and office	21,436	19,359
Other	7,749	6,843
Board of directors	6,782	6,028
Dues and licenses	976	976
	<u>234,740</u>	<u>223,624</u>
Total general and administrative expenses	\$ 234,740	\$ 223,624

South Durango Sanitation District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

December 31, 2022 and 2021

	<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>
2022						
Total expenditures	\$ 1,104,550	\$ 1,104,550	\$ 1,022,116	\$ (240,209)	\$ 781,907	\$ 322,643
2021						
Total expenditures	\$ 1,353,412	\$ 1,547,598	\$ 1,086,323	\$ 461,275	1,547,598	-

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