

South Platte Renew



SOUTH PLATTE
RENEW
OWNED BY LITTLETON/ENGLEWOOD

ANNUAL FINANCIAL REPORT
Year Ended December 31, 2021

ANNUAL FINANCIAL REPORT

South Platte Renew Joint Venture

Year Ended December 31, 2021

Supervisory Committee

City of Littleton

Mark Relph, City Manager
Keith Reester, Public Works Director

City of Englewood

Shawn Lewis, City Manager
Maria D'Andrea, Public Works Director



**HINKLE &
COMPANY**
Strategic ^{PC}
Business Advisors

Independent Auditor's Report

To the Members
South Platte Water Renew
Englewood, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the South Platte Renew (the Joint Venture) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Joint Venture'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 financial position of the Joint Venture as of December 31, 2021, and the changes in financial position and cash flows 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 the Joint Venture 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.

Office Locations:

Colorado Springs, CO
Denver, CO
Tulsa, OK

Responsibilities of Management for the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Joint Venture'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 Joint Venture'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 an opinion on the financial statements that collectively comprise the Joint Venture's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.



The supplementary information 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 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 supplementary information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hick & Company, PC

Englewood, Colorado
June 9, 2022



Annual Financial Report

Year Ended December 31, 2021

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South Platte Water Renewal Partners Joint Venture

Statement of Net Position

As of December 31, 2021

	<u>2021</u>
Assets	
Current assets	
Cash and investments	\$ 1,021,431
Receivable from City of Littleton	662,113
Receivable from City of Englewood	574,125
Interest receivable	4,830
Other receivables	133,861
Total current assets	<u>2,396,360</u>
Noncurrent assets	
Capital assets not being depreciated	21,755,502
Capital assets, net of accumulated depreciation	74,374,927
Total noncurrent assets	<u>96,130,429</u>
Total assets	<u>98,526,789</u>
Liabilities	
Current liabilities	
Accounts payable	1,170,553
Retainage payable	227,898
Accrued liabilities	473,312
Total current liabilities	<u>1,871,763</u>
Noncurrent liabilities	
Accrued liabilities	188,272
Total noncurrent liabilities	<u>188,272</u>
Total liabilities	<u>2,060,035</u>
Net position	
Invested in capital assets	96,130,429
Unrestricted	336,325
Total net position	<u>\$ 96,466,754</u>

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

South Platte Water Renewal Partners Joint Venture

**Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2021**

	2021
Operating revenues	
Reimbursement of operating expenses	
City of Littleton	\$ 6,186,539
City of Englewood	7,339,313
Total operating revenues	13,525,852
Operating expenses	
Sewage treatment	
Pretreatment	595,898
Engineering	2,142,061
Environmental programs	1,899,104
Operations and maintenance	9,560,429
Total sewage treatment	14,197,492
Administration	
Business solutions	1,995,167
Total administration	1,995,167
Depreciation	6,814,422
Total operating expenses	23,007,081
Operating loss	(9,481,229)
Nonoperating revenues	
Septic hauling	181,820
Farm income from crop sales	144,535
Resource recovery	2,159,858
Net investment income	(6,652)
Other	187,246
Total nonoperating revenues	2,666,807
Loss before contributions	(6,814,422)
Capital contributions	
City of Littleton	4,607,477
City of Englewood	4,607,477
Total capital contributions	9,214,954
Change in net position	2,400,532
Total net position - beginning	94,066,222
Total net position - ending	\$ 96,466,754

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

South Platte Water Renewal Partners Joint Venture

**Statement of Cash Flows
For the Year Ended December 31, 2021**

	2021
Cash flows from operating activities	
Cash received from joint venturers	\$ 13,372,379
Cash payments to suppliers for goods and services	(17,182,689)
Other revenue	3,005,184
Net cash provided (required) by operating activities	(805,126)
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(9,214,954)
Capital contributions from joint venturers	9,214,954
Net cash provided by capital and related financing activities	-
Cash flows from investing activities	
Net investment income	(5,025)
Net cash provided by investing activities	(5,025)
Net increase in cash and cash equivalents	(810,151)
Cash and cash equivalents - January 1,	1,831,582
Cash and cash equivalents - December 31,	\$ 1,021,431
Reconciliation of operating loss to net cash provided (required) by operating activities	
Loss from operations	\$ (9,481,229)
Adjustments to reconcile operating loss to net cash provided (required) by operating activities:	
Depreciation	6,814,422
Other nonoperating revenue	3,005,184
Effect of changes in operating assets and liabilities	
Receivable from joint venturers	(153,473)
Accounts payable	(938,570)
Retainage payable	(68,852)
Accrued liabilities	17,392
Total adjustments	8,676,103
Net cash provided (required) by operating activities	\$ (805,126)

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

South Platte Renew Joint Venture Notes to the Financial Statements December 31, 2021

The financial statements of the South Platte Water Renewal Partners Joint Venture have been prepared in conformity with generally accepted accounting principles as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The following notes to the financial statements are an integral part of this report.

Note 1 – Summary of Significant Accounting Policies

Definition of Reporting Entity

The Cities of Littleton, Colorado (Littleton) and Englewood, Colorado (Englewood), participate in the South Platte Water Renewal Partners Joint Venture (the Joint Venture) for the operation of a wastewater treatment facility. Control of the Joint Venture rests in a four-member committee, with two members appointed by each city. Littleton and Englewood each own a 50 percent interest in the Joint Venture. The Joint Venture has its own workforce for operating purposes. For payroll and pension participation, the joint venture's workforce is considered to be City of Englewood employees. Englewood provides the Joint Venture with administrative services on a cost reimbursement basis. In 2020, the name of the joint venture was changed from South Platte Water Renewal Partners to South Platte Renew.

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

Basis of Accounting

The Joint Venture uses the economic resources measurement focus and the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and redemption of bonds and notes, if any, would be recorded as a reduction in liabilities.

Operating Revenues and Expenses

The Joint Venture distinguishes between operating revenues and expenses and non-operating items in the Statements of Revenues, Expenses and Changes in Fund Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Joint Venture's purpose of providing services to the joint venturers. Operating revenues consist of charges to venturers 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 or capital contributions.

Budgets

The Joint Venture does not have nor is it anticipated to ever have the power to assess an ad valorem tax on the property of the participating cities. Accordingly, it is management's contention that this would remove it from the scope of the State of Colorado Budget Law. However, budgets are prepared as a management control device, and budget and actual comparisons are presented as supplementary information in the financial statements.

Cash Equivalents

For purposes of the statement of cash flows, the Joint Venture considers cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents. Cash and investments held as part of the City of Englewood's pooled cash and investments are considered cash equivalents.

Accounts Receivable

Accounts receivable includes amounts due from the Joint Venturers related to ongoing operating costs as well as other related ancillary charges. Based on a review of outstanding receivables at year end no allowance was deemed necessary.

Capital Assets

Capital assets are stated at cost. Maintenance and repairs are charged to current period operating expenses and improvements are capitalized. The Joint Venture currently capitalizes infrastructure projects that cost more than \$25,000 and have a life of one year or more and equipment that costs \$25,000 or more and has a life of more than one year. Upon retirement or other disposition of property, plant and equipment, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in non-operating income (expenses).

Depreciation of property, plant and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Asset Type</u>	<u>Years</u>
Buildings	25-50
Infrastructure	20-50
Other Improvements	2-20
Machinery and Equipment	2-15

Reimbursement of Operating Expenses

Variable operating expenses are shared by the venturers based on actual usage of the facility and fixed operating expenses, excluding depreciation, are shared equally. Additionally, in accordance with the Joint Venture Agreement, Littleton pays an administration fee to Englewood equal to 3% of operating expenses. Littleton paid \$485,780 during the year ended December 31, 2021.

Capital Contributions

The joint venturers share capital expenditures equally. The amount reported as capital contributions on the Statement of Revenues, Expenses and Changes in Fund Net Position represents the amount paid by the joint venturers for capital improvements.

Compensated Absences, Pension and Other Post-Employment Benefits

The Joint Venture is charged for Compensated Absences, Pension and Other Post-Employment benefit costs related to the workforce. Please refer to the City of Englewood's Annual Comprehensive Financial Report for complete descriptions of the City's benefits. This report may be obtained by calling the City of Englewood's Finance Department at 303-762-2300 or by visiting Englewood's website at www.englewoodco.gov

Net Position

The Joint Venture utilizes a net position presentation. Net Position is categorized as investments in capital assets (net of related debt) and is either restricted or unrestricted. Net position is restricted when constraints placed on the use of resources are externally imposed. In order to calculate the amounts to report as restricted-net position or unrestricted-net position, a flow assumption must be made about the order in which the resources are to be applied. It is this Joint Venture's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Use of 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.

Note 2 – Cash and Investments

The Joint Venture's cash and investments are combined with Englewood's pooled cash and investment funds. Englewood allocates interest earnings from the combined investments on a pro-rata basis. See the City of Englewood's Annual Comprehensive Financial Report at www.englewoodco.gov for additional details.

At December 31, 2021, the Joint Venture had cash and investments as follows:

Unrestricted

Deposits and investments with the City of Englewood internal investment pool	<u>\$ 1,021,431</u>
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Under the terms of the joint venture agreement, the venturers agreed to restrict \$1,000,000 of their individual City's sewer fund cash to finance major capital repairs and replacements of the joint venture. Each City is also required to deposit an amount equal to two months of budgeted operating expenditures. For the year ended December 31, 2021 the deposit balances were \$1,490,000 and \$1,660,000 for the Cities of Littleton and Englewood respectively.

Note 3 – Capital Assets

Certain beginning balances have been reclassified to conform to the current year presentation. Capital asset activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 5,422,996	\$ -	\$ -	\$ 5,422,996
Construction in process	7,157,908	9,174,599	-	16,332,507
Total capital assets not being depreciated	<u>12,580,904</u>	<u>9,174,599</u>	<u>-</u>	<u>21,755,503</u>
Capital assets being depreciated				
Buildings	124,469,854	-	-	124,469,854
Infrastructure	6,889,328	-	-	6,889,328
Other improvements	4,762,935	-	-	4,762,935
Machinery and Equipment	80,761,901	40,355	-	80,802,256
Total capital assets being depreciated	<u>216,884,018</u>	<u>40,355</u>	<u>-</u>	<u>216,924,373</u>
Less accumulated depreciation for:				
Buildings	77,462,716	3,010,592	-	80,473,308
Infrastructure	1,645,084	144,241	-	1,789,325
Other improvements	1,893,452	80,047	-	1,973,499
Machinery and Equipment	54,733,773	3,579,542	-	58,313,315
Total accumulated depreciation	<u>135,735,025</u>	<u>6,814,422</u>	<u>-</u>	<u>142,549,447</u>
Total capital assets being depreciated, net	<u>81,148,993</u>	<u>(6,774,067)</u>	<u>-</u>	<u>74,374,926</u>
Total capital assets, net	<u>\$ 93,729,897</u>	<u>\$ 2,400,532</u>	<u>\$ -</u>	<u>\$ 96,130,429</u>

Note 4 – Risk Management

The Joint Venture is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors or omissions and natural disasters.

In order to reduce insurance costs, the Joint Venture participates in the City of Englewood's Risk Management and Health Insurance Programs. Amounts payable to the City are based on historical claims experience. Please refer to the City's Annual Comprehensive Financial Report for complete descriptions of the City's risk management activities. Settled claims have not exceeded insurance coverage in any of the past three years.

Note 5 – Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer’s Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

The cities of Englewood and Littleton account for the operations of the Joint Venture within their respective sewer utility funds. Any TABOR implications or considerations related to the Joint Venture have been considered individually by each of the cities as part of their annual financial reporting process.

Note 6 – Other Contingencies

The City of Englewood was identified as a responsible party at the Superfund site known as the Lowry Landfill by the United States Environmental Protection Agency. The City has entered into an agreement with the primary party responsible for the Lowry Landfill. The primary party will be responsible for the actual cleanup of the site and will respond, on the City’s behalf, to all inquiries or notifications received by the EPA. Based on estimates provided during the settlement process, City management does not believe additional cleanup costs will be necessary.

**South Platte Water Renewal Partners
Schedule of Changes in Joint Venturers' Equity
For The Year Ended December 31, 2021**

	<u>City of Littleton</u>	<u>City of Englewood</u>	<u>Total</u>
Balance at December 31, 2019	\$ 46,737,201	\$ 46,737,201	\$ 93,474,402
Change in net position	295,910	295,910	591,820
Balance at December 31, 2020	47,033,111	47,033,111	\$ 94,066,222
Change in net position	1,200,266	1,200,266	2,400,532
Balance at December 31, 2021	<u>\$ 48,233,377</u>	<u>\$ 48,233,377</u>	<u>\$ 96,466,754</u>

See Independent Auditors' Report

South Platte Water Renewal Partners Joint Venture
Schedule of Revenues, Expenditures and Changes in Net Position -
Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Budgeted Amount	Actual Amounts	Variance with Final Budget - Positive (Negative)	2020 Actual
Revenues				
Reimbursement of operating expenses				
City of Littleton	\$ 7,102,158	\$ 6,186,539	\$ (915,619)	\$ 7,666,448
City of Englewood	8,270,479	7,339,313	(931,166)	8,520,478
Capital contributions				
City of Littleton	6,066,970	5,500,603	(566,367)	3,481,668
City of Englewood	6,066,970	5,500,603	(566,367)	3,481,669
Resource recovery	1,350,000	2,159,858	809,858	1,194,118
Septic hauling	250,000	181,820	(68,180)	137,897
Farm income from crop sales	88,455	144,535	56,080	88,455
Net investment income	23,447	(6,652)	(30,099)	50,717
Other	56,500	187,245	130,745	254,066
Total revenues	<u>29,274,979</u>	<u>27,193,864</u>	<u>(2,081,115)</u>	<u>24,875,513</u>
Expenditures				
Environmental Programs	2,320,500	1,899,104	421,396	1,860,199
Pretreatment/Engineering/Maintenance	12,389,283	12,298,387	90,896	13,667,006
Business Solutions	2,743,196	1,995,167	748,029	2,314,998
Capital outlay	11,822,000	11,001,206	820,794	7,033,310
Total expenditures	<u>29,274,979</u>	<u>27,193,864</u>	<u>2,081,115</u>	<u>24,875,513</u>
Change in Net Position, Budgetary Basis	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjustments to GAAP Basis				
Depreciation		(6,814,422)		
Capital Outlay		9,214,954		
Change in Net Position, GAAP Basis		<u>\$ 2,400,532</u>		

See Independent Auditors' Report