



CORTEZ SANITATION DISTRICT

FINANCIAL STATEMENTS

AND

REQUIRED SUPPLEMENTARY INFORMATION

AND

SUPPLEMENTAL INFORMATION

WITH

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2019

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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OSBORNE, PARSONS & ROSACKER, LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cortez Sanitation District
Cortez, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Cortez Sanitation District (District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2019, 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.

Other Matters

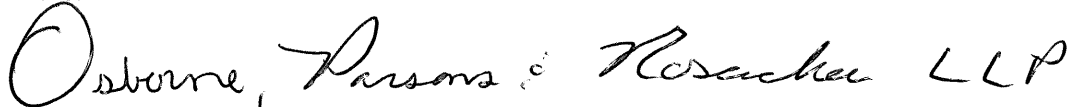
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i-vi 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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule – governmental fund – debt service fund and the budgetary comparison schedule – proprietary fund – enterprise fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management, 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Colorado Springs, Colorado
June 24, 2020

CORTEZ SANITATION DISTRICT

ROSTER OF DISTRICT OFFICIALS

Year Ended December 31, 2019

BOARD OF DIRECTORS

Ryan Griglak – Chairman

Terri Muller – Vice Chairman

Ernest Maness – Secretary/Treasurer

Scott Story – Director

Leroy Roberts – Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

CORTEZ SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Cortez Sanitation District, we offer readers of Cortez Sanitation District's (District) financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$24,274,211. Out of this amount, \$5,203,360 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$1,208,789.
- As of the close of the current fiscal year, the District's governmental activities and business-type activities reported ending net position of \$765,826 and \$23,508,385, respectively.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements presented are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of District finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses).

The government-wide statement of activities distinguishes functions/programs of the District supported primarily by charges for services. The governmental activities of the District include the collection of property tax and payment of bonded debt.

The business-type activities of the District include operations that are intended to recover all or a significant portion of their costs through user fees.

The government-wide financial statements can be found on pages 4-5 of this report.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has two types of funds: governmental fund and proprietary fund.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on near-term financial resources and fund balances (which are spendable resources available at the end of the fiscal year). Such information may be useful in evaluating the District's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government-wide financial statements. By doing so, the readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures, and changes in fund balances provide a reconciliation of differences between the governmental funds and the government-wide financial statements, if any, to facilitate this comparison.

The District has one governmental fund, the Debt Service Fund. The Debt Service Fund accounts for revenues and expenditures for the receipt and payment of administration and debt.

The basic governmental fund financial statements can be found on pages 6-7 of this report.

Proprietary Funds - The District maintains one type of proprietary fund. The proprietary fund type is called the Enterprise Fund. Enterprise funds are used to present the same functions as the business-type activities presented in the government-wide financial statements. The District uses an enterprise fund to account for its service operation.

Proprietary fund financial statements can be found on pages 8-10 of this report.

Government-Wide Financial Analysis

The District had a decrease in net position from Governmental Activities of (\$62,494) for the year, and an increase from Business-Type Activities of \$1,271,283, for a net increase of \$1,208,789.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Cortez Sanitation District's Government-Wide
Condensed Comparative Statement of Net Position
December 31,**

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets			
Current and Other	\$ 7,449,480	\$ 7,086,416	\$ 363,064
Capital Assets	20,854,662	19,633,942	1,220,720
Total Assets	<u>28,304,142</u>	<u>26,720,358</u>	<u>1,583,784</u>
Liabilities			
Current Liabilities	1,724,874	1,025,899	698,975
Long-term Liabilities	2,305,057	1,808,637	496,420
Total Liabilities	<u>4,029,931</u>	<u>2,834,536</u>	<u>1,195,395</u>
Deferred Inflow of Resources	<u>-</u>	<u>820,400</u>	<u>(820,400)</u>
Net Position			
Net Investment in Capital Assets	17,646,025	17,007,114	638,911
Restricted	1,424,826	1,475,320	(50,494)
Unrestricted	5,203,360	4,582,988	620,372
Total Net Position	<u>\$ 24,274,211</u>	<u>\$ 23,065,422</u>	<u>\$ 1,208,789</u>

Assets

Current assets have increased due to increased cash, more interest on investment accounts and a larger accounts receivable balance. The change in capital assets is due to the addition of sewer lines and purchase of equipment during the fiscal year offset by current year depreciation.

Liabilities

Current liabilities increased due to large outstanding payables at year end for the Carpenter Area Sewer Replacement project to be completed in 2020. Long-term liabilities increased due to an addition of a CWRPDA loan in 2019.

Deferred Inflow of Resources

The difference is due to the District not assessing taxes in 2019.

Net Position

The increase in net position is due to an increase in net revenues and retained earnings as well as debt service payments.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Cortez Sanitation District's Government-Wide
Condensed Comparative Statement of Activities
Year Ended December 31,**

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenue			
Operating Revenues			
Charges for Services	\$ 2,548,718	\$ 2,444,216	\$ 104,502
Capital Grants and Contributions	287,559	-	287,559
Total	<u>2,836,277</u>	<u>2,444,216</u>	<u>392,061</u>
General Revenues			
Taxes	911,496	924,025	(12,529)
Investment Earnings	98,678	74,348	24,330
Other	72,708	103,004	(30,296)
Total	<u>1,082,882</u>	<u>1,101,377</u>	<u>(18,495)</u>
Total Revenues	<u>3,919,159</u>	<u>3,545,593</u>	<u>373,566</u>
Expenses			
Sewer Operations	1,516,407	1,544,477	(28,070)
Depreciation	910,179	880,029	30,150
Administration	167,462	161,361	6,101
Treasurer Fees	58,161	16,638	41,523
Debt Service	58,161	108,919	(50,758)
Total Expenses	<u>2,710,370</u>	<u>2,711,424</u>	<u>(1,054)</u>
Change in Net Position	1,208,789	834,169	374,620
Net Position - Beginning of Year	<u>23,065,422</u>	<u>22,231,253</u>	<u>834,169</u>
Net Position - End of Year	<u>\$ 24,274,211</u>	<u>\$ 23,065,422</u>	<u>\$ 1,208,789</u>

Revenues

The increase in rate for service provided to customer and in receiving grant money during 2019.

Expenses

There is not a significant increase or decrease in expenses from 2018 to 2019.

CORTEZ SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Level Financial Analysis

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal, federal, and state requirements.

The Debt Service Fund is the District's governmental fund. It accounts for tax receipts used to retire debt and related administrative costs. The fund balance at the beginning of the 2019 fiscal year was \$828,320. The ending fund balance for 2019 of \$765,826 reflects a fund balance decrease of (\$62,494). The decrease was due to administration expenditures and the transfer of funds to the Enterprise fund for debt service payments.

The Enterprise Fund is the District's service operations fund. It accounts for charges for service and related costs. The net position at the beginning of the 2019 fiscal year was \$22,237,102. The ending net position for 2019 of \$23,508,385 reflects a net position increase of \$1,271,283. The increase was due primarily to the transfer of funds from the General Fund for debt service payments, increased sewer charges and grant income awarded to the District in 2019.

Budgetary Analysis

The District adopts an annual appropriated budget for both the governmental fund and proprietary fund. The budgetary comparison schedules for the Debt Service Fund and the Enterprise Fund are included on pages 24-25 of this report to demonstrate compliance with the adopted budget.

The District Board adopted the 2019 Budget on November 12, 2018. An appropriation resolution of \$1,022,781 for the Debt Service Fund and \$5,596,039 for the Enterprise Fund were approved. The District Board adopted the amended 2019 Budget on December 9, 2019. An appropriation resolution of \$1,022,781 for the Debt Service Fund and \$5,638,039 for the Enterprise Fund were approved.

During 2019, the Debt Service Fund had actual expenditures of \$932,076. The budget variance of \$90,705 is mainly due to lower than expected interest and the refund of interest related to the debt service.

During 2019, the Enterprise Fund had actual expenditures of \$2,468,295. The budget variance of \$2,299,331 is mainly due to recording of the debt service payment, revenue from debt service, projects that were not completed that had been included in the budget.

Capital Asset and Long-term Debt Activity

The District replaced obsolete vehicles and sewer line assessment equipment. Long-term debt was added in the amount of \$1,400,000 for the Carpenter Area Sewer Replacement Project. The District was awarded a grant that will be used in the upcoming year for a sewer line replacement project.

**CORTEZ SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Economic Factors and Next Year's Budget

Each year, the adoption of the budget must ensure quality of services for all customers and fiscal stability in ever changing political and economic conditions. Many factors, including the state's financial condition, increasing cost of health insurance, and declining versus growth in residential construction must be considered in budget preparation. In 2020 the District will continue work on replacing aging infrastructure and replacing worn out equipment at the treatment facility.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cortez Sanitation District, Post Office Drawer 730, 2908 South Broadway, Cortez, Colorado, 81321.

FINANCIAL STATEMENTS

CORTEZ SANITATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2019

Assets	Governmental Activities	Business-Type Activities	Total
Current			
Cash and Cash Equivalents	\$ 6,854	\$ 732,849	\$ 739,703
Investments	1,498,978	3,382,251	4,881,229
Receivables			
Accounts	-	500,078	500,078
Grants	-	1,191,795	1,191,795
Total Current Assets	1,505,832	5,806,973	7,312,805
Noncurrent			
Capital Credits Receivable	-	136,675	136,675
Capital Assets			
Land and Work in Progress	-	1,972,474	1,972,474
Other Capital Assets, Net	-	18,882,188	18,882,188
Total Capital Assets	-	20,854,662	20,854,662
Total Noncurrent Assets	-	20,991,337	20,991,337
Total Assets	\$ 1,505,832	\$ 26,798,310	\$ 28,304,142
Liabilities			
Current			
Accounts Payable	\$ -	\$ 609,413	\$ 609,413
Accrued Interest	11,035	5,344	16,379
Accrued Wages Payable	-	22,443	22,443
Compensated Absences	-	62,815	62,815
Retainage Payable	-	83,533	83,533
Unearned Revenue	-	26,711	26,711
Notes Payable - Due Within One Year	-	903,580	903,580
Total Current Liabilities	11,035	1,713,839	1,724,874
Noncurrent			
Due to (from) Other Funds	728,971	(728,971)	-
Notes Payable - Net of Current Portion	-	2,305,057	2,305,057
Total Noncurrent Liabilities	728,971	1,576,086	2,305,057
Total Liabilities	740,006	3,289,925	4,029,931
Net Position			
Net Investment in Capital Assets	-	17,646,025	17,646,025
Restricted:			
TABOR	5,100	-	5,100
Emergency Reserves	-	659,000	659,000
Debt Service	760,726	-	760,726
Unrestricted	-	5,203,360	5,203,360
Total Net Position	\$ 765,826	\$ 23,508,385	\$ 24,274,211

See Notes to Financial Statements

**CORTEZ SANITATION DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019**

Functions/Programs	Operating Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary Government:							
Governmental Activities:							
Administration	\$ 167,462	\$ -	\$ -	\$ -	\$ (167,462)	\$ -	\$ (167,462)
Treasurer Fees	16,453	-	-	-	(16,453)	-	(16,453)
Debt Service							
Interest	(489)	-	-	-	489	-	489
Administrative Fees	58,650	-	-	-	(58,650)	-	(58,650)
Total Governmental Activities	242,076	-	-	-	(242,076)	-	(242,076)
Business-type Activities:							
Operating Expenses							
Sewer Operations	2,468,294	2,548,718	-	287,559	-	367,983	367,983
Total Business-type Activities	2,468,294	2,548,718	-	287,559	-	367,983	367,983
Total Primary Government	\$ 2,710,370	\$ 2,548,718	\$ -	\$ 287,559	(242,076)	367,983	125,907
General Revenues							
Taxes							
Property Taxes					818,354	-	818,354
SO Tax					51,228	41,914	93,142
Sewer Development Charges					-	35,775	35,775
Plant Investment Fees					-	35,775	35,775
Investment Earnings					-	98,678	98,678
Miscellaneous Income					-	1,158	1,158
Total General Revenues					869,582	213,300	1,082,882
Transfers							
Transfer Debt Service Principal Payments					(690,000)	690,000	-
Change in Net Position					(62,494)	1,271,283	1,208,789
Net Position - Beginning					828,320	22,237,102	23,065,422
Net Position - Ending					\$ 765,826	\$ 23,508,385	\$ 24,274,211

See Notes to Financial Statements

**CORTEZ SANITATION DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND - DEBT SERVICE FUND
DECEMBER 31, 2019**

ASSETS

Assets

Cash and Cash Equivalents	\$ 6,854
Investments	<u>1,498,978</u>
Total Assets	<u><u>\$ 1,505,832</u></u>

LIABILITIES AND FUND BALANCES

Liabilities

Accrued Interest	\$ 11,035
Due to Other Funds	<u>728,971</u>
Total Liabilities	<u><u>740,006</u></u>

Fund Balance

Restricted for:

TABOR Reserve	5,100
Debt Service	<u>760,726</u>
Total Fund Balance	<u><u>765,826</u></u>

Total Liabilities and Fund Balance	<u><u>\$ 1,505,832</u></u>
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See Notes to Financial Statements

CORTEZ SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2019

Revenues	
Property Taxes	\$ 818,354
Specific Ownership Taxes	51,228
Total Revenues	869,582
 Expenditures	
Current	
Administration	166,973
Treasurer Fees	16,453
Debt Service	
Administration Fees	58,650
Total Expenditures	242,076
Revenues in Excess of Expenditures	627,506
 Other Financing Sources (Uses)	
Debt Service Payments	(690,000)
Revenues and Other Sources in Excess of Expenditures and Other Uses	(62,494)
Fund Balance - Beginning	828,320
Fund Balance - Ending	\$ 765,826

See Notes to Financial Statements

**CORTEZ SANITATION DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND - SEWER ENTERPRISE FUND
DECEMBER 31, 2019**

ASSETS

Current Assets

Cash and Cash Equivalents	\$	732,849
Investments		3,382,251
Accounts Receivable		500,078
Grants Receivable		1,191,795
Total Current Assets		5,806,973

Noncurrent Assets

Capital Credits Receivable		136,675
Due from Other Funds		728,971
Capital Assets		
Land and Work in Progress		1,972,474
Other Capital Assets, Net		18,882,188
Total Capital Assets		20,854,662
Total Noncurrent Assets		21,720,308
Total Assets	\$	27,527,281

LIABILITIES AND FUND BALANCES

Current Liabilities

Accounts Payable	\$	609,413
Accrued Interest		5,344
Accrued Wages Payable		22,443
Compensated Absences		62,815
Retainage Payable		83,533
Unearned Revenue		26,711
Notes Payable - Due Within One Year		903,580
Total Current Liabilities		1,713,839

Long-term Liabilities

Notes Payable - Net of Current Portion		2,305,057
Total Long-term Liabilities		2,305,057
Total Liabilities		4,018,896

Net Position

Net Investment in Capital Assets		18,511,671
Restricted:		
Emergency Reserves		659,000
Unrestricted		4,337,714
Total Net Position	\$	23,508,385

See Notes to Financial Statements

CORTEZ SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND - SEWER ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2019

Operating Revenues	
Sewer Charges	\$ 2,492,275
Other	56,443
Total Operating Revenues	2,548,718
 Operating Expenses	
Administration	334,436
Sanitation Board	14,729
Plant Operation	748,566
Sewer Line Maintenance	394,867
Interest	42,140
Depreciation	910,179
Loss on disposal of Equipment	23,377
Total Operating Expenses	2,468,294
Total Operating Income	80,424
 Nonoperating Revenues	
Specific Ownership Tax	41,914
Sewer Development Charges	35,775
Plant Investment Fees	35,775
Interest Income	98,678
Miscellaneous Income	1,158
Total Nonoperating Revenues	213,300
Income Before Other Financing Sources	293,724
 Other Financing Sources	
Grant Income	287,559
Debt Service Transfers	690,000
Total Other Financing Sources	977,559
Change in Net Position	1,271,283
Net Position, Beginning	22,237,102
Net Position, Ending	\$ 23,508,385

See Notes to Financial Statements

**CORTEZ SANITATION DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - SEWER ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2019**

Cash Flows from Operating Activities	
Cash Received from Customers	\$ 2,561,193
Other Operating Cash Receipts	67,392
Cash Payments to Employees and Board Members	(740,136)
Cash Payments to Suppliers for Goods and Services	(247,828)
Net Cash Provided by Operating Activities	<u>1,640,621</u>
Cash Flows from Noncapital Financing Activities	
Advance to Debt Service Fund	(155,141)
Specific Ownership Tax	41,914
Miscellaneous	1,158
Net Cash Used by Noncapital Financing Activities	<u>(112,069)</u>
Cash Flows from Capital and Related Financing Activities	
Transfer in for Principal Payments	690,000
Sewer Development Charges	35,775
Plant Investment Fees	35,775
Capital Expenditures	(2,130,899)
Proceeds from Sale of Equipment	2,604
Loss on Disposal of Equipment	(25,981)
Debt Principal Proceeds	1,400,000
Debt Principal Payments	(818,191)
Grants Receivable	(904,236)
Net Cash Used by Capital and Related Financing Activities	<u>(1,715,153)</u>
Cash Flows from Investing Activities	
Interest Received	98,678
Purchase of Investments	(948,622)
Net Cash Used by Investing Activities	<u>(849,944)</u>
Net Decrease in Cash and Cash Equivalents	(1,036,545)
Cash and Cash Equivalents - January 1	<u>1,769,394</u>
Cash and Cash Equivalents - December 31	<u>\$ 732,849</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 80,424
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities:	
Depreciation	910,179
Proceeds from Sale of Equipment	(2,604)
Loss on Disposal of Equipment	25,981
Changes in Assets and Liabilities:	
Accounts Receivable	(20,520)
Capital Credit	10,949
Accounts Payable	539,735
Accrued Interest	(613)
Accrued Wages Payable	(16,673)
Compensated Absences	24,325
Retainage Payable	83,533
Unearned Revenue	5,905
Net Cash Provided by Operating Activities	<u>\$ 1,640,621</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

CORTEZ SANITATION DISTRICT NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Cortez Sanitation District have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting policies, as described below. The following is a summary of the significant accounting policies.

Reporting Entity - The Cortez Sanitation District (District) is a special district organized under Colorado Statutes on February 17, 1953. The District provides sanitation services and generally serves the residents of Cortez, Colorado, and the surrounding area. The District is governmental in nature and is autonomous from other organizations, and the residents of the District elect the Board.

Under the provisions of governmental standards, the District is a primary government that has a separate governing body, is legally separate, and financially independent of other governments. Financially independent means that the District may, without the approval or consent of another governmental entity, determine or modify its own budget, set rates or charges, and interact with other entities. The District has no component units, which are other legally separate organizations, for which it is financially accountable. The District has no material relationships with other primary governments.

No other entity qualified as a potential component unit. The decision to include or exclude a potential component unit in the reporting entity is through the application of the criteria set forth by governmental standards. The criteria for determining a component unit includes the District's ability to exercise oversight responsibility, financial interdependence, the ability to exercise oversight responsibility include the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. Other criteria include evaluating potential component units based on the scope of public service. Application of this criterion involves considering whether the activity of the other primary government benefits the District and/or its residents, overlaps the geographic boundaries of the District and is generally available to its residents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The government-wide financial statements, i.e., the statement of net position and the statement of activities, report information on all of the activities of the District. Inter-fund activity is presented in conformity with GASB prescribed guidance. Governmental activities, which normally are supported by taxes, charges for services, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on user charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment offset program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Program revenues include: (1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are reported under general revenues.

Governmental Fund Financial Statements - The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The District reports the following major funds:

Debt Service Fund - The Debt Service Fund is a governmental fund used to account for tax receipts used to retire debt and related administrative financial costs.

Sewer Enterprise Fund - Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user's charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus applied.

Governmental funds utilize the current financial resources measurement focus and the modified accrual basis of accounting. Balance sheets for these funds generally include only current assets and current liabilities. Reported fund balances are considered a measure of available, spendable resources. Operating statements for these funds present a summary of available, spendable resources and expenditures for the period. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the fiscal year.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position. All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for services and sales. The District also recognizes as operating revenue the portion of fees used to connect customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. The District reports all other revenues and expenses as non-operating.

Budgets and Budgetary Accounting - Budgets are adopted on a governmental modified cash basis. All annual appropriations lapse at fiscal year-end.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. State law requires all funds to be included in the budget filed with the State of Colorado within thirty days after the beginning of the fiscal year. The District Manager submits to the District Board, in October, a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures by fund and the means of financing them. All budgets lapse at year-end. Prior to December 31, the board adopts the budget by formal resolution.
- B. State statues require that expenditures may not legally exceed appropriations at the fund level without a formally approved amendment to the budget. The District Board approves amendments, which change the total appropriated funds, prior to filing with the State.
- C. Budgeted figures in the supplemental information are from the original budget adopted by the District Board. The District filed a subsequent amendment to the original budget. This amendment corrected the amount appropriated for expenditures to match the original budget.

Cash and Cash Equivalents - Cash and invested cash approximate fair value. The District reports liquid investments, with a maturity of three months or less, as cash and cash equivalents.

Interest Receivable - The District recognizes interest on investments in the period earned.

Receivables and Allowances for Doubtful Accounts - The District reports receivables net of allowances for doubtful accounts. Management evaluates receivables for collectability, and due to the power of the District, it can place liens on residences for non-payment, and believes all receivables are fully collectable and has made no allowance for doubtful account. Capital credits are anticipated to be received subsequent to December 31, 2019.

Property and Equipment - The District carries property and equipment at historical cost, less accumulated depreciation. Management depreciates assets over the estimated useful life using the straight-line method, beginning in the first full year of service. The District capitalizes work in process and does not record depreciation until the period the asset is available for use.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Management has estimated the following useful lives of the assets:

Buildings and Improvements	30-50 Years
Infrastructure Assets	30-50 Years
Equipment	5-20 Years
Furniture and Fixtures	5-20 Years

Unearned Revenues – Customer credit balances and early payments for sewer services are recorded as unearned revenues.

Compensated Absences - It is the District’s policy to allow employees to accumulate vacation and sick pay benefits. Employees may accumulate vacation and sick pay up to a predetermined maximum level compensated through paid time off or at termination of employment.

Interfund Receivables/Payables and Transfers – During the course of operations, payments or receipts may be made or received in one fund but relate to activity in another fund, resulting in interfund receivables/payables. These receivables and payables are classified, if applicable, as “due from other funds” and “due to other funds” in the fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as interfund transfers. Interfund receivables/payables are not expected to be repaid within one year.

Deferred Inflows and Outflows of Resources - A deferred inflow of resources is an acquisition of net position by a government that is applicable to a future reporting period and a deferred outflow of resources is a consumption of net position by a government that is applicable to a future reporting period.

Both deferred inflows and outflows reported in the statement of net position, but not recognized in the financial statements as revenues and expenses, until the period(s) to which they relate. Deferred inflows of resources are comprised of unearned property tax revenues.

Fund Equity - The governmental fund reports fund balance classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for the funds. Fund balances for the District’s Debt Service Fund consists of the following classifications.

Non-spendable - includes amounts that (a) are not in spendable form or (b) legally or contractually required. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories, prepaid items, and long-term notes receivable.

Restricted - includes amounts that are restricted for specific purposes stipulated by external resource providers constitutionally or through enabling legislation.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Committed - includes amounts segregated for the specific purposes determined by the passage of a resolution of the District's board directors. Modification or changes to these commitments require approval through the District's board by resolution.

Assigned - includes amounts segregated by District's Board of Directors through their communications with management as to the intended use of segregated funds. Assigned funds are not legally restricted, nor committed by official board resolution, but are assigned based on management's understanding of the intended use of the funds.

Unassigned - this is the residual classification for any other funds not considered segregated by law, contractual obligation, board resolution or intent.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, fund balance is reduced in the order of restricted, committed, assigned, and unassigned.

Net asset classification in the Government Wide financial statements are as follows:

Net Investment in Capital Assets - this classification consists of capital assets net of accumulated depreciation, reduced by any outstanding debt attributed to the acquisition, construction, or improvement of the capital assets.

Restricted Net Position - this classification consists of restrictions created by external creditors, grantors, contributors, laws or regulations of the other governments, enabling legislation and constitutional provisions.

Unrestricted Net Position - This classification represents the residual funds balances not classified in of the two categories above.

Revenues and Expenses - The Enterprise Fund recognizes revenues and expenses based on accrual accounting as prescribed by GAAP.

Property Tax Revenues - On December 15, the District levies property taxes, based on the assessed value of property as certified by the County Assessor on or before December 10. Property tax attaches a lien on January 1 and may be paid in full by April 30 or in equal installments by February 28 and June 15.

Contributions - The Enterprise Fund considers non-operating revenues to consist of capital contributions towards repair and replacement costs to include tap fees, water resource fees, developer infrastructure donated assets, and other development fees. The Enterprise Fund recognizes donated infrastructure at the estimated fair market value as defined by the internally calculated cost to construct the same assets.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires the administration to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ materially from those estimates.

Amortization - The District amortizes the advanced refunding benefits on a straight-line basis over the outstanding life of the bond as a component of interest expense. Management has determined that the straight-line method is not materially different from the effective interest rate method prescribed by GAAP.

Operating Reserve - The loan agreements with the Colorado Water Resources and Power Development CWRPDA generally require that the District maintain a minimum of a three-month operating reserve relating to the anticipated expenditures for Enterprise Fund. Restricted funds available for this reserve as of December 31, 2019, was \$659,000.

TABOR - In compliance with TABOR, the District has set aside a reserve fund balance equal to 3% of expenditures and reflected in the government wide statement of financial position as restricted for TABOR.

NOTE 1 – CASH AND CASH EQUIVALENTS

Government-wide cash and cash equivalents held at financial institutions as of December 31, 2019, are as follows:

Demand Deposits	\$ 732,626
Cash with County Treasurer	6,854
Cash on Hand	223
Total Cash and Cash Equivalents	<u><u>\$ 739,703</u></u>

Deposits –The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash only in eligible public depositories. The depository institution must pledge eligible collateral as security for all public deposits held by that institution not covered by the FDIC, equal to at least 102% of the total uninsured deposits held by that institution of governmental entity fund. Throughout the year, the District has cash deposits in excess of the FDIC insurance. All funds in excess of the FDIC coverage were in PDPA covered financial institutions.

NOTE 2 – INVESTMENTS

The District is subject to the provisions of the Colorado Revised Statutes 24-75-601, which is entitled “Concerning Investments in Securities by Public Entities”. This law, among other things, outlines the types of securities that public entities in Colorado may invest. These include U.S. Government and agency securities, certain bonds of political subdivisions, bankers' acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds, guaranteed investment contracts, and U.S. dollar-dominated corporate or bank debt.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – INVESTMENTS - Continued

The Statute also includes a provision limiting any investment to five-year maturities, or less, unless the governing body authorizes a longer period.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the District’s will not be able to recover the value of its investments that are possession of an outside party. Investments are exposed to custodial credit risk if they are uninsured, are not registered in the District’s name and are held by either the counterparty to the investment purchase or held by the counter party’s trust department or agent but not held in the District’s name. None of the District’s investments owned at December 31, 2019 were subject to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in the financial market rates of interest will adversely affect the value of an instrument. The District is subject to interest rate risk but does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Management evaluated their investment policy as of December 31, 2019, and believes their exposure to interest rate risk was minimal.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District is subject to credit risk but does not have a formal investment policy that limits investments beyond the requirements of Colorado statutes. As of December 31, 2019, the District’s investments in ColoTrust and CSAFE were rated AAAM by Standard & Poor’s.

Fair Value Measurement - Governmental Accounting Standards Board Statement No. 72 (GASB 72) Fair Value Measurement and Application establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques. According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair value application guidance and enhances disclosures about fair value measurements.

The District’s investments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure fair value of assets and liabilities as follows.

Level 1 – Quoted prices in active markets for identical securities.

Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – INVESTMENTS - Continued

Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The District’s ColoTrust accounts are reported at fair value. However, these investments are not subject to the fair value hierarchy. At December 31, 2019, the District had the following investments:

Investment	Total
ColoTrust	\$ 641,993
CSAFE	4,239,236
Total Investments	\$ 4,881,229

ColoTrust is not a 2a7-like external investment pool. ColoTrust operates similarly to a money market fund and each share is equal in value to \$1. The unit of account is each share held, and the value of the position would be the fair value of the pool’s share price multiplied by the number of shares held. The government-investor does not “look through” the pool to report a pro rata share of the pool’s investments, receivables, and payables. ColoTrust may invest in securities with a maximum maturity of 365 days and an average weighted maturity not in excess of 60 days. ColoTrust is rated AAAM by Standard and Poor’s. The investment pool financial statements can be obtained at www.colotrust.com.

CSAFE is considered to be a 2a7-like investment and is valued using the net asset value (NAV) per share (or its equivalent) of the investments using amortized cost. The 2a7-like investments do not have any unfunded commitments, redemption restrictions or redemption notice periods. CSAFE is a highly liquid fund operating similarly to a money market fund.

The 2a7-like investments conform to Colorado Status CRS 24-75-601 et. seq. and therefore invests primarily in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, highly rated commercial paper, highly rated corporate bonds, Colorado depositories collateralized at 102% of market value according to the guidelines of the Public Deposit Protection Act. The investments will conform to its Permitted Investments and will meet Standard & Poor’s investment guidelines to achieve an AAAM rating, the highest attainable rating for a Local Government Investment Pool. The investment pool financial statements can be obtained www.csafe.org.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – CAPITAL ASSETS

A summary of the changes to capital assets are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Business-type Activities				
Capital Assets, not Being Depreciated				
Land	\$ 173,686	\$ -	\$ -	\$ 173,686
Work in Progress	81,230	1,798,788	(81,230)	1,798,788
	<u>254,916</u>	<u>1,798,788</u>	<u>(81,230)</u>	<u>1,972,474</u>
Capital Assets, being Depreciated				
Distribution Lines	13,755,858	90,965	(11,001)	13,835,822
Buildings and Plant	12,559,981	-	-	12,559,981
Plant Equipment	2,474,002	331,272	(210,582)	2,594,692
Vehicles	1,192,072	17,085	(23,344)	1,185,813
Furniture and Fixtures	7,620	-	-	7,620
	<u>29,989,533</u>	<u>439,322</u>	<u>(244,927)</u>	<u>30,183,928</u>
Less: Accumulated Depreciation				
Distribution Lines	(4,217,616)	(315,616)	11,001	(4,522,231)
Buildings and Plant	(4,043,919)	(331,728)	-	(4,375,647)
Plant Equipment	(1,705,168)	(163,826)	184,600	(1,684,394)
Vehicles	(636,184)	(99,009)	23,345	(711,848)
Furniture and Fixtures	(7,620)	-	-	(7,620)
	<u>(10,610,507)</u>	<u>(910,179)</u>	<u>218,946</u>	<u>(11,301,740)</u>
Capital Assets, Being Depreciated, Net	<u>19,379,026</u>	<u>(470,857)</u>	<u>(25,981)</u>	<u>18,882,188</u>
Total Business-type Activities Capital Assets, Net	<u>\$ 19,633,942</u>	<u>\$ 1,327,931</u>	<u>\$ (107,211)</u>	<u>\$ 20,854,662</u>

Depreciation expense recorded in the business-type activities operating expenses for the year ended December 31, 2019, was \$910,179.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – TAX, SPENDING, REVENUE AND DEBT LIMITATIONS

TABOR - In November 1992, the voters of Colorado approved an amendment to the Colorado Constitution, adding Section 20 to Article X, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax, spending, revenue and debt limitation that apply to the State of Colorado and all local governments, including special districts. In addition, TABOR requires local governments to establish an emergency fund reserve. The fund reserve must equal at least 3% of certain fiscal year spending. The statement of net position for the General Fund indicates that an amount of \$5,100 is restricted for the required reserve.

TABOR is complex and subject to interpretation. Provisions of TABOR, including the interpretation of fiscal year spending limits calculations, tax revenues subject to refunding, and other compliance issues require legal interpretation and possibly judicial review. The District makes no representation as to the overall impact of TABOR on the future activities of the District, including its ability to generate sufficient revenues for future general operations, additional programs, or to engage in any subsequent financing activities.

Enterprise Funds - Enterprise Funds are generally exempt from the provisions of TABOR. The District's management believes that the proprietary activities of the District qualify as an Enterprise Fund. The Enterprise Fund is a self-funded fund, which receives no subsidies from the General Fund tax revenues. The Enterprise fund assesses an operating fee to the General Fund.

General Obligation Bonds Mill Levy - In May of 2000, the voters approved a general obligation bonds principal and interest mill levy, appropriated annually for the service of debt payments relating to the 2001 loan from the Colorado Water Resources and Power Development Authority (CWRPDA).

NOTE 5 – LONG-TERM LIABILITIES

Water Pollution Control Revolving Fund 2001 Series-A - On August 1, 2001, the District obtained a loan from the CWRPDA of \$9,775,000 at interest, including the administrative fee, at an effective interest rate that calculates between 6% and 8% of the estimated outstanding balance. The CWRPDA funded the loan by issuing 2001 Series-A bonds on May 1, 2001, with multiple interest rates. The District's loan from the CWRPDA is payable in principle and interest over 20 years, with payments of approximately \$380,000, due semi-annually in February and August of each year.

Supplementary Revenue Allowances (SRA's) - The CWRPDA appropriates annual SRA's as a way to subsidize the loans they issue, effectively reducing the interest costs to the District. During the fiscal year ending 2019, the District received \$49,613 in supplementary revenue allowances from the CWRPDA.

Loan Collateral and Covenants - All capital assets constructed from loan proceeds are collateral against the loan, as well as any other legal remedies available under law in the event the District defaults on the loan.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – LONG-TERM LIABILITIES - Continued

The CWRPDA’s covenants include the annual board appropriation of the mill levy, service fees must be sufficient to allow for proper maintenance of the capital assets and provide for operating expenses, establishing a three-month operating reserve, and the annual submission of the final audit. As of December 31, 2019, the District was in material compliance with all covenants.

Water Pollution Control Revolving Fund Loan - On May 3, 2007, the CWRPDA issued a second loan for \$2,000,000 to the District. No subsidies were associated with this loan. The 2007 loan is due in semi-annual installments of \$69,964 on May 1 and November 1, including interest at 3.5% and an annual administrative fee, through May 1, 2027.

On April 30, 2019, the CWRPDA issued a third loan for \$1,400,000 to the District. No subsidies were associated with this loan. The 2019 loan is due in semi-annual installments of \$25,486 on May 1 and November 1, including interest at 0.5% through November 1, 2049.

The business activities net revenues, defined as revenues after deducting necessary operation and maintenance expense, are collateral against the loan. Further, rates must be sufficient to produce gross revenues to pay all operating and maintenance expenses, plus 110% of the total debt service payments.

Administrative Fees - The CWRPDA breaks out interest expense into two components, interest and an administrative fee. The administrative fee is the portion of the interest expense internally allocated by the CWRPDA for administrative expenses. The interest expense and administrative fee combined is the total interest expense.

Lease Purchase Agreement - On February 15, 2018, the District entered into a contract to finance the purchase of equipment. The lease purchase agreement is due semi-annual installments of \$15,339 on August 8 and February 2, including interest at 4.6%. The District has the option to purchase, at a set option price, on each contract payment date.

The following is a government wide schedule of changes to the debt service requirements in 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Notes Payable					
CWRPDA 2001	\$ 1,435,000	\$ -	\$ (690,000)	\$ 745,000	\$ 745,000
CWRPDA 2007	1,021,144	-	(105,101)	916,043	108,812
CWRPDA 2019	-	1,400,000	-	1,400,000	25,604
Lease Purchase Agreement	170,684	-	(23,090)	147,594	24,164
Total Business-type Activities	<u>\$ 2,626,828</u>	<u>\$ 1,400,000</u>	<u>\$ (818,191)</u>	<u>\$ 3,208,637</u>	<u>\$ 903,580</u>

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – LONG-TERM LIABILITIES - Continued

Interest expense of \$42,140 was included in the business-type activities, respectively for the year ending December 31, 2019.

The following is the estimated five-year maturity schedule for the business-type activities:

<u>December 31,</u>	<u>Principal</u>	<u>Admin Fee</u>	<u>Interest Net of Credits</u>
2020	\$ 903,580	\$ 39,325	\$ 58,191
2021	182,097	10,000	29,483
2022	187,472	7,500	26,608
2023	193,043	5,000	23,537
2024	198,818	1,000	21,761
2025-2027	482,991	1,500	33,586
2027-2049	1,060,636	-	60,728
	<u>\$ 3,208,637</u>	<u>\$ 64,325</u>	<u>\$ 253,894</u>

Capital assets acquired through lease purchase obligations are as follows:

Equipment	\$ 181,842
Accumulated Depreciation	(24,977)
	<u>\$ 156,865</u>

NOTE 6 – RETIREMENT PLAN

In 2016, the District established a defined contribution District Retirement Plan (Plan) intended to qualify as a profit-sharing plan under Internal Revenue Code a Section 401(a). Any full-time employee who is at least age 18 and scheduled to work regularly at least 30 hours per week is eligible to participate in the Plan upon date of hire. The Plan documents require a contribution of 5% of the participant’s compensation. Participants may contribute any amount to the Plan if the contribution satisfies the requirements under law for Rollover Contributions. Amounts are fully vested at all times.

The District established a Section 457 Plan for employee contributions. As of December 31, 2019, no employees are actively contributing to the Section 457 Plan.

During the fiscal year ending December 31, 2019, the District made \$32,820 in retirement contributions.

NOTE 7 – PARTICIPATION IN PUBLIC ENTITY RISK POOL

The District is a member of the Colorado Special Districts Property and Liability Pool (CSD Pool). The CSD Pool was created under authority of Colorado State Statutes, and provides defined property and liability coverage, and claims and risk management services.

**CORTEZ SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – PARTICIPATION IN PUBLIC ENTITY RISK POOL - Continued

The District pays an annual premium to the CSD Pool for insurance coverage. For 2019, the District paid \$33,090 in insurance premiums. The District's agreement with the CSD Pool provides the CSD Pool will be self-sustaining through member premiums.

The District is subject to additional liabilities should the CSD Pool's anticipated claims exceed available reserves. There were no significant reductions in insurance coverage from the prior year, and no claims that exceeded reserved coverage in the last three years.

NOTE 8 – 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. As of December 31, 2019, the District was not aware of any contingent liabilities that would require estimates relating to any of these types of exposures.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the year ended December 30, 2019, the District purchased supplies from an employee owned company totaling \$3,162.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 24, 2020, the date on which the financial statements were available for release.

Coronavirus (COVID-19) Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., have declared a state of emergency.

Potential impacts to the District include disruptions or restrictions on our ability to provide sanitation services. We cannot anticipate all of the ways in which health pandemics such as COVID-19 could adversely impact the District. Although we are continuing to monitor and assess the effects of the COVID-19 pandemic on the District, the ultimate impact of the COVID-19 outbreak or a similar health pandemic is highly uncertain and subject to change.

SUPPLEMENTAL INFORMATION

**CORTEZ SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND - DEBT SERVICE FUND
YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Property Taxes	\$ 820,400	\$ 820,400	\$ 818,354	\$ (2,046)
Specific Ownership Taxes	60,000	60,000	51,228	(8,772)
Total Revenue	<u>880,400</u>	<u>880,400</u>	<u>869,582</u>	<u>(10,818)</u>
Expenditures				
Administrative	185,381	185,381	166,973	18,408
Debt Service				
Interest	130,400	130,400	58,650	71,750
Treasurer Fees	17,000	17,000	16,453	547
Total Expenditures	<u>332,781</u>	<u>332,781</u>	<u>242,076</u>	<u>90,705</u>
Revenues in Excess of Expenditures	547,619	547,619	627,506	79,887
Other Financing Uses				
Transfers out	<u>(690,000)</u>	<u>(690,000)</u>	<u>(690,000)</u>	<u>-</u>
Net Change in Fund Balance	(142,381)	(142,381)	(62,494)	79,887
Beginning Fund Balance	<u>760,409</u>	<u>760,409</u>	<u>828,320</u>	<u>67,911</u>
Ending Fund Balance	<u>\$ 618,028</u>	<u>\$ 618,028</u>	<u>\$ 765,826</u>	<u>\$ 147,798</u>

**CORTEZ SANITATION DISTRICT
BUDGETARY COMPARISON SCHEDULE
PROPRIETARY FUND - SEWER ENTERPRISE FUND
YEAR ENDED DECEMBER 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Budgetary</u>	<u>Final Budget</u> <u>Favorable</u> <u>(Unfavorable)</u>
Revenue				
Operating				
Sewer Charges	\$ 2,379,012	\$ 2,379,012	\$ 2,492,275	\$ 113,263
Other Charges	40,000	40,000	56,443	16,443
Specific Ownership Tax	-	-	41,914	41,914
Sewer Development Charges	35,000	35,000	35,775	775
Grants	10,000	702,500	287,559	(414,941)
Loan Proceeds	1,937,340	1,400,000	-	1,400,000
Plant Investment Fees	35,000	35,000	35,775	775
Interest Income	40,000	40,000	98,678	58,678
Miscellaneous	6,000	6,000	1,158	(4,842)
Debt Service Transfers	690,000	690,000	690,000	-
Total Revenue	<u>5,172,352</u>	<u>5,327,512</u>	<u>3,739,577</u>	<u>1,212,065</u>
Expenditures				
Administration	475,595	475,595	334,436	141,159
Sanitation Board	33,718	33,718	14,729	18,989
Plant Operation	811,208	811,208	748,566	62,642
Sewer Line Maintenance	450,765	450,765	394,867	55,898
Capital Outlay	2,954,340	2,996,340	2,130,899	865,441
Capital Improvement Loan	29,045	29,045	-	29,045
Loss on Disposal of Equipment	-	-	23,377	(23,377)
Debt Service				
Principal	795,101	795,101	818,191	(23,090)
Interest	46,267	46,267	42,753	3,514
Total Expenditures	<u>5,596,039</u>	<u>5,638,039</u>	<u>4,507,818</u>	<u>1,130,221</u>
Income - Budget Basis	<u>\$ (423,687)</u>	<u>\$ (310,527)</u>	(768,241)	<u>\$ (457,714)</u>
To Reconcile Net Income to GAAP Basis				
Capital Outlay			2,130,899	
Principal Payments			818,191	
Depreciation			(910,179)	
Accrued Interest			613	
Change in Net Position - GAAP Basis			<u>\$ 1,271,283</u>	

**CORTEZ SANITATION DISTRICT
NOTES TO SUPPLEMENTAL INFORMATION
DECEMBER 31, 2019**

BUDGETARY INFORMATION

Cortez Sanitation District (District) adheres to the following procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

On or before October 15, the District Manager submits to the Board of Directors a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. The District adopts budgets for all funds. The general fund uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the budgets.

Expenditure estimates in the annual budget are enacted into law by the passage of appropriation resolutions. Budgetary control exists at the total fund level and encumbrance accounting is not employed as a part of the budgetary process.