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FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

ACADEMY WATER & SANITATION

DISTRICT For the Years Ended December 31,

2019 and 2018

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Board of Directors
Academy Water & Sanitation District
El Paso County, Colorado

Independent Auditor's Report

We have audited the accompanying financial statements of the business type activities of Academy Water & Sanitation District as of and for the years ended December 31, 2019 and 2018, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Academy Water & Sanitation District as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

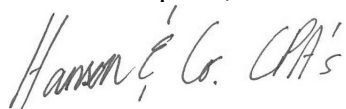
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Academy Water & Sanitation District's basic financial statements. The other supplementary information as 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 other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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, other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Denver, Colorado

September 28, 2020

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Academy Water & Sanitation District (the District) is engaged in providing water and sanitation services for approximately 300 single-family homes near Monument, Colorado. This document provides a management summary of the financial condition, operations and activities of Academy Water & Sanitation District for the year ending December 31, 2019 with comparative information for two prior years. This document should be read in conjunction with the financial statements following this management discussion and analysis.

Required Financial Statements

The financial statements included in this report are those of a special-purpose government engaged in a business type activity, providing water and sanitation services. The financial statements of the District report information about the District using accounting methods that are similar to those used by private-sector companies. These statements provide both long and short-term information about the District's overall financial status.

The statements of net position present information on all the District's assets, liabilities, deferred inflows of resources, and net position. These statements provide information about the nature and the amounts of investments in resources (assets), obligations to District creditors (liabilities), and tax revenue that applies to a future period (deferred inflows of resources).

The statements of revenue, expense, and changes in net position reflect the District's current revenue and expense. These statements measure the success of the District's operation annually. The statements of cash flows are the final required financial statements. These statements report cash receipts, cash payments, and changes in cash resulting from operations, investing, and both capital and non-capital financing activities.

Analysis of Overall Financial Position and Operations

Condensed Statements of Net Position

Years Ended December 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 621,928	\$ 628,661	\$ 496,667
Other assets	542,325	711,601	62,000
Capital assets	<u>3,111,484</u>	<u>3,067,258</u>	<u>1,384,159</u>
Total assets	<u>\$ 4,275,737</u>	<u>\$ 4,407,520</u>	<u>\$1,942,826</u>
Current liabilities	\$ 123,014	\$ 155,173	\$ 11,786
Non-current liabilities	<u>2,880,298</u>	<u>2,956,394</u>	<u>-</u>
Total liabilities	<u>\$ 3,003,312</u>	<u>\$ 3,111,567</u>	<u>\$ 11,786</u>
Deferred inflows of resources	<u>\$ 27,135</u>	<u>\$ 23,156</u>	<u>\$ 23,177</u>
Net position			
Invested in capital assets	\$ 517,715	\$ 619,339	\$1,384,159
Restricted	179,700	159,520	62,000
Unrestricted	<u>547,875</u>	<u>493,938</u>	<u>461,704</u>
Total net position	<u>\$ 1,245,290</u>	<u>\$ 1,272,797</u>	<u>\$1,907,863</u>

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Analysis of Overall Financial Position and Operations (continued)

The District restricts \$50,000 for sludge removal to comply with legal requirements of the Colorado Department of Public Health and Environment, \$12,000 for a Tabor reserve, and \$117,700 for an operating and maintenance reserve as required by loan covenants.

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

Years Ended December 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenue			
Water, wastewater, and other receipts	\$ 580,973	\$ 593,990	\$ 480,183
Water and wastewater expense	(368,955)	(259,215)	(233,670)
General and administrative expense	(101,843)	(130,863)	(85,504)
Depreciation expense	<u>(134,113)</u>	<u>(94,782)</u>	<u>(91,622)</u>
Total operating expense	<u>(604,911)</u>	<u>(484,860)</u>	<u>(410,796)</u>
Operating (loss) income	(23,938)	109,130	69,387
Non-operating revenue (expense)			
Tax and other non-operating revenue	42,107	139,852	30,454
Non-operating expense	<u>(45,676)</u>	<u>(348)</u>	<u>(342)</u>
	<u>(3,569)</u>	<u>139,504</u>	<u>30,112</u>
(Loss) income before capital contribution income and expense	(27,507)	248,634	99,499
Capital contribution – tap fees	-	6,000	6,000
Contribution to other government	<u>-</u>	<u>(889,700)</u>	<u>-</u>
Change in net position	(27,507)	(635,066)	105,499
Beginning net position	<u>1,272,797</u>	<u>1,907,863</u>	<u>1,802,364</u>
Ending net position	<u>\$ 1,245,290</u>	<u>\$ 1,272,797</u>	<u>\$ 1,907,863</u>

Budgetary Highlights

Annual taxes are assessed to cover some of the cost related to District administration. In 2019, tax revenue is \$25,936, which covers a portion of operating expense. The mill levy is 2.937 mills.

In November each year, the budget is presented at a public meeting and approved by the board of directors. The 2019 budget was amended on October 16, 2019 to cover higher than expected repairs and maintenance expenses during the year. The budget reflects operating income and expense, debt service on the construction loan, and construction in progress for ongoing project completion activity for the wastewater connection project.

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

December 31,	<u>2019</u>	<u>2018</u>	<u>2017</u>
Land	\$ 21,938	\$ 21,938	\$ 21,938
Construction in progress	118,905	-	284,067
Plant and equipment	<u>5,302,292</u>	<u>5,259,472</u>	<u>3,658,186</u>
Subtotal	5,443,135	5,281,410	3,964,191
Accumulated depreciation	<u>(2,331,651)</u>	<u>(2,214,152)</u>	<u>(2,580,032)</u>
Net capital assets	<u>\$ 3,111,484</u>	<u>\$3,067,258</u>	<u>\$1,384,159</u>

The majority of the wastewater connection project costs were expended during 2018. Capitalized project costs are included in plant and equipment in 2018. Additional expense related to draining the lagoons, sludge removal, and site restoration are ongoing in 2019 and 2020. These costs are part of the project budget and covered by the unexpended loan funds.

Long-Term Debt

Outstanding debt at December 31, 2019 is \$2,956,394 which is a loan payable to Colorado Water Resources and Power Development Authority, used to finance construction of the wastewater lift station and connection to the Donala Water and Sanitation District for treatment of wastewater from Academy.

Facts, Decisions, and Conditions Affecting the Future

The board of directors approved an increase to the 5-tier water rate schedule effective late in 2019. The new rates increase each of the 5 tiers by \$2.00 per 1,000 gallons. The water usage rates range from \$13.00/1000 gallons for 0 - 4000 gallons of water per month to \$17.00/1000 gallons for usage greater than 16,000 gallons per month.

Academy Water and Sanitation District completed the wastewater project which pumps wastewater from Academy to the Donala Water and Sanitation District for processing. This is based on the 2015 Intergovernmental Agreement between Academy and Donala. Academy financed the connection project with a \$3,000,000 loan from the Colorado Water Resources and Power Development Authority Revolving Loan Fund in 2018. This loan is for 30 years at a rate of 2%. The Water and Wastewater Enterprises were combined in order to comply with the conditions of the loan. The loan will be repaid using wastewater service fees from the 293 wastewater customers in the District. The first loan payments were made in May and December 2019 and will continue until the loan is paid off in 2048.

Pate Construction was awarded the contract for this project. Work began in April of 2018 and the new system was put online in October when the District began pumping wastewater to Donala. The draining of lagoons and sludge removal remain to be completed. Water in the lagoons has been pumped down and a project extension to September 2020 was approved to evaporate lagoons as much as possible prior to completion.

ACADEMY WATER & SANITATION DISTRICT
Management Discussion and Analysis

Facts, Decisions, and Conditions Affecting the Future (continued)

Deep well #2S failed in 2019 and required a new pump and casing. This infrastructure improvement is included in plant and equipment.

The District established a system for automatic bill pay to allow customers to pay their Academy Water and Sanitation bills. Options for automatic withdrawal, on-line payment or credit card payment are provided. The system has been well received and continues to gain new subscribers.

Additional Financial Information

This financial report is intended to provide users with an overview of Academy Water & Sanitation District's financial operations and conditions. For additional information, please contact Academy Water & Sanitation District, care of Hoover & Associates, 4045 South Nonchalant Circle, Colorado Springs, Colorado 80917-2999.

ACADEMY WATER & SANITATION DISTRICT
Statements of Net Position

December 31,	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and investments, unrestricted	\$ 525,715	\$ 554,385
Cash with county treasurer	253	257
Prepaid expenses	19,779	-
Trade accounts receivable	49,046	50,863
Taxes receivable	27,135	23,156
Total current assets	621,928	628,661
OTHER ASSETS		
Cash and investments, restricted	542,325	711,601
PROPERTY, PLANT, AND EQUIPMENT - AT COST		
Land	21,938	21,938
Construction in progress	118,905	-
Plant and equipment	5,302,292	5,259,472
Total property, plant, and equipment	5,443,135	5,281,410
Less accumulated depreciation	(2,331,651)	(2,214,152)
Net property, plant, and equipment	3,111,484	3,067,258
Total assets	\$ 4,275,737	\$ 4,407,520
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -

December 31,	2019	2018
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
CURRENT LIABILITIES		
Accounts payable	\$ 33,816	\$ 111,037
Payroll taxes payable	3,139	530
Accrued interest payable	9,963	-
Current portion - long-term debt	76,096	43,606
Total current liabilities	123,014	155,173
NONCURRENT LIABILITIES		
Loan payable, less current portion	2,880,298	2,956,394
Total liabilities	\$ 3,003,312	\$ 3,111,567
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	\$ 27,135	\$ 23,156
NET POSITION		
Invested in capital assets	\$ 517,715	\$ 619,339
Restricted	179,700	159,520
Unrestricted	547,875	493,938
Total net position	\$ 1,245,290	\$ 1,272,797

The accompanying notes are an integral part of these statements.

ACADEMY WATER & SANITATION DISTRICT
Statements of Revenue, Expense, and Changes in Net Position

Years Ended December 31,	2019	2018
OPERATING REVENUE		
Water service sales	\$ 229,138	\$ 239,860
Wastewater service sales	351,835	344,158
Other income	-	9,972
Total operating revenue	580,973	593,990
OPERATING EXPENSE		
Water operating expense	194,339	181,962
Wastewater operating expense	174,616	77,253
General and administrative expense	101,843	130,863
Depreciation expense	134,113	94,782
Total operating expense	604,911	484,860
OPERATING (LOSS) INCOME	(23,938)	109,130
NON-OPERATING (EXPENSE) REVENUE		
Property taxes	23,133	23,177
Specific ownership taxes	2,803	2,929
Interest income	16,171	11,921
Interest expense	(44,902)	-
Grant revenue	-	101,825
Loss on disposal of capital assets	(427)	-
County treasurer fees	(347)	(348)
Total non-operating (expense) revenue	(3,569)	139,504
(LOSS) INCOME BEFORE CAPITAL CONTRIBUTIONS	(27,507)	248,634
Capital contribution - tap fees	-	6,000
Contribution to other government	-	(889,700)
Total capital payments	-	(883,700)
DECREASE IN NET POSITION	(27,507)	(635,066)
NET POSITION, beginning of year	1,272,797	1,907,863
NET POSITION, end of year	\$ 1,245,290	\$ 1,272,797

The accompanying notes are an integral part of these statements.

ACADEMY WATER & SANITATION DISTRICT
Statements of Cash Flows (Page 1 of 2)

Years Ended December 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 582,790	\$ 573,833
Reimbursements	-	9,972
Cash payments to employees for services	(88,215)	(89,000)
Cash payments to suppliers for goods and services	(476,974)	(271,848)
Net cash provided by operating activities	17,601	222,957
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property and ownership taxes	25,940	26,088
County treasurer fees	(347)	(348)
Net cash provided by noncapital financing activities	25,593	25,740
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	-	6,000
Grant for construction	-	101,825
Loan proceeds	-	3,000,000
Principal payment on loan	(43,606)	-
Interest paid on loan	(34,939)	-
Acquisition and construction of capital assets	(178,766)	(1,707,330)
Contribution to other government	-	(889,700)
Net cash (used for) provided by capital and related financing activities	(257,311)	510,795
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	16,171	11,921
Net cash provided by investing activities	16,171	11,921
NET CHANGE IN CASH	(197,946)	771,413
CASH AT BEGINNING OF YEAR	1,265,986	494,573
CASH AT END OF YEAR	\$ 1,068,040	\$ 1,265,986

The accompanying notes are an integral part of these statements

ACADEMY WATER & SANITATION DISTRICT
Statements of Cash Flows (Page 2 of 2)

Years Ended December 31,	2019	2018
Reconciliation of operating (loss) income to net cash provided by operating activities		
Operating (loss) income	\$ (23,938)	\$ 109,130
Reconciling adjustments		
Depreciation	134,113	94,782
Changes in operating assets and liabilities		
Accounts receivable	1,817	(10,185)
Accounts payable and other current liabilities	(74,612)	28,768
Prepaid expense	(19,779)	462
Total adjustments	41,539	113,827
Net cash provided by operating activities	\$ 17,601	\$ 222,957
Non-cash capital and related financing activity:		
Construction of capital assets included in accounts payable	\$ -	\$ 70,551
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and investments	\$ 525,715	\$ 554,385
Cash and investments, restricted	542,325	711,601
Total cash and cash equivalents	\$ 1,068,040	\$ 1,265,986

The accompanying notes are an integral part of these statements.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note A – Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Academy Water & Sanitation District (the District) is a quasi-municipal corporation governed pursuant to provisions of the Colorado Special District Act. An elected five-member board of directors governs the District. The District was established to provide water and sanitation services to an area located in El Paso County, Colorado, a few miles north of the City of Colorado Springs, Colorado.

Reporting Entity

Academy Water & Sanitation District is a special purpose governmental entity and reports as a primary government as defined by Statement No. 14 of the Governmental Accounting Standards Board (GASB). The District has determined that it is legally separate and fiscally independent of other state and local governments. The District is not financially accountable for any other entities because the board of directors does not appoint or elect members of any other board of directors and no other organizations are fiscally dependent upon the District. The District does not have the power to impose its will on any other entity and has no financial benefit or burden related to any other organization. The accompanying financial statements, therefore, consist only of funds of the District and do not include financial information for any component units.

Basis of Accounting

The District prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The more significant policies used by the District and established in GAAP are discussed below.

Academy Water & Sanitation District organizes its accounts as a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenue includes activities that have the characteristics of exchange transactions, ordinarily water and wastewater service fees. Operating expenses relate to the operation, maintenance, and management of the water and wastewater systems. These expenses are intended to be funded by use charges. Non-operating revenue includes earnings on investments and non-exchange transactions such as property taxes and tap fees. Non-operating expenses relate to debt service and tax collection.

Cash Equivalents

The District generally considers deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note A – Nature of Operations and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The District’s financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2019 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Property Tax Receivables and Calendar

Revenue from property taxes is recognized in the period the levy is intended to finance, which is the year after the taxes are levied. Taxes are levied and certified to the county in December of the preceding year and attach as an enforceable lien on the property as of January 1 the following year. Taxes are paid in either one installment on April 30th, or two equal installments due February 28th and June 15th. Property taxes are recognized as receivables and deferred inflows of resources when levied in December, and as revenue when due for collection in the following year. The El Paso County treasurer bills and collects the District’s property taxes and remits payment during the month following collection. Taxes become delinquent after June 15th and those taxes that are uncollected at December 31st are fully reserved as uncollectible.

Property, Plant, and Equipment

The District capitalizes acquisitions of property, plant, and equipment with an initial individual cost of \$2,000 or more. Contributed assets are recorded at fair market value.

Depreciation is charged as an expense against operations. Depreciation has been provided over the assets’ estimated useful lives using the straight-line method. Total depreciation for 2019 and for 2018 is \$134,113 and \$94,782, respectively. The estimated useful lives are:

Water and wastewater systems	30 - 50 years
Equipment	5 - 20 years
Vehicles	7 - 10 years

Net Position

In the statements of net position, equity is classified as net position, which presents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net position is displayed in three components: invested in capital assets, restricted, and unrestricted. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt attributable to the acquisition, construction and improvement of those assets, when applicable. Restricted net position consists of amounts restricted for legal compliance, debt covenants, and for Taxpayer Bill of Rights (TABOR) compliance under Colorado state law. Unrestricted net position consists of amounts not included in either of the other two net position classifications. The District’s policy is to utilize restricted resources for qualifying activities, whenever possible.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note A – Nature of Operations and Summary of Significant Accounting Policies (continued)

Deferred Outflow and Inflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as outflows of resources (expense) until then. There are no deferred outflows of resources in years ended December 31, 2019 and 2018.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as inflows of resources (revenue) until that time. Property tax revenue to be collected in the following year is reported as deferred inflows of resources.

Defined Contribution Benefit Plan

The District adopted a 5304 Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) Plan for the benefit of eligible employees in 2009. According to the SIMPLE IRA Plan requirements, all employees are immediately eligible to participate in the Plan. For the calendar years 2019 and 2018 the District elected to match each employee's contribution up to a limit of 3% of the employee's compensation for the year. Employer contributions are \$2,392 and \$2,320 for the years ended December 31, 2019 and 2018, respectively.

Budgets and Budgetary Accounting

Colorado state law requires the comparison of actual revenues and expenditures with budgeted amounts. The financial statement presentation for GAAP purposes uses a basis of accounting that is different from the budgetary basis of accounting required by the State of Colorado. The budgetary comparison is included as other supplementary information to the basic financial statements and includes notes to other supplementary information.

Estimates

The preparation of the District's financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncement

In June 2018, the GASB revised the guidance for recognition of construction period interest with the issuance of GASBS No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This guidance requires that all governmental funds expense construction-period interest in the period when that interest is incurred. GASBS No. 89 is not effective until reporting periods beginning after December 15, 2019, but early implementation is encouraged. All construction period interest incurred in 2019 for the construction loan (Note E) for the wastewater connection project (Note J) has been expensed.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note B – Deposits and Investments

As of December 31, 2019 and 2018, cash and investments are classified in the accompanying financial statements as follows:

	2019	2018
Statement of net position:		
Cash and investments, unrestricted	\$ 525,968	\$ 554,642
Cash and investments, restricted	542,325	711,601
Total cash and investments	\$1,068,293	\$1,266,243

Cash and investments as of December 31, 2019 and 2018 consist of the following:

	2019	2018
Deposits with financial institutions	\$ 55,232	\$ 13,727
Cash with county treasurer	253	257
Loan proceeds, held in trust	362,625	552,081
Investments - ColoTrust	650,183	700,178
Total cash and investments	\$1,068,293	\$1,266,243

The District’s bylaws authorize deposits in banks or local government investment pools authorized by state statutes. The District follows state statute with respect to its deposits and investments but has not adopted an investment policy more specific than the statute. The District maintains deposits in a Colorado eligible depository as defined by the Colorado Public Deposit Protection Act and the Savings and Loan Public Deposit Protection Act of Colorado (PDPA). Investments are maintained in a local government investment pool authorized by Colorado law.

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

At December 31, 2019 the District’s total cash balance does not exceed available FDIC insurance limits of \$250,000. Any cash balances in excess of FDIC limits would be collateralized in accordance with PDPA. The State of Colorado has determined that there is no custodial credit risk for public deposits collateralized under PDPA.

At December 31, 2019 the District had \$650,183 invested in ColoTrust. This local government investment pool is rated AAA by Standard and Poor and operates similarly to a money market fund with each share equal in value to \$1. The pool invests in specific legal investments that the District is empowered to purchase directly. These include U.S. treasuries, U.S. government agencies, and fully collateralized repurchase agreements contracted with highly rated counterparties.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note B – Deposits and Investments (continued)

The District is required to restrict \$50,000 for future compliance with effluent limits of its wastewater permit with the Colorado Division of Public Health and Environment as of December 31, 2019 and 2018. The District also restricts \$12,000 for emergency reserves to comply with the Taxpayer Bill of Rights as of December 31, 2019 and 2018. See Note H. Loan covenants require the District to create an operating and maintenance reserve, which is \$117,700 and \$97,520 at December 31, 2019 and 2018, respectively. Undistributed loan proceeds of \$362,625 and \$552,081 are restricted for the wastewater connection project and held in trust at December 31, 2019 and 2018, respectively. See Note E. Total restricted amounts are \$542,325 and \$711,601 as of December 31, 2019 and 2018, which is shown as cash and investments, restricted.

Note C – Accounts Receivable

Accounts receivable consist of service billings not yet collected and taxes levied in the current year and collectible in the subsequent year. Interest is charged on overdue accounts. An allowance for doubtful accounts is estimated using past history of write-offs on service receivables and management’s judgment of current economic conditions and customer financial condition. An account is written off only when management has determined that it is unlikely to be collected. The District anticipates that its tax and service receivables will be collected within the next year; therefore, no allowance for doubtful accounts has been established.

Note D – Property, Plant, and Equipment

Capital asset activity for the year ended December 31, 2019 is as follows:

	<u>1/1/2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2019</u>
Capital assets not being depreciated				
Land	\$ 21,938	\$ -	\$ -	\$ 21,938
Construction in progress	<u>-</u>	<u>118,905</u>	<u>-</u>	<u>118,905</u>
Total capital assets, not being depreciated	21,938	118,905	-	140,843
Capital assets being depreciated				
Plant and equipment	5,259,472	59,860	(17,040)	5,302,292
Less accumulated depreciation	<u>(2,214,152)</u>	<u>(134,113)</u>	<u>16,614</u>	<u>(2,331,651)</u>
Total capital assets being depreciated, net	<u>3,045,320</u>	<u>(74,253)</u>	<u>(426)</u>	<u>2,970,641</u>
Total capital assets, net	<u>\$ 3,067,258</u>	<u>\$ 44,652</u>	<u>\$ (426)</u>	<u>\$ 3,111,484</u>

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note D – Property, Plant, and Equipment (continued)

Capital asset activity for the year ended December 31, 2018 follows.

	<u>1/1/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2018</u>
Capital assets not being depreciated				
Land	\$ 21,938	\$ -	\$ -	\$ 21,938
Construction in progress	<u>284,067</u>	<u>-</u>	<u>(284,067)</u>	<u>-</u>
Total capital assets, not being depreciated	306,005	-	(284,067)	21,938
Capital assets being depreciated				
Plant and equipment	3,658,186	1,777,881	(176,595)	5,259,472
Less accumulated depreciation	<u>(2,580,032)</u>	<u>(94,782)</u>	<u>460,662</u>	<u>(2,214,152)</u>
Total capital assets being depreciated, net	<u>1,078,154</u>	<u>1,683,099</u>	<u>284,067</u>	<u>3,045,320</u>
Total capital assets, net	<u>\$ 1,384,159</u>	<u>\$ 1,683,099</u>	<u>\$ -</u>	<u>\$ 3,067,258</u>

Depreciation expense charged to programs follows.

	<u>2019</u>	<u>2018</u>
Business-type activities:		
Water and wastewater operations	<u>\$ 134,113</u>	<u>\$ 94,782</u>

Note E – Long-Term Debt

On March 12, 2018, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (CWRPDA) in the amount of \$3,000,000 to finance the wastewater connection project discussed in Note J. Loan proceeds are paid upon submission of a requisition form and all appropriate documentation related to construction. As of December 31, 2019, expended loan proceeds total \$2,637,375 with undisbursed cash of \$362,625 included in cash and investments, restricted, and available for project completion. The loan has a 30-year term, is payable semiannually beginning May 1, 2019, with interest accruing at 2% as of April 1, 2019. The first payment was principal only of \$11,122, remaining payments are \$67,423 including principal and interest. The loan matures on November 1, 2048. The loan is to be paid from and is secured by pledged property, which is the net revenue of the District. Loan terms include a rate covenant requiring annual net revenue to cover 110% of debt service and a 3 month maintenance and operating expense reserve. Annual activity on the loan follows.

<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$3,000,000	-	\$ 43,606	\$2,956,394	\$ 76,096

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note E – Long-Term Debt (continued)

Annual loan amortization follows.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Payment</u>
2020	\$ 76,096	\$ 58,749	\$ 134,845
2021	77,626	57,220	134,846
2022	79,186	55,659	134,845
2023	80,778	54,068	134,846
2024	82,401	52,444	134,845
2025 – 2029	437,526	236,701	674,227
2030 – 2034	483,301	190,926	674,227
2035 – 2039	533,865	140,362	674,227
2040 – 2044	589,719	84,508	674,227
2045 – 2048	<u>515,896</u>	<u>23,486</u>	<u>539,382</u>
	<u>\$2,956,394</u>	<u>\$954,123</u>	<u>\$3,910,517</u>

Note F – Net Position

As discussed in Note A, net position is reported in three components, as follows.

	<u>2019</u>	<u>2018</u>
Net position		
Invested in capital assets	\$ 517,715	\$ 619,339
Restricted	179,700	159,520
Unrestricted	<u>547,875</u>	<u>493,938</u>
Total net position	<u>\$1,245,290</u>	<u>\$1,272,797</u>

Net investment in capital assets consists of capital assets, net of accumulated depreciation and is reduced by borrowings attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2019 and 2018, net investment in capital assets follows.

	<u>2019</u>	<u>2018</u>
Net investment in capital assets		
Capital assets, net of depreciation	\$3,111,484	\$3,067,258
Long-term debt	(2,956,394)	(3,000,000)
Unspent loan proceeds	<u>362,625</u>	<u>552,081</u>
Total net investment in capital assets	<u>\$ 517,715</u>	<u>\$ 619,339</u>

Restricted net position consists of amounts restricted for legal compliance, loan covenants, and TABOR compliance. As of December 31, 2019 and 2018, restricted net position follows.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note F – Net Position (continued)

	<u>2019</u>	<u>2018</u>
Restricted net position		
Legal compliance reserve	\$ 50,000	\$ 50,000
Operating and maintenance reserve	117,700	97,520
Tabor emergency reserve	<u>12,000</u>	<u>12,000</u>
Total restricted net position	<u>\$ 179,700</u>	<u>\$ 159,520</u>

Unrestricted net position is the remaining net position not included in either of the other classifications.

Note G – Commitments and Contingencies

The District is subject to numerous statutes and regulations of the State of Colorado, its subdivisions, and the federal government. Some of these statutes and regulations pertain to the District's right or duty to appropriate and use water and to treat and discharge water and wastewater. The District's right to appropriate water may be contingent upon a decree of the water court adjudicating the District's right and ranking such rights as to priority relative to rights of other water users. The District's rights may be junior to various other users. If there are owners of senior priorities, they might, under some circumstances, be able to require the District to cease its pumping of water. The District would then be forced to purchase water rights from other sources to allow it to continue pumping from its wells or to purchase the actual water itself from sources other than its own wells for distribution. The District's inability, if any, to pump and distribute water on a normal basis, would directly affect its future revenues and expenses, as well as property owners in the District.

The District developed a water augmentation plan for which it obtained approval through the District Court for Water, Division No. 2. The water augmentation plan does not require the District to purchase any other water rights and allows the District to continue pumping in the quantities and at the times consistent with its recent historical usage. Augmentation plans are subject to the continuing jurisdiction of the Court, however, and are subject to modification based upon new data. An Application for Finding of Reasonable Diligence with respect to its conditional water rights was filed by the District in 2013, approved by the Court, and the District is required to file another such application in 2019. The District successfully amended the current augmentation plan in 2016, obtaining Court approval for a conditional appropriative right of substitution and exchange of the location where replacement water is delivered under the augmentation plan. Maintenance of this conditional water right requires another filing with the Court in 2022.

The District has a permit with the Colorado Department of Public Health and Environment (CDPHE) to operate a wastewater treatment facility and to discharge treated wastewater. The permit was last renewed in 2013 and the current renewal application was submitted in 2018. That application was extended by CDPHE, and the permit is discussed in subsequent paragraphs.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note G – Commitments and Contingencies (continued)

Academy and Donala Water and Sanitation District signed an Intergovernmental Service Agreement (IGA) in 2015 to allow Academy to convey all of its wastewater to Donala for treatment. Construction of a new wastewater lift station and service connection for that purpose was completed in 2018. See Note J.

The District is required under its CDPHE wastewater permit to meet total residual chlorine standards that were effective in 2015. The District made modifications to their facility to treat effluent just prior to the point of discharge to meet the CDPHE requirement for total residual chlorine.

Under the same CDPHE wastewater permit, the District is required to meet total ammonia effluent limits which became effective in October of 2018. Rather than pursue extensive improvements to their wastewater treatment facility, the District opted for construction of a lift station and force main to deliver its wastewater to Donala. With completion of the wastewater service connection, the District no longer has wastewater treatment facility discharge and is therefore in compliance with the total ammonia effluent limitations.

The District discovered that certain portions of its utility lines or other facilities may not lie within any dedicated or recorded public right of way or easement or within any tract to which it has title or an easement or right of way. The District continues to conduct a thorough survey of its facilities and the public and private records to determine the extent of this matter. The District has received cooperation from various landowners and will continue to obtain necessary easements or grants of title to document its rights as it discovers any lack of recorded easement. The District may use its powers of eminent domain, but that has so far not been necessary.

Note H – Tax, Spending, and Debt Limitations

Article X, Section 20 of the Colorado Constitution (the TABOR Amendment) contains tax, spending, revenue and debt limitations which apply to Colorado and all local governments.

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. Management of the District believes a significant portion of its operations qualify for the enterprise exclusions from TABOR.

Spending and revenue limits are determined based on the prior fiscal year spending as adjusted for allowable increases for inflation and local growth. Revenue in excess of the fiscal year spending limit must be refunded unless voters approve retention of such revenue. The amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government. It also requires the government to establish emergency reserves at 3% of fiscal year spending.

ACADEMY WATER & SANITATION DISTRICT
Notes to Financial Statements

Note H – Tax, Spending, and Debt Limitations (continued)

On May 3, 2016, District voters authorized the District, as a voter approved revenue change, to accept, collect, retain and spend all revenues received from all sources in 2016 and each subsequent year, notwithstanding any limitations or restrictions that would apply under Article X, Section 20 of the Colorado Constitution (TABOR), and Section 29-1-301, Colorado Revised Statutes (5.5% limit), or any other law.

The District's general operating mill levy was 2.937 mills for property taxes collected in 2019 and 2018. The general operating mill levy is considered to be subject to TABOR limitations. District's management believes it is in compliance with the provisions of TABOR for 2019 and 2018. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, may require judicial interpretation.

Note I – Risk Management

The District is exposed to risks of loss related to damage to and destruction of assets, errors and omissions, theft, natural disasters, and liabilities of various types. The District carries commercial insurance for these risks of loss. No settlements exceeded insurance coverage for each of the past three years.

Note J – Intergovernmental Service Agreement

Academy and neighboring Donala Water and Sanitation District (Donala) signed an intergovernmental service agreement on December 8, 2015 in order to establish terms and conditions for Donala to provide wastewater management services for conveyance and treatment of Academy wastewater. Academy constructed a lift station and wastewater service connection to Donala which was placed in service in 2018. Capitalized costs for this project are \$2,637,375 and construction in progress is \$118,905 as of December 31, 2019. Additional costs to decommission the old wastewater treatment system will be incurred and project completion is expected in 2020. Academy owns these assets and will provide the maintenance and repair. Academy paid a plant investment fee of \$889,700 to Donala in 2018 which is considered to be a capital contribution to Donala. Academy pays monthly user fees to Donala for wastewater service provided for Academy customers. Fees were \$119,251 in 2019 and \$24,999 in 2018, for service that began in October. Donala will operate and maintain conveyance facilities in its service areas and maintain adequate capacity for the management and treatment of Academy wastewater under the agreement.

OTHER SUPPLEMENTARY INFORMATION

ACADEMY WATER & SANITATION DISTRICT
Schedules of Expenses
Year Ended December 31, 2019 and 2018

Years Ended December 31,	2019	2018
Water operating expense		
Auto mileage	\$ 5,632	\$ 12,186
Engineering	16,426	-
Lab testing	194	174
Payroll taxes and benefits	12,468	12,288
Repairs and maintenance	50,328	40,237
Salaries	70,572	69,036
Supplies	5,826	3,509
Utilities	32,893	44,532
Total water operating expense	\$ 194,339	\$ 181,962
Wastewater operating expense		
Auto mileage	\$ 1,408	\$ 3,046
Engineering	15,211	2,608
Lab testing	3,689	3,312
Payroll taxes and benefits	3,117	3,072
Repairs and maintenance	9,083	16,428
Salaries	17,643	17,259
Supplies	1,457	877
Utilities	3,757	5,652
Wastewater usage fees	119,251	24,999
Total wastewater operating expense	\$ 174,616	\$ 77,253
General and administrative expense		
Accounting, audit, and billing	\$ 43,216	\$ 40,918
Director's fees	5,800	6,700
Insurance	26,271	24,581
Legal	12,497	43,146
Office, postage and miscellaneous	7,435	8,319
Permits and fees	1,519	2,222
Telephone	5,105	4,977
Total general and administrative expense	\$ 101,843	\$ 130,863

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Budgetary Comparison Schedule - Budget to Actual (Budgetary Basis)
Year Ended December 31, 2019

	Budget	Amended Budget	Actual Amounts (Budgetary Basis)	Variance with Budget Positive (Negative)
Budgetary net position, January 1, 2019	\$ 635,584	\$ 1,205,538	\$ 1,205,538	\$ -
REVENUES				
Water service sales	230,000	230,000	229,138	(862)
Wastewater service sales	350,400	350,400	351,835	1,435
Property taxes	2,200	22,000	23,133	1,133
Specific ownership tax	2,000	2,000	2,803	803
Interest income	4,000	4,000	16,171	12,171
Miscellaneous income	2,000	2,000	-	(2,000)
Amounts available for appropriation	1,226,184	1,815,938	1,828,618	12,680
EXPENDITURES				
Accounting, audit, and billing	39,170	39,170	43,216	(4,046)
Auto and mileage	8,900	8,900	7,040	1,860
Capital projects-general construction	-	136,200	178,765	(42,565)
County treasurer's fees	360	360	347	13
Director's fees	8,000	8,000	5,800	2,200
Engineering	5,000	5,000	31,638	(26,638)
Insurance	28,000	28,000	26,271	1,729
Lab testing	6,000	6,000	3,883	2,117
Legal	10,000	10,000	12,496	(2,496)
Miscellaneous	11,000	11,000	8,954	2,046
Payroll taxes and benefits	16,500	16,500	15,585	915
Principal & interest on long term debt	78,545	78,545	78,545	-
Repairs and maintenance	68,000	140,000	59,412	80,588
Salaries	90,000	90,000	88,215	1,785
Supplies	8,000	8,000	7,283	717
Utilities and telephone	55,000	55,000	41,755	13,245
Wastewater usage fees	133,152	133,152	119,251	13,901
Total expenditures	565,627	773,827	728,456	45,371
Budgetary net position, December 31, 2019	\$ 660,557	\$ 1,042,111	\$ 1,100,162	\$ 58,051

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Debt Service Covenant and Reserve Requirement Schedule
Year Ended December 31, 2019

GROSS REVENUES	
Water service sales	\$ 229,138
Wastewater service sales	351,835
Tax revenue	25,936
Interest income	16,171
<hr/>	
Gross revenues	623,080
OPERATION AND MAINTENANCE EXPENSE	
Operating expense	604,911
Less: depreciation	(134,113)
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Net operating expenses	470,798
<hr/>	
Net revenues (pledged property)	\$ 152,282
<hr/>	
Rate Covenant for CWRPDA Loan	
Total Debt Service paid in 2019	78,545
Total Debt Service - loan principal and interest due in 2020	134,845
110% of 2020 Debt Service	148,330
Operation and maintenance reserve fund	
Net operating expenses	\$ 470,798
3 month reserve	25%
3 month reserve requirement	<u>\$ 117,700</u>
Current assets	\$ 621,928
Current liabilities	123,014
Current assets less current liabilities	<u>\$ 498,914</u>

Debt service reserve account on other debt N/A
Academy Water & Sanitation District has no debt other than the 2018 direct loan from the Water Pollution Control Revolving Fund in the original amount of \$3,000,000.

See accompanying notes to other supplementary information.

ACADEMY WATER & SANITATION DISTRICT
Notes to Other Supplementary Information

Note A – Summary of Significant Accounting Policies

In accordance with Local Government Budget Law of Colorado, the District’s board of directors holds public hearings in the fall each year to approve the budget, certify a mill levy, and appropriate funds for the ensuing year. The appropriation is for total expenditures and lapses at year-end. Encumbrance accounting is not used.

The annual budget for Academy Water & Sanitation District is prepared on the budgetary basis of accounting required by the State Law which is a basis of accounting other than U. S. generally accepted accounting principles. The board of directors approves budget transfers and amendments.

The original 2019 budget was amended on October 16, 2019 at a public hearing in order to approve an increase in the expenditure of funds for unanticipated repairs in 2019. The board of directors approved a resolution for the budget adjustment. This resolution did not include appropriations for the additional expenditure.

Note B – Budgetary Differences

The budget of the District is prepared on a basis of accounting other than U. S. generally accepted accounting principles. For 2019, total expenditures on a budgetary basis were \$728,456. Excess resources and revenues over expenditures amount to \$1,100,162. A reconciliation to the increase in net position as determined using U.S. generally accepted accounting principles follows.

Excess resources and revenue, budgetary basis	\$ 1,100,162
Deduct: Beginning net position	(1,205,538)
Depreciation	(134,113)
Loss on disposal	(426)
Add: Capital projects and construction in progress	178,765
Debt principal payment	78,545
Interest expense GAAP basis	<u>(44,902)</u>
Decrease in net position, GAAP basis	<u>\$ (27,507)</u>