

COTTONWOOD WATER AND SANITATION DISTRICT

FINANCIAL STATEMENTS

December 31, 2019 and 2018



Logan *and* Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cottonwood Water and Sanitation District
Douglas County, Colorado

We have audited the accompanying financial statements of the Cottonwood Water and 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 the 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 an opinion 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 of material misstatement.

An audit involves performing procedures to obtain 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 District'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 District'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 Cottonwood Water and Sanitation District as of December 31, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in conformity 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 – iv 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.

Supplementary Information and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements and related notes to financial statements that collectively comprise the Cottonwood Water and Sanitation District's basic financial statements. The budgetary comparison schedule, schedule of debt service requirements to maturity and schedule of assessed valuation, mill levy and property taxes collected are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The budgetary comparison schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Logan and Associates, LLC

Aurora, Colorado
August 18, 2020

**Cottonwood Water and Sanitation District
Management Discussion and Analysis
December 31, 2019**

This management's discussion and analysis of the Cottonwood Water and Sanitation District (the "District") financial statements provides an overview of the District's financial activities for the fiscal year ended December 31, 2019. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial and operational performance.

The District operating results reflect a 7% increase in operating revenues resulting from a combination of customer base growth and a 2% rate increase. Operating revenues exceeded cash operating expenses and provided positive operating cash flow available for infrastructure improvements and replacements. Development within the District in 2019 generated net cash from tap fees of \$1,463,762. The Statement of Cash Flows reflects District capital expenditures of \$4,694,802. The majority of capital spending was for the District's share of the Biological Treatment System additions at the Joint Water Purification Plant. The financial statements reflect the District's increase in net position of \$3,610,172 an increase from \$28,415,046 to \$32,025,218.

The District's increase in net position strong liquidity should enable it to continue to pursue capital projects necessary to provide adequate long-term renewable water sources for the District, provide infrastructure for the build-out of the remaining undeveloped portions of the District, and continue to pursue improvements in water quality.

Financial Highlights

The Statement of Net Position describes the District's financial condition as of December 31, 2019, the close of the most recent fiscal year. The assets of the District exceeded its liabilities and deferred inflows of resources by \$32,025,218. As described in Note 4 of the financial statements, the District has \$34,153,049 of capital assets net of depreciation. The District has investments of \$4,362,846 in authorities described in notes 6 and 7. These assets generally consist of land, wells, water rights, water and sewer treatment facilities, pipelines and other infrastructure required to provide water and sewer services for the District. By their nature, these assets are not available for future spending.

The District has \$10,867,899 of noncurrent liabilities as described in Note 5 of the financial statements. During 2019, the District issued \$4,000,000 of debt that the District used to repay its 2008 outstanding bonds and reduce on-going interest expense. The District also negotiated a reduction in net interest expense on the 2006 CWRPDA loan in exchange for waiving prepayment rights. Note 5 describes the interest and payment terms of the various bonds and notes that comprise the long-term debt. The debt service payments are funded by property taxes assessed by the District.

Overview of the Financial Statements

This annual report consists of three parts; 1) Management's discussion and analysis (this section), 2) the Financial Statements including the accompanying footnotes, and 3) the Supplementary Information.

The Financial Statements include the Statement of Net Position, the Statement of Revenues, Expenses and Change in Fund Net Position, the Statement of Cash Flows, and the Notes to Financial Statements which provide information integral to the Financial Statements.

These statements report information about the District as a whole and include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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 the District's Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District. The District operated with an increase in Net Position in both 2019 and 2018.

The Statement of Revenues, Expenses, and Changes in Net position 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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods such as 'deferred property taxes'.

The District's activity is reported as a business-type fund, which distinguishes operating revenues and expenses from non-operating items. This one proprietary fund combines the revenues and expenses of the water and wastewater operations as operating revenues and expenses. Not all revenues and expenses are considered operating, including property and specific ownership taxes and interest income are also reported as non-operating revenues. In addition, system development fees are reported as capital contributions, following non-operating revenues and expenses. Following are summary comparative financial statement information for the most recent two fiscal year-ends:

Combined Statements of Net Position as of December 31:

ASSETS	2019	2018
Total current assets	\$ 6,419,571	\$ 9,131,603
Investment in Authorities	4,362,846	3,160,089
Property taxes receivable	1,719,000	1,579,000
Capital assets, net	34,153,049	31,771,887
Total Assets	46,654,466	45,642,579
DEFERRED OUTFLOWS		
Outflows of resources	173,731	230,420
LIABILITIES		
Current liabilities	2,216,080	3,422,425
Noncurrent liabilities	10,867,899	12,456,528
Total Liabilities	13,083,979	15,878,953
DEFERRED INFLOWS		
Inflows of resources	1,719,000	1,579,000
NET POSITION		
Net investment in capital assets	21,748,828	17,983,341
Restricted	1,089,175	1,098,565
Unrestricted	9,187,215	9,333,140
Total Net Position	32,025,218	28,415,046

**Comparative Statements of Revenues, Expenses and Changes in
Net Position for the years ended December 31:**

OPERATING REVENUES	2019	2018
Water charges	2,409,136	2,316,019
Wastewater charges	2,132,329	1,933,738
Other Operating Revenue	79,298	66,426
Total Operating Revenues	4,620,763	4,316,183
OPERATING EXPENSES		
Wastewater treatment	1,666,748	1,491,905
Utilities & water treatment	1,088,488	850,502
Repairs, maintenance & operating fees	335,792	405,910
Professional services & Administrative	537,011	531,478
Depreciation	1,113,639	955,694
Total Operating Expenses	4,741,678	4,235,489
Net Operating Income (Loss)	(120,915)	80,694
NON-OPERATING REVENUES & EXPENSES		
Property & specific ownership taxes	1,752,207	1,879,120
Interest expense	(406,272)	(529,678)
Other non-operating items (net)	921,390	119,592
Net non-operating income	2,267,325	1,469,034
CAPITAL CONTRIBUTIONS		
Developer Contributions	-	1,320,246
Tap fees net of ACWWA	1,463,762	2,778,746
Changes in net position	3,610,172	5,648,720
Net position, beginning	28,415,046	22,766,326
Net position, ending	32,025,218	28,415,046

Budgetary Highlights

The District's procedures in establishing budgetary data reflected in the financial statements are summarized in *Note 2* of the financial statements. The budget to actual comparison is presented in the supplementary information accompanying the financial statements. The District amended its 2019 budget when decreases in interest rates afforded the District the ability to refinance its 2008 bonds.

Revenues

The District's 2019 operating revenues exceeded the amended budget by \$66,763. The District's non-operating revenues exceeded budget by \$447,595.

Expenses

The District's total operating expenses were less than the amended budgeted operating expenses by \$156,961. Non-operating expenses were \$2,142,716 under budget. Capital expenditures were below budget in part because of timing issues for the JWPP biological treatment system project.

Contacting the District's Financial Management

This financial report is designed to provide our residents, customers, taxpayers, and creditors with a general overview of the District's financials and to show the District's accountability for the income it receives. If you have any questions regarding this report or need additional financial information, please contact District management per the following:

Mulhern MRE, Inc., District Manager
Cottonwood Water and Sanitation District
188 Inverness Drive West, Suite 140
Englewood, CO 80112

Phone: (303) 649-9857

BASIC FINANCIAL STATEMENTS

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF NET POSITION December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 4,249,395	\$ 1,997,030
Cash and Cash Equivalents - Restricted	1,315,134	6,553,448
Accounts Receivable - Service Charges	374,997	352,960
Accounts Receivable - Other	279,415	22,053
Project Deposits	7,700	10,400
Accounts Receivable (Payable) - County Treasurer - Restricted	15,494	18,276
JWPP Operating Reserve - Restricted	177,436	177,436
Property Taxes Receivable	1,719,000	1,579,000
Total Current Assets	<u>8,138,571</u>	<u>10,710,603</u>
Noncurrent Assets		
Investment in Authorities	4,362,846	3,160,089
Total Noncurrent Assets	<u>4,362,846</u>	<u>3,160,089</u>
Capital Assets		
Capital Assets, Not Being Depreciated	13,566,872	10,558,779
Capital Assets, Net of Accumulated Depreciation	20,586,177	21,213,108
Total Capital Assets	<u>34,153,049</u>	<u>31,771,887</u>
 TOTAL ASSETS	 <u>46,654,466</u>	 <u>45,642,579</u>
 DEFERRED OUTFLOWS OF RESOURCES		
Cost of Refunding, Net of Accumulated Amortization	173,731	230,420
 LIABILITIES		
Current Liabilities		
Accounts Payable	560,473	1,953,353
Accrued Interest Payable	119,285	137,054
Loans and Bonds Payable, Current Portion	1,536,322	1,332,018
Total Current Liabilities	<u>2,216,080</u>	<u>3,422,425</u>
Noncurrent Liabilities		
Loans and Bonds Payable, Net of Bond Premium	10,867,899	12,456,528
Total Noncurrent Liabilities	<u>10,867,899</u>	<u>12,456,528</u>
 TOTAL LIABILITIES	 <u>13,083,979</u>	 <u>15,878,953</u>
 DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Property Taxes	1,719,000	1,579,000
 NET POSITION		
Net Investment in Capital Assets	21,748,828	17,983,341
Restricted for Reserves	1,089,175	1,098,565
Unrestricted	9,187,215	9,333,140
 TOTAL NET POSITION	 <u>\$ 32,025,218</u>	 <u>\$ 28,415,046</u>

The accompanying notes are an integral part of the financial statements.

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION Years Ended December 31, 2019 and 2018

	BUSINESS-TYPE ACTIVITIES	
	2019	2018
OPERATING REVENUES		
Charges for Services		
Water System	\$ 2,409,136	\$ 2,316,019
Wastewater System	2,132,329	1,933,738
Storm Sewer Fees	6,404	5,897
Miscellaneous	72,894	60,529
TOTAL OPERATING REVENUES	4,620,763	4,316,183
OPERATING EXPENSES		
Water Treatment	404,356	203,047
Wastewater Treatment	1,666,748	1,491,905
System Operating Fees	165,000	160,000
Repairs and Maintenance	170,792	245,910
Utilities	334,159	355,930
Professional Services	30,057	80,281
WISE Water Purchases	328,006	270,617
Other Water Purchases	21,967	20,908
Administration	506,954	451,197
Depreciation	1,113,639	955,694
TOTAL OPERATING EXPENSES	4,741,678	4,235,489
OPERATING INCOME (LOSS)	(120,915)	80,694
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	1,581,275	1,688,109
Specific Ownership Taxes	170,932	191,011
Investment Income	139,224	148,716
Capital Recovery Fees	37,870	17,747
System Infrastructure Reimbursement	14,091	264,797
Grant Revenue	641,985	-
Income from Investment in Authorities	204,883	-
ACCWA Shared Expense Reimbursement	53,089	-
WISE Participation	(25,890)	(146,080)
Authority Participation	(21,786)	(37,063)
Project Contribution Write-off	-	(62,487)
County Treasurer's Fees	(23,785)	(25,342)
CWCB - Interest Expense and Fiscal Charges	(28,067)	(37,732)
Debt Service - Interest Expense and Fiscal Charges	(378,205)	(491,968)
Debt Issuance Costs	(51,015)	-
Amortization Debt Premium	9,414	9,414
Amortization Cost of Refunding	(56,690)	(50,088)
TOTAL NON-OPERATING REVENUES (EXPENSES)	2,267,325	1,469,034
INCOME BEFORE CAPITAL CONTRIBUTIONS	2,146,410	1,549,728
CAPITAL CONTRIBUTIONS		
Developer	-	1,320,246
Tap Fees	2,205,712	4,126,378
Tap Fees (ACWWA)	(741,950)	(1,347,632)
TOTAL CAPITAL CONTRIBUTIONS	1,463,762	4,098,992
CHANGE IN NET POSITION	3,610,172	5,648,720
NET POSITION, Beginning	28,415,046	22,766,326
NET POSITION, Ending	\$ 32,025,218	\$ 28,415,046

The accompanying notes are an integral part of the financial statements.

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS Increase (Decrease) in Cash and Cash Equivalents Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 4,271,252	\$ 4,270,192
Miscellaneous Receipts	72,894	60,529
Cash Payments to Suppliers	(5,018,219)	(1,814,379)
Net Cash Provided (Used) by Operating Activities	<u>(674,073)</u>	<u>2,516,342</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	1,581,275	1,688,109
Specific Ownership Taxes	170,932	191,011
County Treasurer's Fees	(23,785)	(25,342)
Net Cash Provided by Noncapital Financing Activities	<u>1,728,422</u>	<u>1,853,778</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Received from Tap Fees	2,205,712	4,126,378
Tap Fees Paid to ACWWA	(741,950)	(1,347,632)
Capital Recovery Fees	37,870	17,747
Capital Contributions - Developer	-	1,320,246
System Infrastructure Reimbursement	14,091	264,797
Renewable Water Inclusion Fee	641,985	-
Income from Investment in Authorities	204,883	-
ACCWA Shared Expense Reimbursement	53,089	-
WISE Participation	(25,890)	(146,080)
Authority Participation (CCPWA, UCCWA, SMWSA)	(21,786)	(37,063)
Project Contribution Write-off	-	(62,487)
Acquisition of Capital Assets	(4,694,802)	(4,809,153)
Proceeds from Issuance of CWCB Debt	32,391	-
Debt Proceeds	4,000,000	-
Payment to Refunding Escrow	(3,940,000)	-
Debt Issuance Costs	(51,015)	-
Principal Paid	(1,467,302)	(1,300,219)
CWCB - Interest Expense and Fiscal Charges	(28,067)	(37,732)
Debt Service - Interest Expense and Fiscal Charges	(395,974)	(481,002)
Net Cash Used by Capital and Related Financing Activities	<u>(4,176,765)</u>	<u>(2,492,200)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Investment Activity	139,224	148,716
JWPP Reserve (Increase) Decrease	-	(7,334)
Net Investment in Authorities	(2,757)	(73,733)
Net Cash Provided by Investing Activities	<u>136,467</u>	<u>67,649</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,985,949)	1,945,569
CASH AND CASH EQUIVALENTS, Beginning	8,550,478	6,604,909
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 5,564,529</u>	<u>\$ 8,550,478</u>
SUMMARY OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 4,249,395	\$ 1,997,030
Restricted Cash and Cash Equivalents	1,315,134	6,553,448
Total Cash and Cash Equivalents	<u>\$ 5,564,529</u>	<u>\$ 8,550,478</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (120,915)	\$ 80,694
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	1,113,639	955,694
Changes in Assets and Liabilities		
Accounts Receivable	(276,617)	14,538
Project Deposits	2,700	(10,400)
Accounts Payable	(1,392,880)	1,475,816
Net Cash Provided (Used) by Operating Activities	<u>\$ (674,073)</u>	<u>\$ 2,516,342</u>

The accompanying notes are an integral part of the financial statements.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cottonwood Water and Sanitation District (the "District"), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Douglas County, Colorado, including portions of northern Parker, Colorado. The District was established in 1980 to provide water and wastewater services to the District residents and commercial businesses. The District has no employees and is governed by an elected five member Board of Directors.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it. Based on the application of the criteria, the District does not include additional organizations in its reporting entity.

Fund Accounting

The District uses a proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses a proprietary fund-type, an enterprise fund, to account for its activities of providing water and wastewater collection, transmission and treatment services to District residents. The enterprise fund uses the economic resources measurement focus and the accrual basis of accounting for reporting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The fund distinguishes operating revenues and expenses from non-operating revenues and expenses, and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Position

Cash Equivalents and Investments - Cash equivalents include cash deposits and highly liquid investments with original maturities of three months or less when purchased. Investments are reported at fair value.

Accounts Receivables - All receivables are reported at their gross value. User services charges and tap fees create a perpetual lien on or against a property service until paid. Such liens may be foreclosed upon as provided by State statute. Therefore, an allowance for uncollectible accounts is not reported for user service charges and tap fees. The District collects reimbursement of engineering and design costs from developers in the District. The District believes all such reimbursable amounts are fully collectible, and therefore, has not reported an allowance for uncollectible accounts.

Capital Assets - Capital assets include land, water rights, water and sewer transmission systems, treatment plants, buildings and equipment, are reported in the financial statements net of accumulated depreciation. Capital assets are defined by the District as assets with an initial estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All infrastructure assets owned by the District, which include sewer collection and transmission systems, have been capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

Buildings, Collection and Transmission Systems and Treatment Plants	5 - 50 years
Equipment and Engineering Costs	3 - 30 years

Water rights include acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Water rights have a perpetual life, thus the cost is not amortized. All other costs, including costs incurred for the protection of those rights are expensed.

Long-Term Obligations – Long-term debt and other long-term obligations are reported at face value, net of unamortized debt premiums and discounts, as liabilities in the financial statements. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. The cost of refunding is reported as deferred outflows of resources and is amortized over the life of the related debt.

Deferred Outflows/Inflows 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 classification represents a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditures) until then. The District has an item related to debt refunding costs that is reported as deferred outflows of resources at 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 classification represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until then. The District has an item related to unavailable revenue – property taxes that is reported as deferred inflows of resources at December 31, 2019 and 2018.

Capital Contributions – Tap fees collected, and water and sewer lines contributed to the District by developers are recorded as capital contributions when received.

Net Position – Net position results from the accumulation of net earnings from operating income, non-operating revenues and expenses, and capital contributions and are classified in the financial statements as follows:

- Net Investment in Capital Assets – The investment in capital assets consists of capital assets, net of accumulated depreciation.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This classification includes the residual net position that does not meet the classification of “net investment in capital assets” or “restricted.”

Property Taxes

Property taxes attach as an enforceable lien on property on January 1 and are levied the following January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer’s Office collects property taxes and remits to the District on a monthly basis. Since property taxes are collected in arrears during the succeeding year, a receivable and corresponding deferred inflow of resources are reported at December 31.

Use of Estimates

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

Subsequent Events

The District has evaluated events subsequent to the year ended December 31, 2019 through August 18, 2020, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the District is located. It is unknown how long these conditions will last and what the complete financial effect will be to the District.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- The budget is legally adopted by the District. The budget is adopted on a non-GAAP budgetary basis. Capital outlay and long-term debt principal payments are budgeted as expenditures, and depreciation, and amortization of debt premium/discounts, and costs of debt refunding are not budgeted.
- The District appropriates expenditures for the enterprise/operations fund and capital expenditures, and a separate appropriation for the related debt service.
- Prior to October 15, management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1.
- The operating budget includes proposed expenditures and the means of financing them.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- Management is authorized to transfer budgeted amounts between departments within the fund. However, any revisions that alter the total expenditures of the fund must be approved by the Board of Directors.
- All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at December 31, 2019 and 2018, follows:

	<u>2019</u>	<u>2018</u>
Cash Deposits	\$ 701,684	\$ 591,844
Investments	<u>4,862,845</u>	<u>7,958,634</u>
Total	<u>\$ 5,564,529</u>	<u>\$ 8,550,478</u>

Cash and Investments are reported in the financial statements as follows:

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 4,367,645	\$ 1,997,030
Restricted Cash and Cash Equivalents	<u>1,196,884</u>	<u>6,553,448</u>
Total	<u>\$ 5,564,529</u>	<u>\$ 8,550,478</u>

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA. The FDIC insures depositors up to \$250,000 for each financial institution. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2019, the District had bank deposits totaling \$770,181 of which \$250,000 were insured by FDIC and \$520,181 were collateralized with securities held by the financial institutions' agents but not in their name.

Investments

The District has not adopted a formal investment policy; however, the District follows State statutes regarding investments. The District generally limits its concentration of investments to Local Government Investment Pools, obligation of the United States and certain U.S. government agency securities, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors, such actions are generally associated with a debt service reserve or sinking fund requirements.

State statutes specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest which include the following.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

At December 31, 2019 and 2018, the District had the following investments:

	<u>Maturity</u>	<u>2019</u>	<u>2018</u>
Colorado Liquid Asset Trust (COLOTRUST)	Weighted Average under 60 days	<u>\$ 4,862,845</u>	<u>\$ 7,958,634</u>

The District invested in the Colorado Government Liquid Asset Trust (COLOTRUST) (the "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers share in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as the safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAA by Standard and Poor's. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

Restricted Cash and Investments

Restricted cash and investments consist of amounts for operating & maintenance reserves, and debt service reserves as required by the District's loans and revenue bonds; and restricted project funds.

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan, the District is required to maintain an operating reserve equal to three months of operations and maintenance expenses budgeted for the then-current fiscal year. As of December 31, 2019 and 2018, the required operating reserve of \$946,250 and \$828,000, respectively, was restricted by the District.

In accordance with bonded debt obligations, property taxes collected in excess of the required debt service payments are to be reserved to pay future debt obligations. As of December 31, 2019 and 2018, the District had \$142,925 and \$270,565, respectively, restricted for debt service.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 3: CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments (Continued)

In accordance with the Second Amendment to 2014 Agreement between the District and the Arapahoe County Water and Wastewater Authority (ACWWA) the District has restricted \$225,959 in a project account for future construction payments in relation to improvements to the Joint Water Purification Plant (JWPP).

NOTE 4: CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2019, is summarized below:

	Balances 12/31/2018	Additions/ Reclassifications	Deletions/ Reclassifications	Balances 12/31/2019
Capital Assets, not being depreciated				
Land	\$ 399,433	\$ -	\$ -	\$ 399,433
Water Rights	7,943,750	25,021	1,200,000	6,768,771
Construction in Progress	2,215,596	4,691,832	508,760	6,398,668
Total Capital Assets, not being depreciated	10,558,779	4,716,853	1,708,760	13,566,872
Capital Assets, being depreciated				
Water System	30,569,348	181,159		30,750,507
Wastewater System	6,980,825	305,550	-	7,286,375
Engineering Studies	249,484	-	-	249,484
Sewage Treatment Rights	233,860	-	-	233,860
Equipment	129,786	-	-	129,786
Total Capital Assets, being depreciated	38,163,303	486,709	-	38,650,012
Less accumulated depreciation				
Water System	(11,474,817)	(980,403)	-	(12,455,220)
Wastewater System	(4,946,738)	(116,774)	-	(5,063,512)
Engineering Studies	(164,994)	(16,463)	-	(181,457)
Sewage Treatment Rights	(233,860)	-	-	(233,860)
Equipment	(129,786)	-	-	(129,786)
Total accumulated depreciation	(16,950,195)	(1,113,640)	-	(18,063,835)
Total Capital Assets, being depreciated, net	21,213,108	(626,931)	-	20,586,177
Total Capital Assets, net	<u>\$ 31,771,887</u>	<u>\$ 4,089,922</u>	<u>\$ 1,708,760</u>	<u>\$ 34,153,049</u>

The District reclassified water rights from capital assets reporting to Investment in Authorities in order to provide more accurate reporting in the noncurrent assets.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 4: CAPITAL ASSETS (Continued)

Depreciation expense was charged to the programs of the District as follows:

Water System	\$ 980,403
Wastewater System	116,774
Administration	<u>16,463</u>
Total	<u>\$ 1,113,640</u>

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2019:

	Balance 12/31/2018	Borrowings	Repayments	Balance 12/31/2019	Due Within One Year
2008A GO Refunding Bonds	\$ 3,940,000	\$ -	\$ 3,940,000	\$ -	\$ -
2016 GO Refunding Loan	3,670,000	-	430,000	3,240,000	435,000
2019 GO Refunding Bonds	-	4,000,000	500,000	3,500,000	546,000
2006 CWRPDA Loan	5,335,965	-	527,552	4,808,413	538,542
2014 CWCB Loan - Note A	324,264	-	9,750	314,514	9,466
2014 CWCB Loan - Note B	127,426	-	-	127,426	-
2014 CWCB Loan - Note C	315,576	32,391	-	347,967	7,314
	<u>13,713,231</u>	<u>4,032,391</u>	<u>5,407,302</u>	<u>12,338,320</u>	<u>1,536,322</u>
Bond Premium, Net	75,315	-	9,414	65,901	-
Total	<u>\$ 13,788,546</u>	<u>\$ 4,032,391</u>	<u>\$ 5,416,716</u>	<u>\$ 12,404,221</u>	<u>\$ 1,536,322</u>

Series 2008A GO Refunding Bonds

On September 27, 2008, the District issued Series 2008A General Obligation Refunding Bonds in the amount of \$6,730,000 to refund the District's Series 1998A General Obligation Refunding Bonds. Principal and interest payments are due semi-annually on June 1 and December 1 through December 1, 2027. Interest accrues at rates ranging from 4% to 5% per annum. The Bonds maturing on and after December 1, 2017 are subject to redemption prior to maturity, in whole or in part, in such a manner as the District may determine on December 1, 2018, or on any interest payment date thereafter, without any redemption premium.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 5: LONG-TERM DEBT (Continued)

Series 2019 GO Refunding Note

On June 3, 2019, the District refunded the Series 2008A GO Refunding Bonds with the issuance of \$4,000,000 GO Refunding Note, Series 2019 (the "Note"). The note proceeds along with monies from the debt service fund were used currently refund and pay-off the Series 2008A GO Refunding Bonds. This refunding resulted in a net present value savings of interest in the amount of \$297,601. Principal and interest payments are due annually on September 1, through September 1, 2025. Interest accrues at 2.61%.

Series 2016 GO Refunding Loan

On November 9, 2016, the District obtained a loan in the amount of \$4,500,000, titled Series 2016 General Obligation Refunding Loan with BOKF, NA, dba Colorado State Bank and Trust to currently refund the District's Series 2006A General Obligation Refunding Bonds. The loan proceeds along with monies from the debt service fund were used to currently refund and pay-off the 2006A GO Refunding Bonds in order to obtain an interest savings of approximately \$55,000. Principal and interest payments are due semi-annually on June 1 and December 1, commencing on June 1, 2017 through December 1, 2026. Interest accrues at 1.86% per annum. The Loan is not subject to redemption prior to maturity.

Pledged Revenues – The above bonds and loan are payable solely from revenues of the District's ad valorem property tax mill levy sufficient to pay the debt service requirements. During the year ended December 31, 2019, property and specific ownership tax revenues of \$1,752,207 were available to pay the respective annual debt service of \$498,262.

2006 Colorado Water Resources and Power Development Authority Loan

On November 1, 2006, the District obtained a loan in the amount of \$9,996,005 from the Colorado Water Resources and Power Development Authority (the "Authority") to finance a water project. Principal and interest payments are due semi-annually on February 1 and August 1, through August 1, 2027. Interest accrues at 3.54% per annum.

The water project consists of the District's undivided interest in a joint water purification project constructed by the District, Arapahoe County Water and Wastewater Public Improvement District, and the Arapahoe County Water and Wastewater Authority pursuant to an intergovernmental agreement, including production wells, a pumping station and transmission pipelines.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 5: LONG-TERM DEBT (Continued)

Pledged Revenues - The District and Authority agree that the amounts payable under this loan agreement are payable solely from pledged property, as defined as ad valorem taxes without limitation as to rate, on all taxable property in the District, in an amount necessary to pay the loan payments but not to exceed \$1,100,000, and that nothing shall be deemed to prevent the District from repaying the loan amounts from any other legally available source. During the year ended December 31, 2019, property and specific ownership tax revenues of \$1,752,207 were available to pay the annual debt service of \$723,575.

2014 Colorado Water Conservation Board (CWCB) Loan

On November 17, 2014, the District entered into a loan agreement with the CWCB for an amount not to exceed \$4,508,640 for costs related to the District's participation in the Water Infrastructure and Supply Efficiency Authority (WISE) project. The District's draws and repayment obligation will be evidenced by four separate promissory notes as follows:

Note A – an amount not to exceed \$381,780 (amended to \$342,921) for the District's share of the costs of a portion of the East Cherry Creek Valley Water and Sanitation District's Western Pipeline,

Note B – an amount not to exceed \$363,600 for the District's share of costs related to a pipeline that will connect Denver Water's treated distribution system to Denver International Airport and Aurora's Prairie Water's pipeline,

Note C – an amount not to exceed \$2,636,100 for the District's share of costs of certain Phase 1 Infrastructure, and

Note D – an amount not to exceed \$ 1,127,160 for the District's share of the costs of certain Phase 2 Infrastructure.

Each promissory note will include a 1% loan service fee. Interest accrues at 3% per annum for each individual promissory note commencing on the date of the initial note draw. Interest payments will commence 1 year from the date of initial note draw. Principal payments will not commence until the entire amount of an individual promissory note has been drawn, or the District communicates to the CWCB that no additional draws will be taken on the promissory note, at which time a repayment schedule will be established by the CWCB. During the year ended December 31, 2019, *Note B*, was substantially complete, and the District began paying principal and interest on *Note B*. During the year ended December 31, 2018, *Note A*, was substantially complete, and the District began paying principal and interest on *Note A*.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 5: LONG-TERM DEBT (Continued)

Annual debt service requirements for the District's outstanding bonds and loans at December 31, 2019 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,536,322	\$ 334,744	\$ 1,871,066
2021	1,573,109	294,595	1,867,704
2022	1,614,122	255,944	1,870,066
2023	1,656,151	219,326	1,875,477
2024	1,694,197	178,063	1,872,260
2025 – 2029	3,669,848	241,507	3,911,355
2030 – 2034	121,753	64,402	186,155
2035 – 2039	141,147	45,008	186,155
2040 – 2044	122,939	22,636	145,575
2045 – 2049	81,306	7,459	88,765
Amortization Terms Unknown	127,426	-	127,426
Total	<u>\$ 12,338,320</u>	<u>\$ 1,663,684</u>	<u>\$ 14,002,004</u>

NOTE 6: INTERGOVERNMENTAL AGREEMENTS

Arapahoe County Water and Wastewater Authority

On June 18, 2003, the District entered into an agreement with Arapahoe County Water and Wastewater Authority (ACWWA) to mutually construct and operate a water treatment facility known as the Joint Water Purification Plant (JWPP). The JWPP facility began operations in 2010. In 2014, the District and ACWWA executed an agreement for operations and maintenance of, and improvements to the JWPP.

Under the original agreement, ACWWA operated the JWPP facility. The District paid its share of operating expenses each year. The agreement required two reserves be established, an operating reserve and capital replacement reserve. At December 31, 2019 and 2018, ACWWA held the District's portion of these reserves in the amount of \$177,436 for both years.

The August 2018 amendment defined responsibilities related to the future construction of improvements to the JWPP and establish a commitment to use a contract plant operator after the completion of the improvements. The amended agreement required each District to deposit an amount into a Colotrust account to be held for these improvements. At December 31, 2019, the District's restricted balance in this Colotrust account was \$225,959. Plant operations were turned over to a contract operator in May 2019.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 6: INTERGOVERNMENTAL AGREEMENTS (Continued)

Cherry Creek Project Water Authority

On October 14, 2005, the Cherry Creek Project Water Authority (Cherry Creek Authority) was created by a Water Project Agreement between the District, Inverness Water and Sanitation District, ACWWA, and Denver Southeast Suburban Water and Sanitation District. On November 17, 2005, the Cherry Creek Authority purchased certain water rights, well rights, facilities and storage rights at a bankruptcy action for \$14,000,000 plus closing costs. The District contributed \$1,175,680 towards this purchase. The District's share of participation is 7.14%, which had a value of \$1,278,634 and \$1,013,611 at December 31, 2019 and 2018, respectively. For a copy of the Cherry Creek Authority's financial statements, contact the Cherry Creek Authority.

NOTE 7: COST SHARING AGREEMENTS – WISE PARTNERSHIP

On March 31, 2013, the District entered into an amended WISE Negotiations and Cost Sharing Participation Agreement with South Metro Water Supply Authority (SMWSA) that amends the method of cost sharing. In the amended agreement the costs will be shared based on the participants' pro-rata share of the annual subscription amount in relation to the total of all annual subscription amounts. The District has committed to subscribing to 400 acre feet (5.71%) out of a total of 7,000 acre feet of renewable water to be delivered annually from the WISE Partnership. In December of 2013, the District along with other members of the WISE Partnership entered into the WISE Partnership-Water

Delivery Agreement between the City and County of Denver, acting by and through its Board of Water Commissioners, the City of Aurora acting by and through its Utility Enterprise, and the South Metro WISE Authority. The Water Delivery Agreement is the overarching agreement that defines the terms under which Denver and Aurora will deliver water to the South Metro WISE Authority members.

Pursuant to the WISE Agreements, the District pays its proportionate share of WISE capital costs, operations and maintenance costs, and the cost of water delivered. During the year ended December 31, 2019 and 2018, the District analyzed its investment in WISE, and adjusted the amounts to \$3,084,212 and \$2,146,478, respectively, which is reported as Investment in Authorities in the financial statements. The District received its first water deliveries from the WISE project in 2017. For the years ended December 31, 2019 and 2018, the District's water purchases were \$328,006 and \$270,617, respectively.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 8: RISK MANAGEMENT

Public Entity Risk Pool

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets. The District plans to provide for or restore the economic damages of those losses through risk transfer. The District participates in the Colorado Special Districts Property and Liability Pool and Workmen's Compensation Pool (the "Pool").

The purposes of the Pool are to provide members defined liability, property, and workers compensation coverages and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool. It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverages at reasonable costs.

All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

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. The District establishes separate budgets for enterprise activity and general government activity. Budgeted general government activity consists only of tax revenue and expenditures related to the District's debt obligations. The District has made certain interpretations of the Amendment's language in order to determine compliance.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 9: COMMITMENTS AND CONTINGENCIES (Continued)

Tabor Amendment

The District's management believes a significant portion of its operations qualifies for the "enterprise" exclusion allowed by the Amendment. The District believes it is in compliance with the requirements of the Amendment.

The District has established an emergency reserve, representing 3% of fiscal year spending, as required by the Amendment. At December 31, 2019 and 2018, the emergency reserve of \$52,566 and \$55,525, respectively, were reported as a restriction of net position in the statement of net position.

SUPPLEMENTARY INFORMATION

COTTONWOOD WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2019

(With Comparative Actual Totals for the Year Ended December 31, 2018)

	2019			VARIANCE	2018
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	ACTUAL
ENTERPRISE FUND:					
REVENUES					
Operating					
Charges for Services					
Water System	\$ 2,458,000	\$ 2,458,000	\$ 2,409,136	\$ (48,864)	\$ 2,316,019
Wastewater System	2,055,000	2,055,000	2,132,329	77,329	1,933,738
Storm Sewer Fees	6,000	6,000	6,404	404	5,897
Miscellaneous	35,000	35,000	72,894	37,894	60,529
Total Operating Revenues	4,554,000	4,554,000	4,620,763	66,763	4,316,183
Non-Operating					
Tap Fees	2,100,000	2,100,000	2,205,712	105,712	4,126,378
Net Investment Income	30,000	30,000	139,224	109,224	148,716
Capital Recovery Fees	18,000	18,000	37,870	19,870	17,747
ACCWA Shared Expense Reimbursement	-	-	53,089	53,089	1,320,246
System Infrastructure Reimbursement	-	-	14,091	14,091	264,797
Grant Revenue	600,000	600,000	641,985	41,985	-
CWCB Loan Proceeds	135,000	133,650	32,391	(101,259)	-
Income from Investment in Authorities	-	-	204,883	204,883	-
Total Non-Operating Revenues	2,883,000	2,881,650	3,329,245	447,595	5,877,884
TOTAL REVENUES	7,437,000	7,435,650	7,950,008	514,358	10,194,067
EXPENSES					
Operating					
Water Treatment	391,000	391,000	404,356	(13,356)	203,047
Wastewater Treatment	1,557,000	1,557,000	1,666,748	(109,748)	1,491,905
System Operating Fees	165,000	165,000	165,000	-	160,000
Repairs and Maintenance	220,000	220,000	170,792	49,208	245,910
Utilities	320,000	320,000	334,159	(14,159)	355,930
Professional Services	80,000	80,000	30,057	49,943	80,281
WISE Water Purchases	365,000	365,000	328,006	36,994	270,617
Other Water Purchases	-	-	21,967	(21,967)	20,908
Administration					
Insurance	36,000	36,000	32,896	3,104	31,426
Management Fees	164,000	164,000	159,641	4,359	145,932
Accounting	132,000	132,000	170,735	(38,735)	160,191
Audit	7,000	7,000	5,800	1,200	5,800
Legal	125,000	125,000	74,079	50,921	60,726
Miscellaneous	71,350	70,000	62,068	7,932	41,077
Water Conservation Rebates	3,000	3,000	1,735	1,265	6,045
Contingency	75,000	150,000	-	150,000	-
Total Operating Expenses	3,711,350	3,785,000	3,628,039	156,961	3,279,795
Non-Operating					
Tap Fees (ACWWA)	638,000	638,000	741,950	(103,950)	1,347,632
Capital Outlay	6,710,000	6,710,000	4,694,802	2,015,198	4,809,153
CWCB Debt Service	40,000	40,000	37,817	2,183	56,389
Project Contribution Write-off	-	-	-	-	62,487
WISE Participation	80,000	80,000	25,890	54,110	146,080
Authority Participation (CCPWA, UCCWA, SMWSA)	40,000	40,000	21,786	18,214	37,063
Total Non-Operating Expenses	7,508,000	7,508,000	5,522,245	1,985,755	6,458,804
TOTAL EXPENSES	11,219,350	11,293,000	9,150,284	2,142,716	9,738,599
NET CHANGE IN FUNDS AVAILABLE	(3,782,350)	(3,857,350)	(1,200,276)	2,657,074	455,468
FUNDS AVAILABLE - BEGINNING OF YEAR	6,377,353	6,377,353	6,911,424	534,071	6,455,956
FUNDS AVAILABLE - END OF YEAR	2,595,003	2,520,003	5,711,148	3,191,145	6,911,424

(Continued)

COTTONWOOD WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2019

(With Comparative Actual Totals for the Year Ended December 31, 2018)

	2019			2018	
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	ACTUAL
BOND FUND:					
REVENUES					
Property Taxes	\$ 1,579,000	\$ 1,579,000	\$ 1,581,275	\$ (2,275)	\$ 1,688,109
Specific Ownership Taxes	180,000	180,000	170,932	9,068	191,011
TOTAL REVENUES	1,759,000	1,759,000	1,752,207	6,793	1,879,120
EXPENDITURES					
County Treasurers Fees	23,685	23,685	23,785	(100)	25,342
Paying Agent Fees	1,000	1,000	104	896	250
Debt Service					
DWRP (2006B)	739,663	739,663	603,890	135,773	734,941
Series 2008A	548,210	456,605	176,951	279,654	542,916
Series 2016	498,262	498,262	498,262	-	495,423
Series 2019	-	526,100	556,550	(30,450)	-
Contingency	25,000	25,000	-	25,000	-
TOTAL EXPENDITURES	1,835,820	2,270,315	1,859,542	410,773	1,798,872
OTHER FINANCING SOURCES (USES)					
Payment to Refunding Escrow	-	(3,575,000)	(3,940,000)	(365,000)	-
Refunding Loan Proceeds	-	4,000,000	4,000,000	-	-
Debt Issuance Costs	-	(60,000)	(51,015)	8,985	-
TOTAL OTHER FINANCING SOURCES (USES)	-	365,000	8,985	(356,015)	-
CHANGE IN NET POSITION, Budgetary Basis	(76,820)	(146,315)	(98,350)	47,965	80,248
BEGINNING FUNDS AVAILABLE - BOND FUND	270,362	270,362	282,466	12,104	202,218
ENDING FUNDS AVAILABLE - BOND FUND	\$ 193,542	\$ 124,047	\$ 184,116	\$ 60,069	\$ 282,466
TOTAL DISTRICT REVENUES (Budgetary Basis)	9,196,000	5,619,650	13,702,215	8,082,565	12,073,187
TOTAL DISTRICT EXPENDITURES (Budgetary Basis)	13,055,170	13,623,315	15,000,841	(1,377,526)	11,537,471
TOTAL DISTRICT BEGINNING FUNDS AVAILABLE	6,647,715	6,647,715	7,193,890	546,175	6,658,174
TOTAL DISTRICT ENDING FUNDS AVAILABLE	\$ 2,788,545	\$ (1,355,950)	\$ 5,895,264	\$ 7,251,214	\$ 7,193,890

(Continued)

COTTONWOOD WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2019

(With Comparative Actual Totals for the Year Ended December 31, 2018)

	2019 ACTUAL	2018 ACTUAL
TOTAL DISTRICT REVENUES (Budgetary Basis)	\$ 13,702,215	\$ 12,073,187
ADJUSTMENTS TO GAAP BASIS		
Bond Proceeds	(4,000,000)	-
CWCB Loan Proceeds	(32,391)	-
TOTAL REVENUES, GAAP Basis	9,669,824	12,073,187
TOTAL DISTRICT EXPENDITURES (Budgetary Basis)	15,000,841	11,537,471
ADJUSTMENTS TO GAAP BASIS		
Capital Outlay	(4,694,802)	(4,809,153)
Depreciation	1,113,639	955,694
Principal Payments on Long-term Debt	(1,467,302)	(1,300,219)
Payment to Refunding Escrow	(3,940,000)	-
Amortization Debt Premium	(9,414)	(9,414)
Amortization Cost of Refunding	56,690	50,088
TOTAL EXPENDITURES, GAAP Basis	6,059,652	6,424,467
CHANGE IN NET POSITION, GAAP Basis	3,610,172	5,648,720
NET POSITION, Beginning	28,415,046	22,766,326
NET POSITION, Ending	\$ 32,025,218	\$ 28,415,046

See the accompanying Independent Auditor's Report.

OTHER INFORMATION

COTTONWOOD WATER AND SANITATION DISTRICT

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
EXCLUSIVE OF COLORADO WATER CONSERVATION BOARD (CWCB) LOAN, NOTE C
 December 31, 2019

\$4,500,000 General Obligation Refunding Loan Series 2016					\$4,000,000 General Obligation Refunding Bonds Series 2019				
Year	Rate	Principal	Interest	Total	Year	Rate	Principal	Interest	Total
2020	1.86%	\$ 435,000	\$ 60,264	\$ 495,264	2020	2.61%	\$ 546,000	\$ 91,350	\$ 637,350
2021	1.86%	445,000	52,173	497,173	2021	2.61%	561,000	77,099	638,099
2022	1.86%	455,000	43,896	498,896	2022	2.61%	575,000	62,457	637,457
2023	1.86%	465,000	35,433	500,433	2023	2.61%	590,000	47,450	637,450
2024	1.86%	470,000	26,784	496,784	2024	2.61%	606,000	32,051	638,051
2025	1.86%	480,000	18,042	498,042	2025	2.61%	622,000	16,234	638,234
2026	1.86%	490,000	9,114	499,114			<u>\$ 3,500,000</u>	<u>\$ 326,641</u>	<u>\$ 3,826,641</u>
		<u>\$ 3,240,000</u>	<u>\$ 245,706</u>	<u>\$ 3,485,706</u>					

\$9,996,005 CWRPDA Loan Series 2006					\$347,967 Colorado Water Conservation Board Loan Note B				
Year	Rate	Principal	Interest	Total	Year	Rate	Principal	Interest	Total
2020	3.54%	\$ 538,542	\$ 162,963	\$ 701,505	2020	3.00%	\$ 7,314	\$ 10,439	\$ 17,753
2021	3.54%	549,533	145,668	695,201	2021	3.00%	7,533	10,220	17,753
2022	3.54%	566,019	130,463	696,482	2022	3.00%	7,759	9,994	17,753
2023	3.54%	582,505	117,858	700,363	2023	3.00%	7,992	9,761	17,753
2024	3.54%	598,991	101,203	700,194	2024	3.00%	8,232	9,521	17,753
2025	3.54%	615,477	88,361	703,838	2025	3.00%	8,479	9,274	17,753
2026	3.54%	659,440	28,616	688,056	2026	3.00%	8,733	9,020	17,753
2027	3.54%	697,906	-	697,906	2027	3.00%	8,995	8,758	17,753
		<u>\$ 4,808,413</u>	<u>\$ 775,132</u>	<u>\$ 5,583,545</u>	2028	3.00%	9,265	8,488	17,753
					2029	3.00%	9,543	8,220	17,763
					2030	3.00%	9,829	7,924	17,753
					2031	3.00%	10,124	7,629	17,753
					2032	3.00%	10,428	7,325	17,753
					2033	3.00%	10,741	7,012	17,753
					2034	3.00%	11,063	6,690	17,753
					2035	3.00%	11,395	6,358	17,753
					2036	3.00%	11,737	6,016	17,753
					2037	3.00%	12,089	5,664	17,753
					2038	3.00%	12,452	5,301	17,753
					2039	3.00%	12,825	4,928	17,753
					2040	3.00%	13,210	4,543	17,753
					2041	3.00%	13,606	4,147	17,753
					2042	3.00%	14,014	3,739	17,753
					2043	3.00%	14,435	3,318	17,753
					2044	3.00%	14,868	2,885	17,753
					2045	3.00%	15,314	2,439	17,753
					2046	3.00%	15,773	1,980	17,753
					2047	3.00%	16,247	1,506	17,753
					2048	3.00%	16,735	1,018	17,753
					2049	3.00%	17,237	516	17,753
							<u>\$ 347,967</u>	<u>\$ 184,633</u>	<u>\$ 532,600</u>

\$342,921 Colorado Water Conservation Board Loan Note A				
Year	Rate	Principal	Interest	Total
2020	3.00%	\$ 9,466	\$ 9,728	\$ 19,194
2021	3.00%	10,043	9,435	19,478
2022	3.00%	10,344	9,134	19,478
2023	3.00%	10,654	8,824	19,478
2024	3.00%	10,974	8,504	19,478
2025	3.00%	11,303	8,175	19,478
2026	3.00%	11,642	7,836	19,478
2027	3.00%	11,992	7,486	19,478
2028	3.00%	12,351	7,127	19,478
2029	3.00%	12,722	6,756	19,478
2030	3.00%	13,103	6,375	19,478
2031	3.00%	13,497	5,981	19,478
2032	3.00%	13,901	5,577	19,478
2033	3.00%	14,319	5,159	19,478
2034	3.00%	14,748	4,730	19,478
2035	3.00%	15,191	4,287	19,478
2036	3.00%	15,646	3,832	19,478
2037	3.00%	16,116	3,362	19,478
2038	3.00%	16,599	2,879	19,478
2039	3.00%	17,097	2,381	19,478
2040	3.00%	17,610	1,868	19,478
2041	3.00%	18,138	1,340	19,478
2042	3.00%	17,058	796	17,854
		<u>\$ 314,514</u>	<u>\$ 131,572</u>	<u>\$ 446,086</u>

COTTONWOOD WATER AND SANITATION DISTRICT

SCHEDULE OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED

December 31, 2019

Levy Year	Collection Year	Assessed Valuation	Mill Levy Debt	Total Property Taxes		Collection Rate
				Levied	Collected	
2010	2011	\$ 84,916,570	27.000	\$ 2,292,747	\$ 2,154,137	93.95%
2011	2012	77,469,400	27.000	2,091,674	2,027,554	96.93%
2012	2013	76,541,460	27.000	2,066,619	2,023,244	97.90%
2013	2014	76,036,532	27.000	2,052,986	2,018,629	98.33%
2014	2015	76,436,440	27.000	2,063,784	1,999,746	96.90%
2015	2016	87,414,130	23.000	2,010,525	1,998,746	99.41%
2016	2017	89,886,510	19.000	1,707,844	1,705,742	99.88%
2017	2018	105,677,431	16.000	1,690,839	1,688,109	99.84%
2018	2019	108,825,784	14.500	1,577,974	1,581,275	100.21%
2019	2020	\$ 122,832,775	14.000	\$ 1,719,659		

Note: Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the Douglas County Treasurer does not permit identification of specific year of levy.

Source: Douglas County Assessor and Treasurer.