

**DONALA WATER AND SANITATION
DISTRICT**

FINANCIAL STATEMENTS
With Independent Auditors' Report

Year Ended December 31, 2019 and 2018

DONALA WATER AND SANITATION DISTRICT
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DECEMBER 31, 2019 AND 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Donala Water and Sanitation District

We have audited the accompanying financial statements of Donala Water and Sanitation District, which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion 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 of 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Donala Water and Sanitation District, as of December 31, 2019 and 2018, and the changes in financial position and cash flows thereof 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise Donala Water and Sanitation District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hoelting & Company Inc.

Colorado Springs, Colorado
May 18, 2020

DONALA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2019

As management of Donala Water and Sanitation District (the District) we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$55,790,891 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$40,728,326 (*net position*). Of this amount, \$9,178,937 represents unrestricted net position, which may be used to meet the District's ongoing obligations.
- The District's total net position increased during the year by \$1,412,019.
- Capital assets net of depreciation increased by \$2,046,665 from the prior year.
- The District's total outstanding long-term debt decreased by \$455,792 during the current year due to the payment of loans based on debt service schedules.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenue, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets) and obligations (liabilities). The difference between assets and liabilities and deferred inflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenue, Expenses and Changes in Net Position - All revenue and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District's rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2019, the District's assets exceeded liabilities and deferred inflows by \$40,728,326 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

| | <u>2019</u> | <u>2018</u> | <u>Variance</u> |
|-------------------------------------|----------------------|----------------------|---------------------|
| Assets | | | |
| Capital assets, net | \$ 38,215,616 | \$ 36,168,951 | \$ 2,046,665 |
| Other assets | <u>17,575,275</u> | <u>18,479,974</u> | <u>(904,699)</u> |
| Total assets | <u>55,790,891</u> | <u>54,648,925</u> | <u>1,141,966</u> |
| Liabilities | | | |
| Long-term | 12,531,237 | 12,987,029 | (455,792) |
| Other liabilities | <u>567,790</u> | <u>665,867</u> | <u>(98,077)</u> |
| Total liabilities | <u>13,099,027</u> | <u>13,652,896</u> | <u>(553,869)</u> |
| Deferred Inflows of Resources | | | |
| Unavailable property tax revenue | <u>1,963,538</u> | <u>1,679,722</u> | <u>283,816</u> |
| Total deferred inflows of Resources | <u>1,963,538</u> | <u>1,679,722</u> | <u>283,816</u> |
| Net position | | | |
| Net investment in capital assets | 25,684,379 | 23,181,923 | 2,502,456 |
| Restricted | 5,865,010 | 4,728,952 | 1,136,058 |
| Unrestricted | <u>9,178,937</u> | <u>11,405,432</u> | <u>(2,226,495)</u> |
| Total net position | <u>\$ 40,728,326</u> | <u>\$ 39,316,307</u> | <u>\$ 1,412,019</u> |

Unrestricted net position of the District at the end of the year was \$9,178,937 a decrease of \$2,226,495 from the prior year. This decrease resulted primarily from lower capital contributions and an increase in restricted net position.

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

| | <u>2019</u> | <u>2018</u> | <u>Variance</u> |
|---------------------------------|---------------------|---------------------|---------------------|
| Revenues | | | |
| Operating revenues | \$ 5,381,863 | \$ 5,171,707 | \$ 210,156 |
| Tax | 1,880,252 | 1,876,332 | 3,920 |
| Other | 415,862 | 343,900 | 71,962 |
| Total revenues | <u>7,677,977</u> | <u>7,391,939</u> | <u>286,038</u> |
| Expenses | | | |
| Water and sanitation operations | \$ 5,217,788 | \$ 4,657,783 | \$ 560,005 |
| General and administrative | 875,722 | 856,070 | 19,652 |
| Other | 536,448 | 550,464 | (14,016) |
| Total expenses | <u>6,629,958</u> | <u>6,064,317</u> | <u>565,641</u> |
| Income before contributions | 1,048,019 | 1,327,622 | (279,603) |
| Capital contributions | <u>364,000</u> | <u>1,114,840</u> | <u>(750,840)</u> |
| Change in net position | 1,412,019 | 2,442,462 | (1,030,443) |
| Net position, beginning | <u>39,316,307</u> | <u>36,873,845</u> | <u>2,442,462</u> |
| Net position, ending | <u>\$40,728,326</u> | <u>\$39,316,307</u> | <u>\$ 1,412,019</u> |

Condensed Statements of Cash Flows

| | <u>2019</u> | <u>2018</u> | <u>Variance</u> |
|--|----------------------|----------------------|---------------------|
| Net cash provided (used) by: | | | |
| Operating activities | \$ 124,578 | \$ 1,011,104 | \$ (886,526) |
| Non-capital financing activities | 1,880,461 | 1,874,898 | 5,563 |
| Capital and related financing activities | (3,747,666) | (3,694,667) | (52,999) |
| Investing activities | 910,261 | 132,000 | 778,261 |
| Increase (decrease) in cash and cash equivalents | (832,366) | (676,665) | (155,701) |
| Cash and cash equivalents, beginning | <u>12,536,519</u> | <u>13,213,184</u> | <u>(676,665)</u> |
| Cash and cash equivalents, ending | <u>\$ 11,704,153</u> | <u>\$ 12,536,519</u> | <u>\$ (832,366)</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2019 amounts to \$38,215,616. This investment in capital assets includes land, water rights, water and sanitation plants, equipment, and vehicles.

| | <u>2019</u> | <u>2018</u> | <u>Variance</u> |
|---|-----------------------------|-----------------------------|----------------------------|
| Land and water rights | \$ 10,587,619 | \$ 10,551,180 | \$ 36,439 |
| Construction in progress | 638,364 | 5,815,842 | (5,177,478) |
| Water plant | 24,451,359 | 17,060,702 | 7,390,657 |
| Sanitation plant | 16,587,709 | 16,039,209 | 548,500 |
| Equipment, vehicles, and maintenance building | 2,734,434 | 2,459,925 | 274,509 |
| Less: Accumulated depreciaton | <u>(16,783,869)</u> | <u>(15,757,907)</u> | <u>(1,025,962)</u> |
| Total capital assets, net | <u><u>\$ 38,215,616</u></u> | <u><u>\$ 36,168,951</u></u> | <u><u>\$ 2,046,665</u></u> |

Major capital asset additions during the year 2019 include:

Water line replacement on Gleneagle Dr., section two of three. Replaced motor in Latrobe pump #1. Replace motors #4 & #5 for Baptist Booster. Well 9A pipe change order. Tie in at Westchester. The meter replacement program continued in 2019, with 300 meters replaced with E-Meters. New DEB access platforms & new screen. Repair of SBR Blower and UV bank #2 replacement at the Waste Plant.

Long-Term Debt

Outstanding debt at December 31, 2019 was \$12,531,237 and consisted of four loans payable.

| | <u>2019</u> | <u>2018</u> | <u>Variance</u> |
|---------------------|-----------------------------|-----------------------------|----------------------------|
| CWRPDA Loan, 2006A | \$ 2,255,976 | \$ 2,501,282 | \$ (245,306) |
| CWRPDA Loan, 2007 | 1,044,805 | 1,147,417 | (102,612) |
| CWRPDA Loan, 2011 | 5,982,421 | 6,025,574 | (43,153) |
| Laughlin Loan, 2017 | <u>3,248,035</u> | <u>3,312,756</u> | <u>(64,721)</u> |
| Total | <u><u>\$ 12,531,237</u></u> | <u><u>\$ 12,987,029</u></u> | <u><u>\$ (455,792)</u></u> |

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights-Revenue is expected to increase due to the commercial construction and the redevelopment of the Golf Course. Long term growth projections are limited due to the District being close to “build-out”. There are approximately 50 resident lots available to build upon and approximately 8 acres of commercial land, in 8 lots. Once these lots have been built upon, the tap revenue will no longer be available.

Large Expenses in 2019 include the continuation of a project to expand and replace a renewable water source as well as repairs and replacement of infrastructure in the District.

Economic and Environmental Factors-Donala has been actively pursuing alternative water sources to meet the demand for its’ customers now and into the future. As renewable water sources become more and more scarce, the costs associated with acquisition will become higher.

In 2010, the constituents of Donala Water and Sanitation District elected to allow Donala to collect an additional 5 mills indefinitely to help defray the costs of additional water related products. This option was exercised in 2014 and will be exercised going into the future.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers, investors, creditors and other financial users with a general overview of the District’s finances. If you have questions about this report or need additional financial information, contact our General Manager, Jeff Hodge, at 719-488-3603.

BASIC FINANCIAL STATEMENTS

DONALA WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

| ASSETS | 2019 | 2018 |
|--------------------------------------|--------------|--------------|
| | <hr/> | <hr/> |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,839,143 | \$ 7,807,567 |
| Investments | 3,242,292 | 3,787,297 |
| Investment interest receivable | 16,637 | 13,973 |
| Cash with County Treasurer | 18,336 | 18,545 |
| Accounts receivable, users | 349,443 | 266,980 |
| Property taxes receivable | 1,963,538 | 1,679,722 |
| Inventory | 280,876 | 176,938 |
| | <hr/> | <hr/> |
| Total current assets | 11,710,265 | 13,751,022 |
| | | |
| Noncurrent assets: | | |
| Restricted cash | 5,865,010 | 4,728,952 |
| Capital assets, net of depreciation | 38,215,616 | 36,168,951 |
| | <hr/> | <hr/> |
| Total noncurrent assets | 44,080,626 | 40,897,903 |
| | | |
| Total assets | <hr/> | <hr/> |
| | 55,790,891 | 54,648,925 |
| | <hr/> | <hr/> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 304,805 | 355,958 |
| Water sales deposits | 3,500 | 3,500 |
| Accrued interest expense | 150,195 | 155,002 |
| Unearned revenue | - | 63,416 |
| Current portion, long-term debt | 437,834 | 425,900 |
| | <hr/> | <hr/> |
| Total current liabilities | 896,334 | 1,003,776 |
| | | |
| Noncurrent liabilities: | | |
| Loans payable, less current portion | 12,093,403 | 12,561,129 |
| Compensated absences | 109,290 | 87,991 |
| | <hr/> | <hr/> |
| Total noncurrent liabilities | 12,202,693 | 12,649,120 |
| | | |
| Total liabilities | <hr/> | <hr/> |
| | 13,099,027 | 13,652,896 |
| | <hr/> | <hr/> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable property tax revenue | 1,963,538 | 1,679,722 |
| | <hr/> | <hr/> |
| Total deferred inflows of resources | \$ 1,963,538 | \$ 1,679,722 |
| | <hr/> | <hr/> |

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

DONALA WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018

| NET POSITION | 2019 | 2018 |
|----------------------------------|----------------------|----------------------|
| Net investment in capital assets | \$ 25,684,379 | \$ 23,181,923 |
| Restricted | 5,865,010 | 4,728,952 |
| Unrestricted | 9,178,937 | 11,405,432 |
| Total net position | <u>\$ 40,728,326</u> | <u>\$ 39,316,307</u> |

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

DONALA WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|--|---------------|---------------|
| Operating revenues: | | |
| Charges for services: | | |
| Water sales | \$ 3,222,646 | \$ 3,279,967 |
| Sewer assessments | 2,039,119 | 1,704,983 |
| Inspection fees | 21,000 | 13,500 |
| Water and sewer penalties | 22,719 | 22,840 |
| Other | 76,379 | 150,417 |
| Total operating revenue | 5,381,863 | 5,171,707 |
| Operating expenses: | | |
| Water and sanitation operations | 5,217,788 | 4,657,783 |
| General and administrative expenses | 875,722 | 856,070 |
| Total operating expenses | 6,093,510 | 5,513,853 |
| Operating income (loss) | (711,647) | (342,146) |
| Non-operating revenues (expenses): | | |
| General property tax | 1,676,889 | 1,665,076 |
| Specific ownership tax | 203,363 | 211,256 |
| Interest income | 367,921 | 308,409 |
| Availability of service | 12,250 | 5,600 |
| Gain (loss) on sale of capital assets | 5,800 | - |
| Amortization of loan premium | 29,891 | 29,891 |
| Bond expense | (39,255) | (39,255) |
| Interest expense | (497,193) | (511,209) |
| Total nonoperating revenues (expenses) | 1,759,666 | 1,669,768 |
| Income before capital contributions | 1,048,019 | 1,327,622 |
| Capital contributions | 364,000 | 1,114,840 |
| Change in net position | 1,412,019 | 2,442,462 |
| Net position, beginning, as restated | 39,316,307 | 36,873,845 |
| Net position, ending | \$ 40,728,326 | \$ 39,316,307 |

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

DONALA WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 5,214,983 | \$ 5,296,014 |
| Cash payments to suppliers for goods and services | (3,973,109) | (3,163,673) |
| Cash payments to employees | (1,150,546) | (1,140,337) |
| Cash received from inspection fees | 21,000 | 13,500 |
| Cash received from availability of service fees | 12,250 | 5,600 |
| | <u>124,578</u> | <u>1,011,104</u> |
| Net cash provided (used) by operating activities | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Cash received from general and specific ownership tax revenues | 1,880,461 | 1,874,898 |
| | <u>1,880,461</u> | <u>1,874,898</u> |
| Net cash provided (used) by non-capital financing activities | | |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Tap fees and water development fees | 364,000 | 1,114,840 |
| Payment of long-term debt | (425,900) | (414,210) |
| Interest paid on capital debt | (502,000) | (515,958) |
| Acquisition and construction of capital assets | (3,150,311) | (3,840,084) |
| Bond expense | (39,255) | (39,255) |
| Proceeds from sale of assets | 5,800 | - |
| | <u>(3,747,666)</u> | <u>(3,694,667)</u> |
| Net cash provided (used) by capital and related financing activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (1,325,540) | (2,183,939) |
| Maturities of investments | 1,910,000 | 2,025,000 |
| Interest received | 325,801 | 290,939 |
| | <u>910,261</u> | <u>132,000</u> |
| Net cash provided (used) by investing activities | | |
| Net increase (decrease) in cash and cash equivalents | (832,366) | (676,665) |
| Cash and cash equivalents at beginning of year | 12,536,519 | 13,213,184 |
| | <u>12,536,519</u> | <u>13,213,184</u> |
| Cash and cash equivalents at end of year | <u>\$ 11,704,153</u> | <u>\$ 12,536,519</u> |

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

DONALA WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| Reconciliation of cash and cash equivalents to the statement of net position: | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-----------------------------|
| Cash and cash equivalents | \$ 5,839,143 | \$ 7,807,567 |
| Restricted cash and cash equivalents | <u>5,865,010</u> | <u>4,728,952</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 11,704,153</u></u> | <u><u>\$ 12,536,519</u></u> |
| | | |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | <u>\$ (711,647)</u> | <u>\$ (342,146)</u> |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | |
| Availability of service fees | 12,250 | 5,600 |
| Depreciation | 1,036,572 | 1,011,833 |
| Changes in assets and liabilities: | | |
| <i>(Increase) decrease in:</i> | | |
| Accounts receivable | (82,463) | 71,391 |
| Inventory | (103,938) | (7,309) |
| <i>Increase (decrease) in:</i> | | |
| Accounts payable | 15,921 | 213,376 |
| Water sales deposits | - | 3,000 |
| Unearned revenue | (63,416) | 63,416 |
| Compensated absences | <u>21,299</u> | <u>(8,057)</u> |
| Total Adjustments | <u>836,225</u> | <u>1,353,250</u> |
| Net cash provided (used) by operating activities | <u><u>\$ 124,578</u></u> | <u><u>\$ 1,011,104</u></u> |
| | | |
| Non-cash investing, capital and financing activities: | | |
| Increase (decrease) in fair market value of investments | \$ 33,095 | \$ 10,996 |

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

NOTES TO FINANCIAL STATEMENTS

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Donala Water and Sanitation District (the District) was organized in 1972 as a local governmental unit (a “Special District”) under the laws of the State of Colorado in order to provide water and sewer services to residents within its boundaries.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The District is a special district governed by an elected five-member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District’s financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in bank accounts, certificates of deposits with original maturities of 90 days or less and amounts held in ColoTrust, including restricted cash and cash equivalents.

Investments

Investments are stated at fair value.

Accounts receivable, users

The accounts receivable are due from a large number of customers for the purchase of water and for sanitation assessments. An allowance for doubtful accounts is not required as the District can place a lien on property for unpaid water sales.

Inventory

Inventory consists of materials and supplies and is stated at the lower of cost or market using the first-in, first-out (FIFO) method.

Restricted Cash and Investments

The use of certain cash and investments of the District is restricted. These cash and investment items are classified as restricted assets on the statement of net position because they are maintained in separate accounts and their use is limited by debt and loan agreements.

Loan Premiums

Loan premiums are amortized, on a straight-line method, over the life of each loan.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed. The capitalization threshold is \$5,000.

Collection mains and other improvements installed upon formation of the District at the expense of developers and subdividers are not recorded in the balance sheet and depreciation thereon has not been charged against revenues as records are not available to establish valuation for such property.

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. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method over the estimated useful lives of the depreciable property. The estimated useful lives are as follows:

Water Plant:

| | |
|------------------------|--------------|
| Water wells and system | 7 - 40 years |
| Water mains | 40 years |
| Water pump station | 40 years |
| Water storage | 5 - 40 years |
| Water plant | 5 - 40 years |

Sanitation Plant:

| | |
|----------------------|---------------|
| Sanitation mains | 40 years |
| Treatment facilities | 15 - 40 years |

Equipment and Vehicles:

| | |
|----------------------|--------------|
| Office equipment | 3 - 7 years |
| Other equipment | 3 - 7 years |
| Vehicles | 5 years |
| Maintenance Building | 5 - 40 years |

The cost of water rights includes acquisition costs, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

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 element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. The tax levy is payable in two installments due February 28 and June 15, or in one installment due April 30. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are recognized when levied. The tax rate for the year ended December 31, 2019 and 2018 was 21.296 and 21.296 mills, respectively. The District's assessed valuation for 2019 and 2018 was \$78,731,490 and \$78,369,100 respectively.

Compensated Absences

Full-time employees of the District are entitled to one week of paid vacation the first year of employment, two weeks after one year, three weeks after five years and 4 weeks after ten years of employment. The District's policy is to recognize the costs of these compensated absences when incurred.

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and sanitation assessments, late and reconnect charges, and inspection fees. Operating expenses include all expenses incurred to provide water and sanitation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ESTIMATES

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

G. COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Budgets are adopted on a comprehensive basis of accounting other than generally accepted accounting principles. The primary differences are that bond and note proceeds are treated as a budget source and capital expenditures and bond and note principal payments are treated as a budget use. Depreciation expense is not considered a budget expense. An annual appropriated budget is adopted for the proprietary fund. All annual appropriations lapse at fiscal year-end.

Expenditures may not legally exceed budgeted appropriations.

The budgeted revenues and expenses represent the original budget adopted or as amended by the Board.

The District follows these procedures in establishing the budgetary data reflected in the Financial Statements.

1. In the fall, the manager 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.
2. Public hearings are conducted at the District to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted by the Board.
4. The manager is authorized to transfer budgeted amounts between line items of the District; however, any revisions that alter the total expenditures of the District must be approved by the Board of Directors.
5. In December, the Board certifies the mill levy to El Paso County.
6. During the year, formal budgetary integration is employed as a management control device.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

As of December 31, 2019 and 2018, the carrying amounts of the District's deposits were \$258,288 and \$1,102,860, respectively and the bank balances were \$375,917 and \$1,277,956, respectively. Of the total bank balances, \$250,000 was covered by FDIC insurance at each year ended December 31, 2019 and 2018. The remaining balances of \$125,917 and \$1,027,956 fall under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools.

Investments

The District is authorized by Colorado State Statutes to invest in the following:

- ◆ Bonds and other interest-bearing obligations of the United States government.
- ◆ Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- ◆ Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- ◆ Notes or bonds issued to the "National Housing Act".
- ◆ Repurchase agreements.
- ◆ Local government investment pools.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits its investment portfolio to investment maturities not to exceed five years from the date of purchase.

Credit Risk. The District's investment policy limits investments as described above. As of December 31, 2019, the District's investments in U.S. Treasuries and Agencies were rated AAA by Standard & Poor's. All other investments were rated AAA.

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of December 31, 2019 the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | |
|----------------------------|-----------------------------|------------------------------|----------------------------|--------------------------|----------------------------|
| | | <u>Less Than 90 Days</u> | <u>90 Days to 1 Year</u> | <u>1 to 2 Years</u> | <u>2 to 5 Years</u> |
| ColoTrust | \$ 10,824,049 | \$ 10,824,049 | \$ - | \$ - | \$ - |
| Money markets | 621,816 | 621,816 | - | - | - |
| U.S. Treasuries & Agencies | <u>3,242,292</u> | <u>275,189</u> | <u>1,028,843</u> | <u>753,301</u> | <u>1,184,959</u> |
| Total | <u>\$ 14,688,157</u> | <u>\$ 11,721,054</u> | <u>\$ 1,028,843</u> | <u>\$ 753,301</u> | <u>\$ 1,184,959</u> |

As of December 31, 2018 the District had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | |
|----------------------------|-----------------------------|------------------------------|----------------------------|----------------------------|--------------------------|
| | | <u>Less Than 90 Days</u> | <u>90 Days to 1 Year</u> | <u>1 to 2 Years</u> | <u>2 to 5 Years</u> |
| ColoTrust | \$ 11,407,514 | \$ 11,407,514 | \$ - | \$ - | \$ - |
| Money markets | 26,145 | 26,145 | - | - | - |
| U.S. Treasuries & Agencies | <u>3,787,297</u> | <u>149,736</u> | <u>1,747,703</u> | <u>1,440,467</u> | <u>449,391</u> |
| Total | <u>\$ 15,220,956</u> | <u>\$ 11,583,395</u> | <u>\$ 1,747,703</u> | <u>\$ 1,440,467</u> | <u>\$ 449,391</u> |

ColoTrust is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

The designated custodial bank provides safekeeping and depository services to ColoTrust in connection with the direct investment and withdrawal function of ColoTrust. Substantially all securities owned by ColoTrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by ColoTrust. Investments of ColoTrust consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the District does not categorize investments with ColoTrust because they are not evidenced by securities that exist in physical or book entry form.

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|---------------------|---------------------|
| Cash and cash equivalents: | | |
| Deposits | \$ 241,706 | \$ 1,091,890 |
| ColoTrust | <u>5,597,437</u> | <u>6,715,677</u> |
| | <u>\$ 5,839,143</u> | <u>\$ 7,807,567</u> |
| Investments: | | |
| U.S. Treasuries & Agencies | <u>\$ 3,242,292</u> | <u>\$ 3,787,297</u> |
| Restricted cash and cash equivalents: | | |
| Deposits | \$ 16,582 | \$ 10,970 |
| Money Markets | 621,816 | 26,145 |
| ColoTrust | <u>5,226,612</u> | <u>4,691,837</u> |
| | <u>\$ 5,865,010</u> | <u>\$ 4,728,952</u> |

NOTE 4 - RESTRICTED CASH AND INVESTMENTS

Property taxes levied for debt service and availability of service fees are deposited into separate accounts. As of December 31, 2019 and 2018, \$638,398 and \$37,115 of cash and investments were restricted for debt service payment and availability of service.

Tabor reserves were \$237,914 and \$256,250 for years ended December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018 \$4,998,698 and \$4,435,587 was restricted in an operating and maintenance reserve as required by debt covenants.

NOTE 5 - FAIR VALUE MEASUREMENT

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

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique. As a basis for considering market participant assumptions in fair value measurements, GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - FAIR VALUE MEASUREMENT (CONTINUED)

- Level 1 inputs reflect prices quoted in active markets.
- Level 2 inputs reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 inputs reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Investments classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Investments classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

| | December 31, 2019 | | | |
|----------------------------------|-------------------|---------------------|----------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investments - unrestricted | | | | |
| U.S. Treasury Notes | \$ - | \$ 1,026,078 | \$ - | \$ 1,026,078 |
| Agency Notes | <u>-</u> | <u>2,216,214</u> | <u>-</u> | <u>2,216,214</u> |
| Total Investments - unrestricted | <u>\$ -</u> | <u>\$ 3,242,292</u> | <u>\$ -</u> | <u>\$ 3,242,292</u> |

| | December 31, 2018 | | | |
|----------------------------------|-------------------|---------------------|----------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investments - unrestricted | | | | |
| U.S. Treasury Notes | \$ - | \$ 719,278 | \$ - | \$ 719,278 |
| Agency Notes | <u>-</u> | <u>3,068,019</u> | <u>-</u> | <u>3,068,019</u> |
| Total Investments - unrestricted | <u>\$ -</u> | <u>\$ 3,787,297</u> | <u>\$ -</u> | <u>\$ 3,787,297</u> |

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 – CAPITAL ASSETS

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

| | <u>Beginning</u> <u>Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Ending</u> <u>Balance</u> |
|--|------------------------------------|-----------------------------|-----------------------------|---------------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and water rights | \$ 10,551,180 | \$ 36,439 | \$ - | \$ 10,587,619 |
| Construction in progress | <u>5,815,842</u> | <u>2,761,678</u> | <u>(7,939,156)</u> | <u>638,364</u> |
| Total capital assets, not being depreciated | <u>16,367,022</u> | <u>2,798,117</u> | <u>(7,939,156)</u> | <u>11,225,983</u> |
| Capital assets, being depreciated: | | | | |
| Water Plant: | | | | |
| Water wells and system | 8,537,498 | 7,390,657 | - | 15,928,155 |
| Water mains | 2,598,226 | - | - | 2,598,226 |
| Water pump station | 664,947 | - | - | 664,947 |
| Water storage | 1,664,050 | - | - | 1,664,050 |
| Water plant | <u>3,595,981</u> | <u> </u> | <u> </u> | <u>3,595,981</u> |
| Total Water Plant | <u>17,060,702</u> | <u>7,390,657</u> | <u> </u> | <u>24,451,359</u> |
| Sanitation Plant: | | | | |
| Sanitation mains | 4,307,619 | - | - | 4,307,619 |
| Treatment facilities | <u>11,731,590</u> | <u>548,500</u> | <u> </u> | <u>12,280,090</u> |
| Total Sanitation Plant | <u>16,039,209</u> | <u>548,500</u> | <u> </u> | <u>16,587,709</u> |
| Equipment, Vehicles and Maintenance | | | | |
| Office equipment | 52,481 | - | (900) | 51,581 |
| Other equipment | 1,619,388 | 255,460 | - | 1,874,848 |
| Vehicles | 424,403 | 29,659 | (9,710) | 444,352 |
| Maintenance building | <u>363,653</u> | <u> </u> | <u> </u> | <u>363,653</u> |
| Total Equipment and Vehicles | <u>2,459,925</u> | <u>285,119</u> | <u>(10,610)</u> | <u>2,734,434</u> |
| Total capital assets, being depreciated | 35,559,836 | 8,224,276 | (10,610) | 43,773,502 |
| Less accumulated depreciation | <u>(15,757,907)</u> | <u>(1,036,572)</u> | <u>10,610</u> | <u>(16,783,869)</u> |
| Total capital assets, being depreciated, net | <u>19,801,929</u> | <u>7,187,704</u> | <u> </u> | <u>26,989,633</u> |
| Total capital assets, net | <u>\$ 36,168,951</u> | <u>\$ 9,985,821</u> | <u>\$ (7,939,156)</u> | <u>\$ 38,215,616</u> |

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

| | | |
|--|---------------------|---------------------|
| Depreciation expense was charged to functions/programs as follows: | <u>2019</u> | <u>2018</u> |
| Water and sanitation operations | <u>\$ 1,036,572</u> | <u>\$ 1,011,833</u> |

NOTE 7 - DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan created in accordance with IRC §457. The plan, available to all government employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The District contributes 2% of the employees' salary upon enrollment with a matching 7% if the participant defers at least 3% of their salary. The District's contributions during 2019 and 2018 were \$65,439 and \$64,745.

NOTE 8 - LONG-TERM LIABILITIES

Compensated Absences Payable

| | | |
|--|-------------------|------------------|
| Compensated absences consisted of the following: | <u>2019</u> | <u>2018</u> |
| Sick leave benefits | \$ 52,408 | \$ 40,198 |
| Vacation benefits | <u>56,882</u> | <u>47,793</u> |
| Total | <u>\$ 109,290</u> | <u>\$ 87,991</u> |

Colorado Water Resources and Power Development Authority Loans

On May 1, 2006, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA) in the amount of \$4,906,910. The loan was issued at a premium of \$135,891. After paying issuance costs of \$42,801, the loan proceeds of \$5,000,000 were deposited to a project account. This loan is payable semiannually in varying amounts from \$117,456 to \$175,142 including interest at 3.64%. This loan is to be repaid from and secured by a pledge of the net water and sanitation revenues of the District.

On December 11, 2007, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority in the amount of \$2,000,000. The proceeds of the loan have been used to create a Water Pollution Control Revolving Fund Project Loan Account. The loan is payable semiannually with payments in the amount of \$72,343, including interest at 3.75%. This loan is to be repaid from and secured by a pledge of the net water and sanitation revenues of the District.

On December 13, 2011, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority (CWRPDA) in the amount of \$5,965,000. The loan was issued at a premium of \$337,642. Loan proceeds of \$6,302,642 were deposited to a project account. This loan is payable semiannually in varying amounts from \$61,621 to \$784,125 including interest at 2% to 5%. This loan is to be repaid from and secured by a pledge of the net water and sanitation revenues of the District.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

On May 23, 2017, the District entered into a loan agreement with the Gray Family Management Trust in the amount of \$3,420,000. The loan has an interest rate of 4% that is amortized over 30 years. The loan is payable quarterly in the amount of \$49,067. The entire principal amount outstanding and accrued shall be due and payable on March 31, 2022 if not paid sooner. The Loan is secured by the Deed of Trust dated May 23, 2017 to Laughlin Ditch water rights.

The annual requirements to amortize loans are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> |
|-------------|----------------------|---------------------|
| 2020 | \$ 437,834 | \$ 487,948 |
| 2021 | 455,022 | 473,343 |
| 2022 | 3,505,569 | 367,675 |
| 2023 | 409,730 | 324,087 |
| 2024 | 420,080 | 310,108 |
| 2025 – 2029 | 2,456,781 | 1,430,477 |
| 2030 – 2034 | 3,155,000 | 862,500 |
| 2035 – 2036 | <u>1,495,000</u> | <u>113,000</u> |
| Total | <u>\$ 12,335,016</u> | <u>\$ 4,369,138</u> |

Changes in Long-term Liabilities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Loans payable: | | | | | |
| CWRPDA Loan, 2006A | | | | | |
| Principal | \$ 2,450,744 | \$ - | \$ (238,568) | \$ 2,212,176 | \$ 243,990 |
| Issuance premium | 50,538 | - | (6,738) | 43,800 | - |
| CWRPDA Loan, 2007 | | | | | |
| Principal | 1,147,417 | - | (102,611) | 1,044,805 | 106,495 |
| CWRPDA Loan, 2011 | | | | | |
| Principal | 5,850,000 | - | (20,000) | 5,830,000 | 20,000 |
| Issuance premium | 175,574 | - | (23,153) | 152,421 | - |
| Laughlin Loan, 2017 | | | | | |
| Principal | <u>3,312,756</u> | <u>-</u> | <u>(64,721)</u> | <u>3,248,035</u> | <u>67,349</u> |
| Total loans payable | 12,987,029 | - | (455,791) | 12,531,237 | 437,834 |
| Compensated absences | <u>87,991</u> | <u>21,299</u> | <u>-</u> | <u>109,290</u> | <u>-</u> |
| Total long-term liabilities | <u>\$ 13,075,020</u> | <u>\$ 21,299</u> | <u>\$ (455,791)</u> | <u>\$ 12,640,527</u> | <u>\$ 437,834</u> |

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 - NET POSITION

Net position is reported in three separate categories—net investment in capital assets; net position-restricted; and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2019 and 2018, net investment in capital assets was as follows:

| | 2019 | 2018 |
|--|---------------|---------------|
| Net investment in capital assets: | | |
| Capital assets, net of depreciation | \$ 38,215,616 | \$ 36,168,951 |
| Long-term liabilities: | | |
| Due within one year | (437,834) | (425,900) |
| Due in more than one year | (12,093,403) | (12,561,128) |
| Total net investment in capital assets | \$ 25,684,379 | \$ 23,181,923 |

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). As of December 31, 2019 and 2018, net position-restricted was as follows:

| | 2019 | 2018 |
|-----------------------------------|--------------|--------------|
| Net position-restricted: | | |
| Debt service reserve | \$ 638,398 | \$ 37,115 |
| Operating and Maintenance reserve | 4,988,698 | 4,435,587 |
| Tabor – emergency reserve | 237,914 | 256,250 |
| Total net position-restricted | \$ 5,865,010 | \$ 4,728,952 |

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 – INTERGOVERNMENTAL AGREEMENTS

Intergovernmental agreement with Forest Lakes Metropolitan District and Triview Metropolitan District

The District entered into an agreement dated November 11, 1999, subsequently amended on October 25, 2001, with Forest Lakes Metropolitan District and Triview Metropolitan District to define ownership rights in the wastewater treatment plant. Under the amended agreement Triview and Forest Lakes transferred part ownership to the District.

In 2009 the Districts completed an expansion of the plant to 1.75 MGD. Under the terms of the above agreements, the three Districts reallocated ownership. The current ownership is 44.0% owned by Triview, 17.1% by Forest Lakes, and 38.9% by Donala. The plant is currently being operated by Donala and all parties are responsible for their respective share of operations and maintenance costs, based on the relative share of actual flows.

In addition, in accordance with the November 11, 1999 agreement, an ownership interest in a 24” interceptor was transferred to the Forest Lakes. As a result of the transfer, the interceptor is owned 50% by Triview, 25% by Forest Lakes, and 25% by the District.

NOTE 11 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss, including worker’s compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during any of the last three fiscal years.

NOTE 12 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

Fiscal year spending and revenue limits are determined based on the prior year’s spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

On May 2, 2006 the voters of the District approved that taxes may be increased \$810,000 annually in 2007 and by whatever additional amounts are raised annually thereafter by continuing to collect but not increasing the tax rate of 12.810 mills levied by the District for payment of debt service, which was authorized by District voters in 1993 for general obligation bonds which were defeased in 2006. The voters also approved that the proceeds of these taxes and the District’s operational mill levy, any investment income therefrom, and all other District revenue be collected and spent without limitation or condition, as a voter-approved revenue change under Article X, Section 20 of the Colorado Constitution and as a voter approved mill levy under Colorado Revised Statutes section 29-1-302(2) (B).

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 - AMENDMENT TO COLORADO CONSTITUTION (CONTINUED)

On May 4, 2010 the voters of the District approved that taxes may be increased \$412,000 annually in collection year 2011 and by whatever additional amounts are raised annually thereafter by the imposition of an additional mill levy of not more than 5 mills; and that the proceeds of such taxes may be collected and spent without limitation or condition pursuant to Colorado Revised Statutes section 29-1-302(2) (B).

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During the year, it was determined that prior year deferred revenues were understated and water sales were overstated.

The above restatements had the following impact on previously reported balances:

| | |
|---|----------------------|
| Net position, January 1, 2019, as previously stated | \$ 39,379,723 |
| Restatement to record prior year deferred revenue | <u>(63,416)</u> |
| Net position, January 1, 2019, as restated | <u>\$ 39,316,307</u> |

SUPPLEMENTARY INFORMATION

DONALA WATER AND SANITATION DISTRICT
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Water and sanitation operations: | | |
| Repair and maintenance | \$ 166,830 | \$ 253,070 |
| Utilities | 577,668 | 635,567 |
| Solid waste removal | 73,859 | 68,981 |
| Chemicals and lab | 123,378 | 141,458 |
| Truck and backhoe | 32,812 | 40,686 |
| District engineer | 76,671 | 85,101 |
| Professional engineer | 278 | 16,822 |
| Salaries | 799,950 | 757,937 |
| Payroll taxes | 59,814 | 58,968 |
| Pension expense | 65,439 | 64,745 |
| Depreciation | 1,036,572 | 1,011,833 |
| Tools and equipment | 15,229 | 55,509 |
| Inspection fees | 400 | 400 |
| Water purchases | 2,156,535 | 1,428,382 |
| AFCURE | 32,353 | 38,324 |
| | <hr/> | <hr/> |
| Total Water and Sanitation Operating Expenses | 5,217,788 | 4,657,783 |
| | <hr/> | <hr/> |
| General and administrative expenses: | | |
| Accounting and audit expense | 21,800 | 20,970 |
| County treasurer fees | 25,174 | 25,040 |
| Director fees | 5,600 | 6,000 |
| Fees and permits | 24,572 | 25,555 |
| Insurance | 337,033 | 315,955 |
| Legal | 47,202 | 26,567 |
| Other | 20,857 | 26,459 |
| Office expense | 21,649 | 34,039 |
| Salaries | 224,416 | 227,495 |
| Payroll taxes | 16,625 | 17,135 |
| Publication expense | 15,911 | 20,523 |
| Telephone | 26,006 | 24,125 |
| Training | 15,026 | 10,926 |
| Contract service | 73,851 | 75,281 |
| | <hr/> | <hr/> |
| Total General and Administrative Expenses | <u>\$ 875,722</u> | <u>\$ 856,070</u> |

See the accompanying independent auditors' report.

DONALA WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Actual | Budget | Variance Favorable (Unfavorable) |
|--|---------------------|---------------------|--|
| REVENUES | | | |
| Beginning fund balance | \$ 16,134,385 | \$ 20,057,301 | \$ (3,922,916) |
| Water sales | 3,222,646 | 3,118,000 | 104,646 |
| Sewer assessments | 2,039,119 | 1,824,237 | 214,882 |
| Inspection fees | 21,000 | 15,000 | 6,000 |
| Water and sewer penalties | 22,718 | - | 22,718 |
| Other | 76,379 | 75,000 | 1,379 |
| General property tax | 1,676,889 | 1,679,722 | (2,833) |
| Specific ownership tax | 203,363 | 130,000 | 73,363 |
| Interest income | 367,921 | 165,000 | 202,921 |
| Availability of service | 12,250 | 19,600 | (7,350) |
| Proceeds from sale of asset | 5,800 | - | 5,800 |
| Loan proceeds | - | 1,750,000 | (1,750,000) |
| Capital contributions | 364,000 | 360,000 | 4,000 |
| TOTAL REVENUES | 24,146,470 | 29,193,860 | (5,047,390) |
| EXPENDITURES | | | |
| Water and sanitation operations: | | | |
| Repair and maintenance | 166,830 | 403,900 | 237,070 |
| Utilities | 577,668 | 415,000 | (162,668) |
| Solid waste removal | 73,859 | 62,000 | (11,859) |
| Chemicals and lab | 123,378 | 38,000 | (85,378) |
| Truck and backhoe | 32,812 | 63,000 | 30,188 |
| District engineer | 76,671 | 30,000 | (46,671) |
| Professional engineer | 278 | 50,000 | 49,722 |
| Salaries | 799,950 | 686,053 | (113,897) |
| Payroll taxes | 59,814 | 52,483 | (7,331) |
| Pension expense | 65,439 | 48,023 | (17,416) |
| Tools and equipment | 15,229 | 20,000 | 4,771 |
| Inspection fees | 400 | 2,000 | 1,600 |
| Water purchases | 2,156,535 | 1,255,269 | (901,266) |
| AFCURE | 32,353 | 50,000 | 17,647 |
| Total water and sanitation operations | \$ 4,181,216 | \$ 3,175,728 | \$ (1,005,488) |

See the accompanying independent auditors' report.

DONALA WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Actual | Budget | Variance Favorable (Unfavorable) |
|---|---------------------|----------------------|--|
| EXPENDITURES (continued) | | | |
| General and administrative expenses: | | | |
| Accounting and audit expense | \$ 21,800 | \$ 22,000 | \$ 200 |
| County treasurer fees | 25,174 | 28,000 | 2,826 |
| Director fees | 5,600 | 5,000 | (600) |
| Fees and permits | 24,572 | 18,000 | (6,572) |
| Insurance | 337,033 | 232,000 | (105,033) |
| Legal | 47,202 | 20,000 | (27,202) |
| Other | 20,857 | 20,000 | (857) |
| Office expense | 21,649 | 65,000 | 43,351 |
| Salaries | 224,417 | 360,174 | 135,757 |
| Payroll taxes | 16,625 | 27,000 | 10,375 |
| Publication expense | 15,910 | 17,000 | 1,090 |
| Telephone | 26,006 | 22,000 | (4,006) |
| Training | 15,026 | 18,000 | 2,974 |
| Contract service | 73,851 | 78,000 | 4,149 |
| Total general and administrative expenses | <u>875,722</u> | <u>932,174</u> | <u>56,452</u> |
| Capital expenditures | 3,083,237 | 3,086,307 | 3,070 |
| Principal payment on long-term debt | 425,900 | 425,900 | - |
| Bond expense | 39,255 | 39,255 | - |
| Interest expense | 497,193 | 348,524 | (148,669) |
| Contingency | - | 4,402,726 | 4,402,726 |
| TOTAL EXPENDITURES | <u>\$ 9,102,523</u> | <u>\$ 12,410,614</u> | <u>\$ 3,308,091</u> |

See the accompanying independent auditors' report.

DONALA WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Actual | Budget | Variance Favorable (Unfavorable) |
|--|---------------------|---------------|--|
| EXCESS OF REVENUE OVER EXPENDITURES | \$ 15,043,947 | \$ 16,783,246 | \$ (1,739,299) |
| Less: | | | |
| Depreciation | (1,036,572) | | |
| Beginning fund balance | (16,134,385) | | |
| Proceeds from sale of assets | (5,800) | | |
| Add: | | | |
| Gain/loss on sale of assets | 5,800 | | |
| Amortization of loan premium | 29,892 | | |
| Capital expenditures | 3,083,237 | | |
| Principal payment on bonds | 425,900 | | |
| CHANGE IN NET POSITION | \$ 1,412,019 | | |

Ending fund balance is calculated as follows:

| | |
|--------------------------------------|----------------------|
| Current assets | \$ 11,710,265 |
| Restricted cash and cash equivalents | 5,865,010 |
| Current liabilities | (896,334) |
| Current portion, long-term debt | 437,834 |
| Compensated absences | (109,290) |
| Deferred inflows | (1,963,538) |
| | \$ 15,043,947 |

See the accompanying independent auditors' report.

**DONALA WATER AND SANITATION DISTRICT
DEBT SERVICE COVERAGE AND RESERVE REQUIREMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | |
|---|--------------------------------|
| Revenues | |
| Water sales | \$ 3,222,646 |
| Sewer assessments | 2,039,119 |
| Inspection fees | 21,000 |
| Water and sewer penalties | 22,718 |
| Other | 76,379 |
| Tax revenue | 1,880,252 |
| Interest income | 367,921 |
| Availability of service | 12,250 |
| Capital contributions | <u>364,000</u> |
| TOTAL REVENUES | <u>8,006,285</u> |
| Operating Expenses | 6,093,510 |
| Less: depreciation | <u>(1,036,572)</u> |
| NET OPERATING EXPENSES | <u>5,056,938</u> |
| NET REVENUES (PLEDGED PROPERTY) | <u><u>\$ 2,949,347</u></u> |
| 2020 Debt service on obligations secured by Pledged Property: | |
| Loans (principal and interest) | \$ 925,782 |
| Loans (administration fees) | <u>39,255</u> |
| Total Debt Service | 965,037 |
| Net Revenues | <u>\$ 2,949,347</u> |
| DEBT SERVICE COVERAGE FACTOR | <u><u>305.62%</u></u> |
| OPERATION & MAINTENANCE RESERVE: | |
| Operating expenses (net of depreciation) | \$ 5,056,938 |
| 3 month reserve | <u>25%</u> |
| Three month reserve requirement | \$ 1,264,235 |
| Actual Reserve (See Note 9) | \$ 4,988,698 |

See the accompanying independent auditors' report.