

**DONALA WATER AND SANITATION
DISTRICT**

FINANCIAL STATEMENTS
With Independent Auditors' Report

Year Ended December 31, 2020 and 2019

DONALA WATER AND SANITATION DISTRICT
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DECEMBER 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 10, 2021

DONALA WATER AND SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2020

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, 2020. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets and deferred outflows exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$40,885,054 (*net position*). Of this amount, \$12,315,960 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 \$156,728.
- Capital assets net of depreciation increased by \$545,337 from the prior year.
- The District's total outstanding long-term debt decreased by \$713,393 during the current year due to the payment of loans based on debt service schedules, as well as issuing revenue refunding bonds for the purpose of refunding 3 of our outstanding loans to reduce our total debt service payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serve 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, 2020, the District's assets exceeded liabilities and deferred inflows by \$40,885,054 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	2020	2019	Variance
Assets			
Capital assets, net	\$ 38,760,953	\$ 38,215,616	\$ 545,337
Other assets	16,342,745	17,575,275	(1,232,530)
Total assets	<u>55,103,698</u>	<u>55,790,891</u>	<u>(687,193)</u>
Deferred Outflows of Resources			
Deferred charge on refunding	80,726	-	80,726
Liabilities			
Long-term	11,817,844	12,531,237	(713,393)
Other liabilities	510,406	567,790	(57,384)
Total liabilities	<u>12,328,250</u>	<u>13,099,027</u>	<u>(770,777)</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	1,971,120	1,963,538	7,582
Total deferred inflows of Resources	<u>1,971,120</u>	<u>1,963,538</u>	<u>7,582</u>
Net position			
Net investment in capital assets	27,023,836	25,684,379	1,339,457
Restricted	1,545,258	2,126,312	(581,054)
Unrestricted	12,315,960	12,917,635	(601,675)
Total net position	<u>\$ 40,885,054</u>	<u>\$ 40,728,326</u>	<u>\$ 156,728</u>

Unrestricted net position of the District at the end of the year was \$12,315,960 a decrease of \$601,675 from the prior year. This decrease resulted primarily from using our debt service reserve to go toward refunding our current debt structure.

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

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Revenues			
Operating revenues	\$ 5,797,408	\$ 5,381,863	\$ 415,545
Tax	2,172,378	1,880,252	292,126
Other	208,350	415,862	(207,512)
Total revenues	<u>8,178,136</u>	<u>7,677,977</u>	<u>500,159</u>
Expenses			
Water and sanitation operations	\$ 5,411,004	\$ 5,217,788	\$ 193,216
General and administrative	1,064,999	875,722	189,277
Other	1,947,778	536,448	1,411,330
Total expenses	<u>8,423,781</u>	<u>6,629,958</u>	<u>1,793,823</u>
Income before contributions	(245,645)	1,048,019	(1,293,664)
Capital contributions	<u>402,373</u>	<u>364,000</u>	<u>38,373</u>
Change in net position	156,728	1,412,019	(1,255,291)
Net position, beginning	<u>40,728,326</u>	<u>39,316,307</u>	<u>1,412,019</u>
Net position, ending	<u>\$40,885,054</u>	<u>\$40,728,326</u>	<u>\$ 156,728</u>

Condensed Statements of Cash Flows

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Net cash provided (used) by:			
Operating activities	\$ (75,834)	\$ 124,578	\$ (200,412)
Non-capital financing activities	2,173,415	1,880,461	292,954
Capital and related financing activities	(3,711,303)	(3,747,666)	36,363
Investing activities	131,172	910,261	(779,089)
Increase (decrease) in cash and cash equivalents	(1,482,550)	(832,366)	(650,184)
Cash and cash equivalents, beginning	<u>11,704,153</u>	<u>12,536,519</u>	<u>(832,366)</u>
Cash and cash equivalents, ending	<u>\$ 10,221,603</u>	<u>\$ 11,704,153</u>	<u>\$ (1,482,550)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2020 amounts to \$38,760,953. This investment in capital assets includes land, water rights, water and sanitation plants, equipment, and vehicles.

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
Land and water rights	\$ 9,308,063	\$ 10,587,619	\$ (1,279,556)
Construction in progress	32,302	638,364	(606,062)
Water plant	28,085,126	24,451,359	3,633,767
Sanitation plant	16,573,909	16,587,709	(13,800)
Equipment, vehicles, and maintenance building	2,722,817	2,734,434	(11,617)
Less: Accumulated depreciaton	<u>(17,961,264)</u>	<u>(16,783,869)</u>	<u>(1,177,395)</u>
Total capital assets, net	<u><u>\$ 38,760,953</u></u>	<u><u>\$ 38,215,616</u></u>	<u><u>\$ 545,337</u></u>

Major capital asset additions during the year 2020 include:

Water line replacement on Hunting Beach, Candlewood, Westchester, and Mission Hills. Building and licensing the residuals management facility on Homeland Ct. Repairs to blower at the Waste Plant. Gas Chlorinator and replacement of chlorine feed. UV channel expansion. EQ mixer #4 pump rebuild. Repairs to D7. New pump and motor for well 4A. Replace drive in well 2A. Raw water pump 1 replacement. Install new split system at well house 1A.

Long-Term Debt

Outstanding debt on December 31, 2020 was \$11,817,844 and consisted of two loans payable.

	<u>2020</u>	<u>2019</u>	<u>Variance</u>
CWRPDA Loan, 2006A	\$ 2,005,247	\$ 2,255,976	\$ (250,729)
CWRPDA Loan, 2007	-	1,044,805	(1,044,805)
CWRPDA Loan, 2011	-	5,982,421	(5,982,421)
Laughlin Loan, 2017	-	3,248,035	(3,248,035)
2020 Bond	<u>9,812,597</u>	<u>-</u>	<u>9,812,597</u>
Total	<u><u>\$ 11,817,844</u></u>	<u><u>\$ 12,531,237</u></u>	<u><u>\$ (713,393)</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 40 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 2020 include the building and licensing of our residuals management building 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, 2020 AND 2019

ASSETS	2020	2019
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 8,676,345	\$ 9,577,841
Investments	3,280,398	3,242,292
Investment interest receivable	11,992	16,637
Cash with County Treasurer	17,299	18,336
Accounts receivable, users	375,754	349,443
Property taxes receivable	1,971,120	1,963,538
Inventory	464,579	280,876
	<hr/>	<hr/>
Total current assets	14,797,487	15,448,963
Noncurrent assets:		
Restricted cash	1,545,258	2,126,312
Capital assets, net of depreciation	38,760,953	38,215,616
	<hr/>	<hr/>
Total noncurrent assets	40,306,211	40,341,928
Total assets	<hr/>	<hr/>
	55,103,698	55,790,891
	<hr/>	<hr/>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	80,726	-
	<hr/>	<hr/>
LIABILITIES		
Current liabilities:		
Accounts payable	382,146	304,805
Water sales deposits	-	3,500
Accrued interest expense	49,665	150,195
Current portion, loans payable	249,412	437,834
Current portion, bonds payable	130,000	-
	<hr/>	<hr/>
Total current liabilities	811,223	896,334
Noncurrent liabilities:		
Loans payable, less current portion	1,755,835	12,093,403
Bonds payable, less current portion	9,682,597	-
Compensated absences	78,595	109,290
	<hr/>	<hr/>
Total noncurrent liabilities	11,517,027	12,202,693
Total liabilities	<hr/>	<hr/>
	\$ 12,328,250	\$ 13,099,027
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The accompanying notes are an integral part of these financial statements.

DONALA WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

DEFERRED INFLOWS OF RESOURCES	<u>2020</u>	<u>2019</u>
Unavailable property tax revenue	<u>\$ 1,971,120</u>	<u>\$ 1,963,538</u>
Total deferred inflows of resources	<u>1,971,120</u>	<u>1,963,538</u>
NET POSITION		
Net investment in capital assets	27,023,836	25,684,379
Restricted	1,545,258	2,126,312
Unrestricted	<u>12,315,960</u>	<u>12,917,635</u>
Total net position	<u><u>\$ 40,885,054</u></u>	<u><u>\$ 40,728,326</u></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, 2020 AND 2019

	2020	2019
Operating revenues:		
Charges for services:		
Water sales	\$ 3,730,984	\$ 3,222,646
Sewer assessments	1,944,803	2,039,119
Inspection fees	22,500	21,000
Water and sewer penalties	2,894	22,719
Other	96,227	76,379
Total operating revenue	5,797,408	5,381,863
Operating expenses:		
Water and sanitation operations	5,411,004	5,217,788
General and administrative expenses	1,064,999	875,722
Total operating expenses	6,476,003	6,093,510
Operating income (loss)	(678,595)	(711,647)
Non-operating revenues (expenses):		
General property tax	1,958,951	1,676,889
Specific ownership tax	213,427	203,363
Interest income	164,634	367,921
Availability of service	13,825	12,250
Gain (loss) on disposal of capital assets	(1,293,079)	5,800
Amortization of loan premium	29,891	29,891
Bond expense	(216,379)	(39,255)
Interest expense	(438,320)	(497,193)
Total nonoperating revenues (expenses)	432,950	1,759,666
Income before capital contributions	(245,645)	1,048,019
Capital contributions	402,373	364,000
Change in net position	156,728	1,412,019
Net position, beginning	40,728,326	39,316,307
Net position, ending	\$ 40,885,054	\$ 40,728,326

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,745,097	\$ 5,214,983
Cash payments to suppliers for goods and services	(4,432,055)	(3,973,109)
Cash payments to employees	(1,425,201)	(1,150,546)
Cash received from inspection fees	22,500	21,000
Cash received from availability of service fees	13,825	12,250
Net cash provided (used) by operating activities	(75,834)	124,578
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	2,173,415	1,880,461
Net cash provided (used) by non-capital financing activities	2,173,415	1,880,461
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees and water development fees	402,373	364,000
Bond proceeds	9,812,597	-
Transfer to escrow agent	(10,242,498)	-
Payment of long-term debt	(420,745)	(425,900)
Interest paid on capital debt	(452,431)	(502,000)
Acquisition and construction of capital assets	(2,594,220)	(3,150,311)
Bond expense	(216,379)	(39,255)
Proceeds from sale of assets	-	5,800
Net cash provided (used) by capital and related financing activities	(3,711,303)	(3,747,666)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,317,423)	(1,325,540)
Maturities of investments	1,300,000	1,910,000
Interest received	148,595	325,801
Net cash provided (used) by investing activities	131,172	910,261
Net increase (decrease) in cash and cash equivalents	(1,482,550)	(832,366)
Cash and cash equivalents at beginning of year	11,704,153	12,536,519
Cash and cash equivalents at end of year	\$ 10,221,603	\$ 11,704,153

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, 2020 AND 2019

Reconciliation of cash and cash equivalents to the statement of net position:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 8,676,345	\$ 9,577,841
Restricted cash and cash equivalents	<u>1,545,258</u>	<u>2,126,312</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,221,603</u></u>	<u><u>\$ 11,704,153</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	<u>\$ (678,595)</u>	<u>\$ (711,647)</u>
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Availability of service fees	13,825	12,250
Depreciation	1,247,708	1,036,572
Changes in assets and liabilities:		
<i>(Increase) decrease in:</i>		
Accounts receivable	(26,311)	(82,463)
Inventory	(183,703)	(103,938)
<i>Increase (decrease) in:</i>		
Accounts payable	(414,563)	15,921
Water sales deposits	(3,500)	-
Unearned revenue	-	(63,416)
Compensated absences	<u>(30,695)</u>	<u>21,299</u>
Total Adjustments	<u>602,761</u>	<u>836,225</u>
Net cash provided (used) by operating activities	<u><u>\$ (75,834)</u></u>	<u><u>\$ 124,578</u></u>
Non-cash investing, capital and financing activities:		
Increase (decrease) in fair market value of investments	\$ 20,684	\$ 33,095

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, 2020 AND 2019

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, 2020 AND 2019

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 with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are valued at the pool's share price, the price at which the investment could be sold.

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, 2020 AND 2019

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, 2020 AND 2019

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, 2020 and 2019 was 21.296 and 21.296 mills, respectively. The District's assessed valuation for 2020 and 2019 was \$92,044,060 and \$78,731,490, 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, 2020 AND 2019**

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, 2020 AND 2019

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, 2020 and 2019, the carrying amounts of the District's deposits were \$215,403 and \$258,288, respectively and the bank balances were \$439,563 and \$375,917, respectively. Of the total bank balances, \$250,000 was covered by FDIC insurance at each year ended December 31, 2020 and 2019. The remaining balances of \$189,563 and \$125,917 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, 2020, 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, 2020 AND 2019**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of December 31, 2020 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	\$ 10,006,200	\$ 10,006,200	\$ -	\$ -	\$ -
Money markets	-	-	-	-	-
U.S. Treasuries & Agencies	<u>3,280,398</u>	<u>300,643</u>	<u>605,364</u>	<u>1,463,791</u>	<u>910,600</u>
Total	<u>\$ 13,286,598</u>	<u>\$ 10,306,843</u>	<u>\$ 605,364</u>	<u>\$ 1,463,791</u>	<u>\$ 910,600</u>

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>

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, 2020 AND 2019**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents:		
Deposits	\$ 180,145	\$ 241,706
ColoTrust	<u>8,496,200</u>	<u>9,336,135</u>
	<u>\$ 8,676,345</u>	<u>\$ 9,577,841</u>
Investments:		
U.S. Treasuries & Agencies	<u>\$ 3,280,398</u>	<u>\$ 3,242,292</u>
Restricted cash and cash equivalents:		
Deposits	\$ 35,258	\$ 16,582
Money Markets	-	621,816
ColoTrust	<u>1,510,000</u>	<u>1,487,914</u>
	<u>\$ 1,545,258</u>	<u>\$ 2,126,312</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, 2020 and 2019, \$35,258 and \$638,398 of cash and investments were restricted for debt service payment and availability of service.

Tabor reserves were \$260,000 and \$237,914 for years ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, \$1,250,000 was restricted as 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, 2020 AND 2019**

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, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 1,069,336	\$ -	\$ 1,069,336
Agency Notes	-	<u>2,211,062</u>	-	<u>2,211,062</u>
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 3,280,398</u>	<u>\$ -</u>	<u>\$ 3,280,398</u>

	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>2,216,214</u>	-	<u>2,216,214</u>
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 3,242,292</u>	<u>\$ -</u>	<u>\$ 3,242,292</u>

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 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	\$ 10,587,619	\$	\$ (1,279,556)	\$ 9,308,063
Construction in progress	<u>638,364</u>	<u>1,847,294</u>	<u>(2,453,356)</u>	<u>32,302</u>
Total capital assets, not being depreciated	<u>11,225,983</u>	<u>1,847,294</u>	<u>(3,732,912)</u>	<u>9,340,365</u>
Capital assets, being depreciated:				
Water Plant:				
Water wells and system	15,928,155	1,238,831	(13,221)	17,153,765
Water mains	2,598,226	-	-	2,598,226
Water pump station	664,946	-	-	664,946
Water storage	1,664,050	-	-	1,664,050
Residual Mgmt Facility	-	2,408,157	-	2,408,157
Water plant	<u>3,595,982</u>	<u>-</u>	<u>-</u>	<u>3,595,982</u>
Total Water Plant	<u>24,451,359</u>	<u>3,646,988</u>	<u>(13,221)</u>	<u>28,085,126</u>
Sanitation Plant:				
Sanitation mains	4,307,619	-	-	4,307,619
Treatment facilities	<u>12,280,090</u>	<u>-</u>	<u>(13,800)</u>	<u>12,266,290</u>
Total Sanitation Plant	<u>16,587,709</u>	<u>-</u>	<u>(13,800)</u>	<u>16,573,909</u>
Equipment, Vehicles and Maintenance				
Office equipment	51,581	45,199	(2,887)	93,893
Other equipment	1,874,848	-	(42,029)	1,832,819
Vehicles	444,352	-	(11,900)	432,452
Maintenance building	<u>363,653</u>	<u>-</u>	<u>-</u>	<u>363,653</u>
Total Equipment and Vehicles	<u>2,734,434</u>	<u>45,199</u>	<u>(56,816)</u>	<u>2,722,817</u>
Total capital assets, being depreciated	43,773,502	3,692,187	(83,837)	47,381,852
Less accumulated depreciation	<u>(16,783,869)</u>	<u>(1,247,708)</u>	<u>70,313</u>	<u>(17,961,264)</u>
Total capital assets, being depreciated, net	<u>26,989,633</u>	<u>2,444,479</u>	<u>(13,524)</u>	<u>29,420,588</u>
Total capital assets, net	<u>\$ 38,215,616</u>	<u>\$ 4,291,773</u>	<u>\$ (3,746,436)</u>	<u>\$ 38,760,953</u>

**DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions/programs as follows:	<u>2020</u>	<u>2019</u>
Water and sanitation operations	<u>\$ 1,247,708</u>	<u>\$ 1,036,572</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 2020 and 2019 were \$69,734 and \$65,439.

NOTE 8 - LONG-TERM LIABILITIES

Compensated Absences Payable

Compensated absences consisted of the following:	<u>2020</u>	<u>2019</u>
Sick leave benefits	\$ 40,531	\$ 52,408
Vacation benefits	<u>38,064</u>	<u>56,882</u>
Total	<u>\$ 78,595</u>	<u>\$ 109,290</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. This loan was paid off with refunding bonds in October 2020.

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. This loan was paid off with refunding bonds in October 2020.

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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 interest 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. This loan was paid off with refunding bonds in October 2020.

The annual requirements to amortize loans are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 249,412	\$ 25,010
2022	260,256	19,355
2023	265,678	11,840
2024	276,522	3,180
2025	281,944	-
2026 – 2030	<u>634,374</u>	<u>-</u>
Total	<u>\$ 1,968,186</u>	<u>\$ 59,385</u>

Revenue Refunding Bonds

\$9,475,000 of Revenue Refunding Bonds Series 2020 were issued on October 27, 2020 for the purpose of refunding the District's 2007 and 2011 CWRPDA loans and the loan with Gray Family Management Trust. Principal payments are due annually through September 1, 2040. Interest payments are due semi-annually on March 1 and September 1 and accrue at an annual interest rate between 0.65% and 3.00%.

The annual requirements to amortize bonds are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 130,000	\$ 190,586
2022	205,000	224,849
2023	210,000	223,312
2024	210,000	221,463
2025	215,000	219,259
2026 – 2030	2,085,000	1,030,145
2031 – 2035	2,990,000	753,109
2036 – 2040	<u>3,430,000</u>	<u>315,000</u>
Total	<u>\$ 9,475,000</u>	<u>\$ 3,177,723</u>

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 - LONG-TERM LIABILITIES (CONTINUED)

Advance Refunding

In the current fiscal year, the District issued \$9,475,000 in revenue refunding bonds with interest rates ranging from 0.65% and 3.00%. The proceeds were used to advance refund \$9,946,806 of outstanding loans which had interest rates ranging from 2% to 5%. The net proceeds of \$9,812,597 (including a \$337,597 premium and after payment of \$194,923 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded debt. As a result, a portion of the loans are considered defeased and the liability for those loans has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$80,726. This amount is reported as a deferred outflow of resources and amortized over the remaining life of the refunded debt, which had a shorter remaining life than the refunding debt. The advance refunding reduced total debt service payments by \$2,619,526 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,998,506.

The District has also defeased debt in the current year by placing the proceeds of new bonds and the District's own resources into irrevocable trust accounts to provide for all future debt service payments on the old loans. Accordingly, those trust account assets and the liability for the defeased debt are not included in the District's financial statements. At December 31, 2020, \$5,810,000 of defeased debt remain outstanding, which includes debt refunded during the current fiscal year.

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	\$ 2,212,176	\$ -	\$ (243,990)	\$ 1,968,186	\$ 249,412
Issuance premium	43,800	-	(6,738)	37,061	-
CWRPDA Loan, 2007					
Principal	1,044,805	-	(1,044,805)	-	-
CWRPDA Loan, 2011					
Principal	5,830,000	-	(5,830,000)	-	-
Issuance premium	152,421	-	(152,421)	-	-
Laughlin Loan, 2017					
Principal	<u>3,248,035</u>	<u>-</u>	<u>(3,248,035)</u>	<u>-</u>	<u>-</u>
Total loans payable	<u>12,531,237</u>	<u>-</u>	<u>(10,525,990)</u>	<u>2,005,247</u>	<u>249,412</u>
Bonds payable:					
2020 Bond					
Principal	-	9,475,000	-	9,475,000	130,000
Issuance premium	<u>-</u>	<u>337,597</u>	<u>-</u>	<u>337,597</u>	<u>-</u>
Total bonds payable	<u>-</u>	<u>9,812,597</u>	<u>-</u>	<u>9,812,597</u>	<u>130,000</u>
Compensated absences	<u>109,290</u>	<u>-</u>	<u>(30,695)</u>	<u>78,595</u>	<u>-</u>
Total long-term liabilities	<u>\$ 12,640,527</u>	<u>\$ 9,812,597</u>	<u>\$ (10,556,685)</u>	<u>\$ 11,896,439</u>	<u>\$ 130,000</u>

DONALA WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, net investment in capital assets was as follows:

	2020	2019
Net investment in capital assets:		
Capital assets, net of depreciation	\$ 38,760,954	\$ 38,215,616
Long-term liabilities:		
Due within one year	(379,412)	(437,834)
Due in more than one year	(11,438,432)	(12,093,403)
Deferred on refunding	80,726	-
Total net investment in capital assets	\$ 27,023,836	\$ 25,684,379

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, 2020 and 2019, net position-restricted was as follows:

	2020	2019
Net position-restricted:		
Debt service reserve	\$ 35,258	\$ 638,398
Operating and Maintenance reserve	1,250,000	1,250,000
Tabor – emergency reserve	260,000	237,914
Total net position-restricted	\$ 1,545,258	\$ 2,126,312

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, 2020 AND 2019**

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, 2020 AND 2019**

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.

SUPPLEMENTARY INFORMATION

DONALA WATER AND SANITATION DISTRICT
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Water and sanitation operations:		
Repair and maintenance	\$ 216,709	\$ 166,830
Utilities	660,708	577,668
Solid waste removal	88,773	73,859
Chemicals and lab	171,036	123,378
Truck and backhoe	31,718	32,812
District engineer	74,732	76,671
Professional engineer	3,032	278
Salaries	930,023	799,950
Payroll taxes	74,107	59,814
Pension expense	69,734	65,439
Depreciation	1,247,708	1,036,572
Tools and equipment	46,002	15,229
Inspection fees	-	400
Water purchases	1,753,195	2,156,535
AFCURE	43,527	32,353
	<hr/>	<hr/>
Total Water and Sanitation Operating Expenses	5,411,004	5,217,788
	<hr/>	<hr/>
General and administrative expenses:		
Accounting and audit expense	22,500	21,800
County treasurer fees	29,384	25,174
Director fees	8,000	5,600
Fees and permits	24,030	24,572
Insurance	384,338	337,033
Legal	60,784	47,202
Other	45,939	20,857
Office expense	22,995	21,649
Salaries	290,425	224,416
Payroll taxes	22,218	16,625
Publication expense	15,332	15,911
Telephone	36,570	26,006
Training	11,812	15,026
Contract service	90,672	73,851
	<hr/>	<hr/>
Total General and Administrative Expenses	\$ 1,064,999	\$ 875,722
	<hr/> <hr/>	<hr/> <hr/>

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, 2020

	Actual	Budget	Variance Favorable (Unfavorable)
REVENUES			
Beginning fund balance	\$ 15,043,947	\$ 19,416,147	\$ (4,372,200)
Water sales	3,730,984	3,250,000	480,984
Sewer assessments	1,944,803	2,025,311	(80,508)
Inspection fees	22,500	15,000	7,500
Water and sewer penalties	2,894	-	2,894
Other	96,227	75,000	21,227
General property tax	1,958,951	1,963,538	(4,587)
Specific ownership tax	213,427	110,000	103,427
Interest income	164,634	203,000	(38,366)
Availability of service	13,825	15,400	(1,575)
Bond proceeds	9,812,597	-	9,812,597
Capital contributions	402,373	380,000	22,373
TOTAL REVENUES	33,407,162	27,453,396	5,953,766
EXPENDITURES			
Water and sanitation operations:			
Repair and maintenance	216,709	69,500	(147,209)
Residuals management	-	85,000	85,000
Utilities	660,708	300,000	(360,708)
Solid waste removal	88,773	80,000	(8,773)
Chemicals and lab	171,036	28,000	(143,036)
Truck and backhoe	31,718	20,000	(11,718)
District engineer	74,732	10,000	(64,732)
Professional engineer	3,032	25,000	21,968
Salaries	930,023	763,495	(166,528)
Payroll taxes	74,107	58,407	(15,700)
Pension expense	69,734	53,445	(16,289)
Tools and equipment	46,002	17,000	(29,002)
Inspection fees	-	2,000	2,000
Water purchases	1,753,195	1,568,918	(184,277)
AFCURE	43,527	50,000	6,473
Total water and sanitation operations	\$ 4,163,296	\$ 3,130,765	\$ (1,032,531)

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, 2020

	Actual	Budget	Variance Favorable (Unfavorable)
EXPENDITURES (continued)			
General and administrative expenses:			
Accounting and audit expense	\$ 22,500	\$ 22,600	\$ 100
County treasurer fees	29,384	30,000	616
Director fees	8,000	5,500	(2,500)
Fees and permits	24,030	18,000	(6,030)
Insurance	384,338	281,263	(103,075)
Legal	60,784	25,000	(35,784)
Other	45,939	22,900	(23,039)
Office expense	22,995	43,600	20,605
Salaries	290,425	424,580	134,155
Payroll taxes	22,218	31,800	9,582
Publication expense	15,332	12,000	(3,332)
Telephone	36,570	20,887	(15,683)
Training	11,812	23,000	11,188
Contract service	90,672	65,084	(25,588)
Total general and administrative expenses	<u>1,064,999</u>	<u>1,026,214</u>	<u>(38,785)</u>
Capital expenditures	3,086,124	3,135,000	48,876
Principal payment on long-term debt	420,744	420,744	-
Bond expense	216,379	220,000	3,621
Interest expense	438,320	349,256	(89,064)
Payment to bond escrow agent	10,156,081	10,200,000	43,919
Contingency	-	8,971,417	8,971,417
TOTAL EXPENDITURES	<u>\$ 19,545,943</u>	<u>\$ 27,453,396</u>	<u>\$ 7,907,453</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, 2020

	Actual	Budget	Variance Favorable (Unfavorable)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 13,861,219	\$ -	\$ 13,861,219
Less:			
Depreciation	(1,247,708)		
Beginning fund balance	(15,043,947)		
Loss on sale of assets	(1,293,079)		
Bond proceeds	(9,812,597)		
Add:			
Amortization of loan premium	29,891		
Capital expenditures	3,086,124		
Payment to bond escrow agent	10,156,081		
Principal payment on bonds	420,744		
CHANGE IN NET POSITION	\$ 156,728		

Ending fund balance is calculated as follows:

Current assets	\$ 14,797,487
Restricted cash and cash equivalents	1,545,258
Current liabilities	(811,223)
Current portion, long-term debt	379,412
Compensated absences	(78,595)
Deferred inflows	(1,971,120)
	\$ 13,861,219

See the accompanying independent auditors' report.

**DONALA WATER AND SANITATION DISTRICT
DEBT SERVICE COVERAGE AND RESERVE REQUIREMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Revenues	
Water sales	\$ 3,730,984
Sewer assessments	1,944,803
Inspection fees	22,500
Water and sewer penalties	2,894
Other	96,227
Tax revenue	2,172,378
Interest income	164,634
Availability of service	13,825
Capital contributions	<u>402,373</u>
 TOTAL REVENUES	 <u>8,550,618</u>
 Operating Expenses	 6,476,003
Less: depreciation	<u>(1,247,708)</u>
 NET OPERATING EXPENSES	 <u>5,228,295</u>
 NET REVENUES (PLEDGED PROPERTY)	 <u><u>\$ 3,322,323</u></u>
 2021 Debt service on obligations secured by Pledged Property:	
Loans (principal and interest)	\$ 274,422
Loans (administration fees)	39,255
Bonds (principal and interest)	<u>320,586</u>
 Total Debt Service	 634,263
 Net Revenues	 <u>\$ 3,322,323</u>
 DEBT SERVICE COVERAGE FACTOR	 <u><u>523.81%</u></u>
 OPERATION & MAINTENANCE RESERVE:	
Operating expenses (net of depreciation)	\$ 5,228,295
3 month reserve	<u>25%</u>
 Calculated three month reserves	 \$ 1,307,074
Required reserves - lesser of three months or \$1,250,000	\$ 1,250,000
 Actual Reserve (See Note 9)	 \$ 1,250,000

See the accompanying independent auditors' report.