

COTTONWOOD WATER AND SANITATION DISTRICT

FINANCIAL STATEMENTS

December 31, 2021 and 2020



Logan *and* Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the Cottonwood Water and Sanitation District, which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Cottonwood Water and Sanitation District as of December 31, 2021 and 2020, and the respective changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cottonwood Water and Sanitation District, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures of the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i – iv be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information and Other Information

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

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

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

Logan and Associates, LLC

Aurora, Colorado
September 20, 2022

**Cottonwood Water and Sanitation District
Management Discussion and Analysis
December 31, 2021**

This management's discussion and analysis of the Cottonwood Water and Sanitation District (the "District") financial statements provides an overview of the District's financial activities for the fiscal year ended December 31, 2021. The intent of this discussion and analysis is to look at the District's financial performance as a whole; it should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the District's overall financial and operational performance.

The District operating results were impacted by two significant external influences in 2021. The COVID 19 pandemic and associated restrictions reduced restaurant, hotel, and other commercial businesses' water demands while an unusually dry year drove high irrigation demands during 2020. 2021, however saw a decrease in these affects associated with the pandemic, and thus an overall increase in commercial business water demands. Over all, the District experienced a 4.65% increase in operating revenues. Operating revenues exceeded cash operating expenses and provided positive operating cash flow available for infrastructure improvements and replacements. Development within the District in 2021 generated net cash from tap fees of \$2,745,041. This is a significant improvement compared to the 2020 tap fee generation of \$841,564. The Statement of Cash Flows reflects District capital expenditures of \$1,560,482. The financial statements reflect the District's increase in net position of \$4,471,030, an increase from \$34,077,184 to \$38,548,214.

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

Financial Highlights

The Statement of Net Position describes the District's financial condition as of December 31, 2021, the close of the most recent fiscal year. The assets of the District exceeded its liabilities and deferred inflows of resources by \$38,548,214. As described in Note 4 of the financial statements, the District has \$34,241,132 of capital assets net of depreciation. The District has investments of \$6,222,389 in authorities described in notes 6 and 7. These assets generally consist of land, wells, water rights, water and sewer treatment facilities, pipelines and other infrastructure required to provide water and sewer services for the District. By their nature, these assets are not available for future spending.

The District has \$7,943,037 of noncurrent liabilities as described in Note 5 of the financial statements. Note five describes the interest and payment terms of the various bonds and notes that comprise the long-term debt. The general obligation bonds' debt service payments are funded by property taxes assessed by the District.

Overview of the Financial Statements

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

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

These statements report information about the District as a whole and include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, *increases or decreases* in the District's Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, however, such as changes in the District's property tax base and the condition of the infrastructure, are needed to assess the *overall health* of the District. The District operated with an increase in Net Position in both 2021 and 2020.

The Statement of Revenues, Expenses, and Changes in Net position presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods such as 'deferred property taxes'.

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

Comparative Statements of Net Position as of December 31:

ASSETS	2021	2020
Total current assets	\$ 8,382,243	\$ 5,927,708
Investment in Authorities	6,222,389	5,731,027
Property taxes receivable	1,714,000	1,713,000
Capital assets, net	34,241,132	34,017,100
Total Assets	50,559,764	47,388,835
 DEFERRED OUTFLOWS		
Outflows of resources	93,734	117,042
 LIABILITIES		
Current liabilities	2,448,247	2,148,811
Noncurrent liabilities	7,943,037	9,566,882
Total Liabilities	10,391,284	11,715,693
 DEFERRED INFLOWS		
Inflows of resources	1,714,000	1,713,000
 NET POSITION		
Net investment in capital assets	24,683,663	22,876,808
Restricted	1,574,517	1,295,294
Unrestricted	12,290,034	9,905,082
Total Net Position	38,548,214	34,077,184

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

OPERATING REVENUES	2021	2020
Water charges	2,682,768	2,616,712
Wastewater charges	2,329,571	2,193,108
Other operating revenue	65,191	42,201
Total Operating Revenues	<u>5,077,530</u>	<u>4,852,021</u>
OPERATING EXPENSES		
Wastewater treatment	1,785,000	1,723,632
Utilities & water treatment	1,184,981	1,360,352
Repairs, maintenance & operating fees	327,002	342,085
Professional services & Administrative	551,904	573,142
Depreciation	1,102,433	1,110,667
Total Operating Expenses	<u>4,951,320</u>	<u>5,109,878</u>
Net Operating Income (Loss)	<u>126,210</u>	<u>(257,857)</u>
NON-OPERATING REVENUES & EXPENSES		
Property & specific ownership taxes	1,892,486	1,885,369
Interest expense	(300,999)	(336,698)
Other non-operating items (net)	7992	(80,412)
Net non-operating income	<u>1,599,779</u>	<u>1,468,259</u>
CAPITAL CONTRIBUTIONS		
Developer Contributions	-	-
Tap fees net of ACWWA	<u>2,745,041</u>	<u>841,564</u>
Changes in net position	<u><u>4,471,030</u></u>	<u><u>2,051,966</u></u>
Net position, beginning	<u>34,077,184</u>	<u>32,025,218</u>
Net position, ending	<u><u>38,548,214</u></u>	<u><u>34,077,184</u></u>

Budgetary Highlights

The District's procedures in establishing budgetary data reflected in the financial statements are summarized in *Note 2* of the financial statements. The budget to actual comparison is presented in the supplementary information accompanying the financial statements.

Revenues

The District's 2021 operating revenues were \$317,470 below the 2021 budget of \$5,395,000. The non-operating revenues exceeded the 2021 budget by \$1,300,552. This was mostly driven by the drastic increase in tap fee income during 2021. Expected draws on the CWCB loan related to WISE authority infrastructure capital expenditures were deferred to future periods.

Expenses

The District's total operating expenses were less than the 2021 budgeted operating expenses by \$927,113. The primary cause for being under budget was that the District incurred less water treatment facility expenses because the volume of water treated was less than planned, as well as the fact that the district incurred 0 expenses regarding trash pick-up services. Non-operating expenses were about \$47,305 under budget despite a \$518,431 over expenditure in tap fees. This over expenditure of tap fees was off-set by a combination of underspending in the Capital Outlays and Member Participation non-operating expense line items.

Contacting the District's Financial Management

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

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

Phone: (303) 649-9857

BASIC FINANCIAL STATEMENTS

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF NET POSITION December 31, 2021 and 2020

	2021	2020
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 5,808,909	\$ 3,787,441
Cash and Cash Equivalents - Restricted	1,574,517	1,317,389
Accounts Receivable - Service Charges	472,684	380,032
Accounts Receivable - Other	399,998	387,566
Prepaid Items	72,729	-
Project Deposits	2,700	2,700
Accounts Receivable (Payable) - County Treasurer - Restricted	12,754	14,628
JWPP Operating Reserve - Restricted	37,952	37,952
Property Taxes Receivable	1,714,000	1,713,000
Total Current Assets	<u>10,096,243</u>	<u>7,640,708</u>
Noncurrent Assets		
Investment in Authorities	6,222,389	5,731,027
Total Noncurrent Assets	<u>6,222,389</u>	<u>5,731,027</u>
Capital Assets		
Capital Assets, Not Being Depreciated	16,021,804	14,523,428
Capital Assets, Net of Accumulated Depreciation	18,219,328	19,493,672
Total Capital Assets	<u>34,241,132</u>	<u>34,017,100</u>
TOTAL ASSETS	<u>50,559,764</u>	<u>47,388,835</u>
DEFERRED OUTFLOWS OF RESOURCES		
Cost of Refunding, Net of Accumulated Amortization	<u>93,734</u>	<u>117,042</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	701,676	450,097
Accrued Interest Payable	132,139	125,304
Loans and Bonds Payable, Current Portion	1,614,432	1,573,410
Total Current Liabilities	<u>2,448,247</u>	<u>2,148,811</u>
Noncurrent Liabilities		
Loans and Bonds Payable, Bond Premium net of Accumulated Amortization	7,943,037	9,566,882
Total Noncurrent Liabilities	<u>7,943,037</u>	<u>9,566,882</u>
TOTAL LIABILITIES	<u>10,391,284</u>	<u>11,715,693</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue - Property Taxes	<u>1,714,000</u>	<u>1,713,000</u>
NET POSITION		
Net Investment in Capital Assets	24,683,663	22,876,808
Restricted for Reserves	1,574,517	1,295,294
Unrestricted	12,290,034	9,905,082
TOTAL NET POSITION	<u>\$ 38,548,214</u>	<u>\$ 34,077,184</u>

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

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION Years Ended December 31, 2021 and 2020

	BUSINESS-TYPE ACTIVITIES	
	2021	2020
OPERATING REVENUES		
Charges for Services		
Water System	\$ 2,682,768	\$ 2,616,712
Wastewater System	2,329,571	2,193,108
Storm Sewer Fees	7,184	6,929
Miscellaneous	58,007	35,272
TOTAL OPERATING REVENUES	5,077,530	4,852,021
OPERATING EXPENSES		
Water Treatment	592,861	565,323
Wastewater Treatment	1,785,000	1,723,632
System Operating Fees	180,000	171,600
Repairs and Maintenance	147,002	170,485
Utilities	234,606	233,817
Professional Services	26,109	44,679
WISE Water Purchases	357,514	561,212
Administration	525,795	528,463
Depreciation	1,102,433	1,110,667
TOTAL OPERATING EXPENSES	4,951,320	5,109,878
OPERATING INCOME (LOSS)	126,210	(257,857)
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	1,711,845	1,722,201
Specific Ownership Taxes	180,641	163,168
Fees In Lieu of Taxes	114,685	-
Investment Income	5,731	38,870
Capital Recovery Fees	5,349	106,897
Income(Loss) from Investment in Authorities	-	(8,618)
ACCWA Shared Expense Reimbursement	-	77,081
WISE Participation	(38,000)	(72,016)
Authority Participation	(39,750)	(10,000)
JWPP Project Operating	-	(139,484)
County Treasurer's Fees	(25,729)	(25,867)
CWCB - Interest Expense and Fiscal Charges	(31,629)	(35,595)
Debt Service - Interest Expense and Fiscal Charges	(269,370)	(301,103)
Amortization Debt Premium	9,414	9,414
Amortization Cost of Refunding	(23,408)	(56,689)
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,599,779	1,468,259
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,725,989	1,210,402
CAPITAL CONTRIBUTIONS		
Tap Fees Received	3,771,472	1,208,000
Tap Fees Paid to ACWWA	(1,026,431)	(366,436)
TOTAL CAPITAL CONTRIBUTIONS	2,745,041	841,564
CHANGE IN NET POSITION	4,471,030	2,051,966
NET POSITION, Beginning	34,077,184	32,025,218
NET POSITION, Ending	\$ 38,548,214	\$ 34,077,184

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

COTTONWOOD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 4,916,313	\$ 4,704,429
Miscellaneous Receipts	58,007	35,272
Cash Payments to Suppliers	(3,670,037)	(4,104,587)
Net Cash Provided (Used) by Operating Activities	<u>1,304,283</u>	<u>635,114</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	1,711,845	1,722,201
Specific Ownership Taxes	180,641	163,168
Fees In Lieu of Taxes	114,685	-
County Treasurer's Fees	(25,729)	(25,867)
Net Cash Provided by Noncapital Financing Activities	<u>1,981,442</u>	<u>1,859,502</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Received from Tap Fees	3,771,472	1,208,000
Tap Fees Paid to ACWWA	(1,026,431)	(366,436)
Capital Recovery Fees	5,349	106,897
Income(Loss) from Investment in Authorities	-	(8,618)
ACCWA Shared Expense Reimbursement	-	77,081
WISE Participation	(38,000)	(72,016)
Authority Participation (CCPWA, UCCWA, SMWSA)	(39,750)	(10,000)
Project Contribution Write-off	-	(139,484)
Acquisition of Capital Assets	(1,560,482)	(974,718)
Write-off of Capital Assets	233,917	-
Proceeds from Issuance of CWCB Debt	-	282,384
Principal Paid	(1,573,409)	(1,536,899)
CWCB - Interest Expense and Fiscal Charges	(31,629)	(35,595)
Debt Service - Interest Expense and Fiscal Charges	(262,535)	(295,084)
Net Cash Used by Capital and Related Financing Activities	<u>(521,498)</u>	<u>(1,764,488)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Investment Activity	5,731	38,870
JWPP Reserve (Increase) Decrease	-	139,484
Net Investment in Authorities	(491,362)	(1,368,181)
Net Cash Provided by Investing Activities	<u>(485,631)</u>	<u>(1,189,827)</u>
Increase (Decrease) in Cash and Cash Equivalents	2,278,596	(459,699)
CASH AND CASH EQUIVALENTS, Beginning	5,104,830	5,564,529
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 7,383,426</u>	<u>\$ 5,104,830</u>
SUMMARY OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 5,808,909	\$ 3,787,441
Restricted Cash and Cash Equivalents	1,574,517	1,317,389
Total Cash and Cash Equivalents	<u>\$ 7,383,426</u>	<u>\$ 5,104,830</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 126,210	\$ (257,857)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Depreciation	1,102,433	1,110,667
Changes in Assets and Liabilities		
Accounts Receivable	(103,210)	(112,320)
Project Deposits	-	5,000
Prepaid Items	(72,729)	-
Accounts Payable	251,579	(110,376)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,304,283</u>	<u>\$ 635,114</u>

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

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

Fund Accounting

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Assets, Liabilities and Net Position

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

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

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

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

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement classification represents a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditures) until then. The District has an item related to debt refunding costs that is reported as deferred outflows of resources at December 31, 2021 and 2020.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement classification represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until then. The District has an item related to unavailable revenue – property taxes that is reported as deferred inflows of resources at December 31, 2021 and 2020.

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

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

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

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

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

Property Taxes

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

Use of Estimates

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

Subsequent Events

The District has evaluated events subsequent to the year ended December 31, 2020 through September 20, 2022, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

- The budget is legally adopted by the District. The budget is adopted on a non-GAAP budgetary basis. Capital outlay and long-term debt principal payments are budgeted as expenditures, and depreciation, and amortization of debt premium/discounts, and costs of debt refunding are not budgeted.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budgets and Budgetary Accounting (Continued)

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

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at December 31, 2021 and 2020, follows:

	<u>2021</u>	<u>2020</u>
Cash Deposits	\$ 737,969	\$ 840,170
Investments	<u>6,645,457</u>	<u>4,264,660</u>
Total	<u>\$ 7,383,426</u>	<u>\$ 5,104,830</u>

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

	<u>2021</u>	<u>2020</u>
Cash and Cash Equivalents	\$ 5,808,909	\$ 3,787,441
Restricted Cash and Cash Equivalents	<u>1,574,517</u>	<u>1,317,389</u>
Total	<u>\$ 7,383,426</u>	<u>\$ 5,104,830</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

The FDIC insures depositors up to \$250,000 for each financial institution. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2021, the District had bank deposits totaling \$734,508 of which \$250,000 were insured by FDIC and \$484,508 were collateralized with securities held by the financial institutions' agents but not in their name.

Investments

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

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

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

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

At December 31, 2021 and 2020, the District had the following investments:

	<u>Maturity</u>	<u>2021</u>	<u>2020</u>
Colorado Liquid Asset Trust (COLOTRUST)	Weighted Average under 60 days	<u>\$ 6,645,457</u>	<u>\$ 4,264,660</u>

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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

Restricted Cash and Investments

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

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan, the District is required to maintain an operating reserve equal to three months of operations and maintenance expenses budgeted for the then-current fiscal year. As of December 31, 2021 and 2020, the required operating reserve of \$1,194,000 and \$1,116,750, respectively, was restricted by the District.

In accordance with bonded debt obligations, property taxes collected in excess of the required debt service payments are to be reserved to pay future debt obligations. As of December 31, 2021 and 2020, the District had \$380,517 and \$178,544, respectively, restricted for debt service.

In accordance with the Second Amendment to 2014 Agreement between the District and the Arapahoe County Water and Wastewater Authority (ACWWA) the District has restricted \$22,095 in a project account for future construction payments in relation to improvements to the Joint Water Purification Plant (JWPP). This restriction was released during the year ended December 31, 2021.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 4: CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2021, is summarized below:

	Balances 12/31/2020	Additions	Deletions	Balances 12/31/2021
Capital Assets, not being depreciated				
Land	\$ 399,433	\$ -	\$ -	\$ 399,433
Water Rights	6,773,071	5,932	-	6,779,003
Construction in Progress	7,350,924	1,492,444	-	8,843,368
Total Capital Assets, not being depreciated	<u>14,523,428</u>	<u>1,498,376</u>	<u>-</u>	<u>16,021,804</u>
Capital Assets, being depreciated				
Water System	30,768,669	-	234,017	30,534,652
Wastewater System	7,286,375	62,106	-	7,348,481
Engineering Studies	249,484	-	-	249,484
Sewage Treatment Rights	233,860	-	-	233,860
Equipment	129,786	-	-	129,786
Total Capital Assets, being depreciated	<u>38,668,174</u>	<u>62,106</u>	<u>234,017</u>	<u>38,496,263</u>
Less accumulated depreciation				
Water System	(13,438,059)	(974,915)	-	(14,412,974)
Wastewater System	(5,180,285)	(116,639)	-	(5,296,924)
Engineering Studies	(192,512)	(10,879)	-	(203,391)
Sewage Treatment Rights	(233,860)	-	-	(233,860)
Equipment	(129,786)	-	-	(129,786)
Total accumulated depreciation	<u>(19,174,502)</u>	<u>(1,102,433)</u>	<u>-</u>	<u>(20,276,935)</u>
Total Capital Assets, being depreciated, net	<u>19,493,672</u>	<u>(1,040,327)</u>	<u>234,017</u>	<u>18,219,328</u>
Total Capital Assets, net	<u><u>\$ 34,017,100</u></u>	<u><u>\$ 458,049</u></u>	<u><u>\$ 234,017</u></u>	<u><u>\$ 34,241,132</u></u>

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

Water System	\$ 974,915
Wastewater System	116,639
Administration	<u>10,879</u>
Total	<u><u>\$ 1,102,433</u></u>

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2021:

	Balance 12/31/2020	Borrowings	Repayments	Balance 12/31/2021	Due Within One Year
2016 GO Refunding Loan	\$ 2,805,000	\$ -	\$ 445,000	\$ 2,360,000	\$ 455,000
2019 GO Refunding Bonds	2,954,000	-	561,000	2,393,000	575,000
2006 CWRPDA Loan	4,269,871	-	549,533	3,720,338	566,019
2014 CWCB Loan - Note A	304,471	-	10,344	294,127	10,654
2014 CWCB Loan - Note B	127,426	-	-	127,426	-
2014 CWCB Loan - Note C	340,653	-	7,532	333,121	7,759
2014 CWCB Loan - Note D	282,384	-	-	282,384	-
	<u>11,083,805</u>	<u>-</u>	<u>1,573,409</u>	<u>9,510,396</u>	<u>1,614,432</u>
Bond Premium, Net	56,487	-	9,414	47,073	-
Total	<u>\$ 11,140,292</u>	<u>\$ -</u>	<u>\$ 1,582,823</u>	<u>\$ 9,557,469</u>	<u>\$ 1,614,432</u>

Series 2019 GO Refunding Bonds

On September 27, 2008, the District issued Series 2008A General Obligation Refunding Bonds in the amount of \$6,730,000 to refund the District's Series 1998A General Obligation Refunding Bonds. Principal and interest payments were due semi-annually on June 1 and December 1 through December 1, 2027. Interest accrues at rates ranging from 4% to 5% per annum. The Bonds maturing on and after December 1, 2017 were subject to redemption prior to maturity, in whole or in part, in such a manner as the District may determine on December 1, 2018, or on any interest payment date thereafter, without any redemption premium. On June 3, 2019, the District refunded the Series 2008A GO Refunding Bonds with the issuance of \$4,000,000 GO Refunding Note, Series 2019 (the "Note"). The note proceeds along with monies from the debt service fund were used currently refund and pay-off the Series 2008A GO Refunding Bonds. This refunding resulted in a net present value savings of interest in the amount of \$297,601. Principal and interest payments are due annually on September 1, through September 1, 2025. Interest accrues at 2.61%.

Series 2016 GO Refunding Loan

On November 9, 2016, the District obtained a loan in the amount of \$4,500,000, titled Series 2016 General Obligation Refunding Loan with BOKF, NA, dba Colorado State Bank and Trust to currently refund the District's Series 2006A General Obligation Refunding Bonds. The loan proceeds along with monies from the debt service fund were used to currently refund and pay-off the 2006A GO Refunding Bonds in order to obtain an interest savings of approximately \$55,000. Principal and interest payments are due semi-annually on June 1 and December 1, commencing on June 1, 2017 through December 1, 2026.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5: LONG-TERM DEBT (Continued)

Series 2016 GO Refunding Loan (Continued)

Interest accrues at 1.86% per annum. The Loan is not subject to redemption prior to maturity.

Pledged Revenues – The above bonds and loan are payable solely from revenues of the District's ad valorem property tax mill levy sufficient to pay the debt service requirements. During the year ended December 31, 2021, property and specific ownership tax revenues of \$1,892,486 were available to pay the respective annual debt service of \$1,203,151.

2006 Colorado Water Resources and Power Development Authority Loan

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

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

Pledged Revenues - The District and Authority agree that the amounts payable under this loan agreement are payable solely from pledged property, as defined as ad valorem taxes without limitation as to rate, on all taxable property in the District, in an amount necessary to pay the loan payments but not to exceed \$1,100,000, and that nothing shall be deemed to prevent the District from repaying the loan amounts from any other legally available source. During the year ended December 31, 2021, property and specific ownership tax revenues of \$1,892,486 were available to pay the annual debt service of \$695,201.

2014 Colorado Water Conservation Board (CWCB) Loan

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

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

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 5: LONG-TERM DEBT (Continued)

2014 Colorado Water Conservation Board (CWCB) Loan (Continued)

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

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

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

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

Annual debt service requirements for the District’s outstanding bonds and loans at December 31, 2021 are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,614,432	\$ 255,634	\$ 1,870,066
2023	1,656,472	219,006	1,875,478
2024	1,694,526	177,735	1,872,261
2025	1,737,597	139,449	1,877,046
2026	1,170,164	64,025	1,234,189
2027 – 2031	811,237	63,037	874,274
2032 – 2036	131,384	54,771	186,155
2037 – 2041	152,308	33,847	186,155
2042 – 2046	82,246	14,597	96,843
2047 – 2049	50,220	3,042	53,262
Amortization Terms Unknown	409,810	-	409,810
Total	\$ 9,510,396	\$ 1,025,143	\$ 10,535,539

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 6: INTERGOVERNMENTAL AGREEMENTS

Arapahoe County Water and Wastewater Authority

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

Under the original agreement, ACWWA operated the JWPP facility. The District paid its share of operating expenses each year. The agreement required two reserves be established, an operating reserve and capital replacement reserve. At December 31, 2021 and 2020, ACWWA held the District's portion of these reserves in the amount of \$37,952 and \$37,952, respectively.

The August 2018 amendment defined responsibilities related to the future construction of improvements to the JWPP and establish a commitment to use a contract plant operator after the completion of the improvements. The amended agreement required each District to deposit an amount into a Colotrust account to be held for these improvements. Plant operations were turned over to a contract operator in May 2019. At December 31, 2020, the District's restricted balance in this Colotrust account was \$22,095. During the year ended December 31, 2021 this reserve was released.

Cherry Creek Project Water Authority

On October 14, 2005, the Cherry Creek Project Water Authority (Cherry Creek Authority) was created by a Water Project Agreement between the District, Inverness Water and Sanitation District, ACWWA, and Denver Southeast Suburban Water and Sanitation District. On November 17, 2005, the Cherry Creek Authority purchased certain water rights, well rights, facilities and storage rights at a bankruptcy action for \$14,000,000 plus closing costs. The District contributed \$1,175,680 towards this purchase. The District's share of participation is 7.14%, which had a value of \$1,738,317 and \$1,277,159 at December 31, 2021 and 2020, respectively. During 2021, Cherry Creek Authority began construction on the Walker Reservoir project. The District's share of the project totals \$1,476,859, for which an initial assessment of \$452,944 was paid. The remaining commitment for the project was \$1,023,915 at December 31, 2021. For a copy of the Cherry Creek Authority's financial statements, contact the Cherry Creek Authority.

NOTE 7: COST SHARING AGREEMENTS – WISE PARTNERSHIP

On March 31, 2013, the District entered into an amended WISE Negotiations and Cost Sharing Participation Agreement with South Metro Water Supply Authority (SMWSA) that amends the method of cost sharing. In the amended

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 7: COST SHARING AGREEMENTS – WISE PARTNERSHIP (Continued)

agreement the costs will be shared based on the participants' pro-rata share of the annual subscription amount in relation to the total of all annual subscription amounts. The District has committed to subscribing to 400 acre feet (4.0%) out of a total of 10,000 acre feet (previously 7,225) of renewable water to be delivered annually from the WISE Partnership. In December of 2013, the District along with other members of the WISE Partnership entered into the WISE Partnership-Water Delivery Agreement between the City and County of Denver, acting by and through its Board of Water Commissioners, the City of Aurora acting by and through its Utility Enterprise, and the South Metro WISE Authority. The Water Delivery Agreement is the overarching agreement that defines the terms under which Denver and Aurora will deliver water to the South Metro WISE Authority members.

Pursuant to the WISE Agreements, the District pays its proportionate share of WISE capital costs, operations and maintenance costs, and the cost of water delivered. During the year ended December 31, 2021 and 2020, the District analyzed its investment in WISE, and adjusted the amounts to \$4,484,072 and \$4,453,868, respectively, which is reported as Investment in Authorities in the financial statements. The District received its first water deliveries from the WISE project in 2017. For the years ended December 31, 2021 and 2020, the District's water purchases were \$357,514 and \$561,212, respectively.

NOTE 8: RISK MANAGEMENT

Public Entity Risk Pool

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

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

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool.

It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverages at reasonable costs.

COTTONWOOD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

NOTE 8: RISK MANAGEMENT (Continued)

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

NOTE 9: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

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

Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District establishes separate budgets for enterprise activity and general government activity. Budgeted general government activity consists only of tax revenue and expenditures related to the District's debt obligations. The District has made certain interpretations of the Amendment's language in order to determine compliance.

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

The District has established an emergency reserve, representing 3% of fiscal year spending, as required by the Amendment. At December 31, 2021 and 2020, the emergency reserve of \$56,775 and \$56,561, respectively, were reported as a restriction of net position in the statement of net position.

Uncertainty – Coronavirus Pandemic

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. The coronavirus and actions taken by government and public health officials to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets in many countries, including the geographical area in which the District is located. It is unknown how long these conditions will last and what the complete financial impact will be to the District.

SUPPLEMENTARY INFORMATION

COTTONWOOD WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2021

(With Comparative Actual Totals for the Year Ended December 31, 2020)

	2021		2020	
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	ACTUAL
<u>ENTERPRISE FUND:</u>				
REVENUES				
Operating				
Charges for Services				
Water System	\$ 2,757,000	\$ 2,682,768	\$ (74,232)	\$ 2,616,712
Wastewater System	2,309,000	2,329,571	20,571	2,193,108
Storm Sewer Fees	7,000	7,184	184	6,929
Trash Pickup Services	252,000	-	(252,000)	-
Miscellaneous	70,000	58,007	(11,993)	35,272
Total Operating Revenues	<u>5,395,000</u>	<u>5,077,530</u>	<u>(317,470)</u>	<u>4,852,021</u>
Non-Operating				
Tap Fees	1,525,000	3,771,472	2,246,472	1,208,000
Net Investment Income	50,000	5,731	(44,269)	38,870
Capital Recovery Fees	107,000	5,349	(101,651)	106,897
ACCWA Shared Expense Reimbursement	-	-	-	77,081
CWCB Loan Proceeds	800,000	-	(800,000)	282,384
Income from Investment in Authorities	-	-	-	(8,618)
Total Non-Operating Revenues	<u>2,482,000</u>	<u>3,782,552</u>	<u>1,300,552</u>	<u>1,704,614</u>
TOTAL REVENUES	<u>7,877,000</u>	<u>8,860,082</u>	<u>983,082</u>	<u>6,556,635</u>
EXPENSES				
Operating				
Water Treatment	830,000	592,861	237,139	565,323
Wastewater Treatment	1,842,000	1,785,000	57,000	1,723,632
System Operating Fees	180,000	180,000	-	171,600
Repairs and Maintenance	200,000	147,002	52,998	170,485
Utilities	250,000	234,606	15,394	233,817
Professional Services	60,000	26,109	33,891	44,679
WISE Water Purchases	495,000	357,514	137,486	561,212
Trash Pickup Services	244,000	-	244,000	-
Administration				
Insurance	36,000	37,977	(1,977)	34,110
Management Fees	171,000	170,950	50	171,000
Accounting and Billing	181,000	169,948	11,052	166,964
Audit	-	5,800	(5,800)	5,800
Legal	96,000	59,574	36,426	63,005
Miscellaneous	91,000	80,304	10,696	85,974
Water Conservation Rebates	-	1,242	(1,242)	1,610
Contingency	100,000	-	100,000	-
Total Operating Expenses	<u>4,776,000</u>	<u>3,848,887</u>	<u>927,113</u>	<u>3,999,211</u>
Non-Operating				
Tap Fees (ACWWA)	508,000	1,026,431	(518,431)	366,436
Capital Outlay	1,950,000	1,560,482	389,518	974,718
CWCB Debt Issue Costs	8,000	-	8,000	37,231
CWCB Debt Service	60,000	42,670	17,330	37,231
JWPP Project Operating	-	-	-	139,484
WISE Participation and Capital Contributions	44,000	68,204	(24,204)	1,429,221
Authority Participation (CCPWA, UCCWA, SMWSA)	676,000	500,908	175,092	10,000
Total Non-Operating Expenses	<u>3,246,000</u>	<u>3,198,695</u>	<u>47,305</u>	<u>2,957,090</u>
TOTAL EXPENSES	<u>8,022,000</u>	<u>7,047,582</u>	<u>974,418</u>	<u>6,956,301</u>
NET CHANGE IN FUNDS AVAILABLE	(145,000)	1,812,500	1,957,500	(399,666)
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>5,221,302</u>	<u>5,311,482</u>	<u>90,180</u>	<u>5,711,148</u>
FUNDS AVAILABLE - END OF YEAR	<u>5,076,302</u>	<u>7,123,982</u>	<u>2,047,680</u>	<u>5,311,482</u>

(Continued)

See the accompanying Independent Auditor's Report.

COTTONWOOD WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2021

(With Comparative Actual Totals for the Year Ended December 31, 2020)

	2021		2020	
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	ACTUAL
<u>BOND FUND:</u>				
REVENUES				
Property Taxes	\$ 1,712,000	\$ 1,711,845	\$ 155	\$ 1,722,201
Specific Ownership Taxes	159,000	180,641	(21,641)	163,168
Fees in Lieu of Taxes	-	114,685	(114,685)	-
TOTAL REVENUES	<u>1,871,000</u>	<u>2,007,171</u>	<u>(136,171)</u>	<u>1,885,369</u>
EXPENDITURES				
County Treasurers Fees	25,680	25,729	(49)	25,867
Debt Service				
DWRF (2006B)	695,202	695,201	1	698,358
Series 2016	497,174	496,483	691	495,220
Series 2019	638,099	633,219	4,880	636,770
Contingency	25,000	-	25,000	-
TOTAL EXPENDITURES	<u>1,881,155</u>	<u>1,850,632</u>	<u>30,523</u>	<u>1,856,215</u>
CHANGE IN NET POSITION, Budgetary Basis	(10,155)	156,539	166,694	29,154
BEGINNING FUNDS AVAILABLE - BOND FUND	<u>201,836</u>	<u>213,270</u>	<u>11,434</u>	<u>184,116</u>
ENDING FUNDS AVAILABLE - BOND FUND	<u>\$ 191,681</u>	<u>\$ 369,809</u>	<u>\$ 178,128</u>	<u>\$ 213,270</u>
TOTAL DISTRICT REVENUES (Budgetary Basis)	9,748,000	10,867,253	1,119,253	8,442,004
TOTAL DISTRICT EXPENDITURES (Budgetary Basis)	9,903,155	8,898,214	1,004,941	8,812,516
TOTAL DISTRICT BEGINNING FUNDS AVAILABLE	<u>5,423,138</u>	<u>5,524,752</u>	<u>101,614</u>	<u>5,895,264</u>
TOTAL DISTRICT ENDING FUNDS AVAILABLE	<u>\$ 5,267,983</u>	<u>\$ 7,493,791</u>	<u>\$ 2,225,808</u>	<u>\$ 5,524,752</u>

(Continued)

See the accompanying Independent Auditor's Report.

COTTONWOOD WATER AND SANITATION DISTRICT

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)
WITH RECONCILIATION TO GAAP BASIS

Year Ended December 31, 2021

(With Comparative Actual Totals for the Year Ended December 31, 2020)

	2021 ACTUAL	2020 ACTUAL
TOTAL DISTRICT REVENUES (Budgetary Basis)	\$ 10,867,253	\$ 8,442,004
ADJUSTMENTS TO GAAP BASIS		
CWCB Loan Proceeds	-	(282,384)
TOTAL REVENUES, GAAP Basis	10,867,253	8,159,620
TOTAL DISTRICT EXPENDITURES (Budgetary Basis)	8,898,214	8,812,516
ADJUSTMENTS TO GAAP BASIS		
Capital Outlay	(1,560,482)	(974,718)
WISE Capital Contributions	(30,204)	(1,357,205)
CCPWA Capital Contributions	(461,158)	(1,357,205)
Depreciation	1,102,433	1,110,667
Principal Payments on Long-term Debt	(1,573,409)	(1,536,899)
Debt Service Accrued Interest Adjustments	6,835	6,018
Amortization Debt Premium	(9,414)	(9,414)
Amortization Cost of Refunding	23,408	56,689
TOTAL EXPENDITURES, GAAP Basis	6,396,223	6,107,654
CHANGE IN NET POSITION, GAAP Basis	4,471,030	2,051,966
NET POSITION, Beginning	34,077,184	32,025,218
NET POSITION, Ending	\$ 38,548,214	\$ 34,077,184

See the accompanying Independent Auditor's Report.

OTHER INFORMATION

COTTONWOOD WATER AND SANITATION DISTRICT

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
EXCLUSIVE OF COLORADO WATER CONSERVATION BOARD (CWCB) LOAN, NOTE C
 December 31, 2021

\$4,500,000 General Obligation Refunding Loan Series 2016					\$4,000,000 General Obligation Refunding Bonds Series 2019				
Year	Rate	Principal	Interest	Total	Year	Rate	Principal	Interest	Total
2022	1.86%	\$ 455,000	\$ 43,896	\$ 498,896	2022	2.61%	\$ 575,000	\$ 62,457	\$ 637,457
2023	1.86%	465,000	35,433	500,433	2023	2.61%	590,000	47,450	637,450
2024	1.86%	470,000	26,784	496,784	2024	2.61%	606,000	32,051	638,051
2025	1.86%	480,000	18,042	498,042	2025	2.61%	622,000	16,234	638,234
2026	1.86%	490,000	9,114	499,114			<u>\$ 2,393,000</u>	<u>\$ 158,192</u>	<u>\$ 2,551,192</u>
		<u>\$ 2,360,000</u>	<u>\$ 133,269</u>	<u>\$ 2,493,269</u>					

\$9,996,005 CWRPDA Loan Series 2006					\$347,967 Colorado Water Conservation Board Loan Note B				
Year	Rate	Principal	Interest	Total	Year	Rate	Principal	Interest	Total
2022	3.54%	\$ 566,019	\$ 130,463	\$ 696,482	2022	3.00%	\$ 7,759	\$ 9,994	\$ 17,753
2023	3.54%	582,505	117,858	700,363	2023	3.00%	7,992	9,761	17,753
2024	3.54%	598,991	101,203	700,194	2024	3.00%	8,232	9,521	17,753
2025	3.54%	615,477	88,361	703,838	2025	3.00%	8,479	9,274	17,753
2026	3.54%	659,440	28,616	688,056	2026	3.00%	8,733	9,020	17,753
2027	3.54%	697,906	-	697,906	2027	3.00%	8,995	8,758	17,753
		<u>\$ 3,720,338</u>	<u>\$ 466,501</u>	<u>\$ 4,186,839</u>	2028	3.00%	9,265	8,488	17,753
					2029	3.00%	9,543	8,220	17,763
					2030	3.00%	9,829	7,924	17,753
					2031	3.00%	10,124	7,629	17,753
					2032	3.00%	10,428	7,325	17,753
					2033	3.00%	10,741	7,012	17,753
					2034	3.00%	11,063	6,690	17,753
					2035	3.00%	11,395	6,358	17,753
					2036	3.00%	11,737	6,016	17,753
					2037	3.00%	12,089	5,664	17,753
					2038	3.00%	12,452	5,301	17,753
					2039	3.00%	12,825	4,928	17,753
					2040	3.00%	13,210	4,543	17,753
					2041	3.00%	13,606	4,147	17,753
					2042	3.00%	14,014	3,739	17,753
					2043	3.00%	14,435	3,318	17,753
					2044	3.00%	14,868	2,885	17,753
					2045	3.00%	15,314	2,439	17,753
					2046	3.00%	15,773	1,980	17,753
					2047	3.00%	16,247	1,506	17,753
					2048	3.00%	16,735	1,018	17,753
					2049	3.00%	17,238	515	17,753
							<u>\$ 333,121</u>	<u>\$ 163,973</u>	<u>\$ 497,094</u>

\$342,921 Colorado Water Conservation Board Loan Note A				
Year	Rate	Principal	Interest	Total
2022	3.00%	10,654	8,824	19,478
2023	3.00%	10,974	8,504	19,478
2024	3.00%	11,303	8,175	19,478
2025	3.00%	11,642	7,836	19,478
2026	3.00%	11,992	7,486	19,478
2027	3.00%	12,351	7,127	19,478
2028	3.00%	12,722	6,756	19,478
2029	3.00%	13,103	6,375	19,478
2030	3.00%	13,497	5,981	19,478
2031	3.00%	13,901	5,577	19,478
2032	3.00%	14,319	5,159	19,478
2033	3.00%	14,748	4,730	19,478
2034	3.00%	15,191	4,287	19,478
2035	3.00%	15,646	3,832	19,478
2036	3.00%	16,116	3,362	19,478
2037	3.00%	16,599	2,879	19,478
2038	3.00%	17,097	2,381	19,478
2039	3.00%	17,610	1,868	19,478
2040	3.00%	18,138	1,340	19,478
2041	3.00%	18,682	796	19,478
2042	3.00%	7,842	236	8,078
		<u>\$ 294,127</u>	<u>\$ 103,511</u>	<u>\$ 397,638</u>

See the accompanying Independent Auditor's Report.

COTTONWOOD WATER AND SANITATION DISTRICT

SCHEDULE OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED December 31, 2021

Levy Year	Collection Year	Assessed Valuation	Mill Levy Debt	Total Property Taxes		Collection Rate
				Levied	Collected	
2011	2012	\$ 77,469,400	27.000	\$ 2,091,674	\$ 2,027,554	96.93%
2012	2013	76,541,460	27.000	2,066,619	2,023,244	97.90%
2013	2014	76,036,532	27.000	2,052,986	2,018,629	98.33%
2014	2015	76,436,440	27.000	2,063,784	1,999,746	96.90%
2015	2016	87,414,130	23.000	2,010,525	1,998,746	99.41%
2016	2017	89,886,510	19.000	1,707,844	1,705,742	99.88%
2017	2018	105,677,431	16.000	1,690,839	1,688,109	99.84%
2018	2019	108,825,784	14.500	1,577,974	1,581,275	100.21%
2019	2020	122,832,775	14.000	1,719,659	1,722,201	100.15%
2020	2021	\$ 126,860,313	13.500	\$ 1,712,617	\$ 1,711,842	99.95%
2021	2022	\$ 137,138,168	12.500	\$ 1,714,227		

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

Source: Douglas County Assessor and Treasurer.

See the accompanying Independent Auditor's Report.