

FOUNTAIN VALLEY AUTHORITY
(A Component Unit of the
City of Colorado Springs, Colorado)

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended
December 31, 2021 and 2020

FOUNTAIN VALLEY AUTHORITY
(A Component Unit of the
City of Colorado Springs, Colorado)

TABLE OF CONTENTS
As of and for the Years Ended December 31, 2021 and 2020

	<u>Page</u>
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Financial Statements	9
Notes to Financial Statements	
Note 1 – Financial Reporting Entity	14
Note 2 – Summary of Significant Accounting Policies	15
Note 3 – Deposits	18
Note 4 – Cash and Cash Equivalents	19
Note 5 – Capital Assets	20
Note 6 – Total Long-Term Debt	22
Note 7 – Net Position	24
Note 8 – Commitments	25
Note 9 – Contingencies and Claims	26



INDEPENDENT AUDITORS' REPORT

To Management and the Board of Directors
Fountain Valley Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Fountain Valley Authority, a component unit of the City of Colorado Springs, Colorado, which comprise the statements of net position as of December 31, 2021 and 2020, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fountain Valley Authority, as of December 31, 2021 and 2020, and the changes in its net 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 Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Fountain Valley Authority and to meet our other 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Fountain Valley Authority'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 opinion. 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 generally accepted auditing standards 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 judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment 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 in 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 on the effectiveness of the Fountain Valley Authority'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fountain Valley Authority'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 as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Hoelting & Company, Inc.

Colorado Springs, Colorado
March 16, 2022

FOUNTAIN VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2021 and 2020 (Unaudited)

INTRODUCTION

The following Management's Discussion and Analysis serves as an introduction to the financial statements of Fountain Valley Authority ("Authority"). It is intended to be an objective and easily readable analysis of significant financial and operating activities and events for the fiscal years ended December 31, 2021 and 2020. It also provides an overview of the Authority's general financial condition and results of operations. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America as applied to units of local government and promulgated by the Governmental Accounting Standards Board.

The Authority is a water authority, political subdivision and a public corporation of the State of Colorado. It was formed primarily to 1) construct and operate a water treatment plant for the purpose of treating water for its customers, and 2) operate a pipeline, the Fountain Valley Conduit ("Conduit"), that conveys raw water from the Pueblo Reservoir and Dam in Pueblo, Colorado to the water treatment plant located approximately 17 miles south of Colorado Springs, Colorado, and treated water from the water treatment plant to the Authority's customers. The customers of the Authority, each of which owns and operates a water system or joint utility system, are the City of Colorado Springs, the City of Fountain, Security Water District, Stratmoor Hills Water District and Widefield Water and Sanitation District.

FINANCIAL STATEMENTS

The Authority's annual report includes three financial statements with accompanying notes that are an integral part of these financial statements. The financial statements include: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position and 3) Statements of Cash Flows. These statements provide both long-term and short-term information about the overall status of the Authority. They are presented to demonstrate the extent the Authority has met its operating objectives efficiently and effectively using all the resources available and whether the Authority can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting. Comparative total data for the prior year has been presented in order to provide an understanding of changes in the Authority's financial position and operations.

Statements of Net Position - This statement reports net position as the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources as of the end of each fiscal year. Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Deferred outflows of resources are the consumption of net assets in one period that are applicable to future periods. Liabilities are separated into current and noncurrent categories. Deferred inflows of resources are the acquisition of net assets that are applicable to future reporting periods. The components of net position are classified as net investment in capital assets, restricted and unrestricted.

Statements of Revenues, Expenses and Changes in Net Position - This statement measures the activities for the year and can be used to determine whether the rates, fees and other charges are adequate to recover expenses. All revenues and expenses are accounted for in this statement for the years ended December 31.

FOUNTAIN VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2021 and 2020
(Unaudited)

Statements of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, noncapital financing, capital and related financing and investing activities for the years ended December 31. This statement is prepared using the direct method, which reports gross cash receipts and payments and presents a reconciliation of operating income to net cash provided by operating activities. This statement also separately lists the noncash investing, capital and related financing activities.

Notes to Financial Statements - Notes provide additional detailed information and required disclosure in support of the financial statements.

CONDENSED FINANCIAL STATEMENTS

Condensed financial statements with comparative information as of December 31:

CONDENSED STATEMENTS OF NET POSITION

	2021	2020	Variance	Percent Variance
Assets				
Current	\$ 8,493,897	\$ 9,101,989	\$ (608,092)	-6.7%
Noncurrent:				
Other	1,994,987	1,968,978	26,009	1.3%
Capital Assets, net	50,605,720	50,325,142	280,578	0.6%
Total Assets	<u>61,094,604</u>	<u>61,396,109</u>	<u>(301,505)</u>	-0.5%
Total Assets	<u>\$ 61,094,604</u>	<u>\$ 61,396,109</u>	<u>\$ (301,505)</u>	-0.5%
Liabilities				
Current	\$ 5,427,462	\$ 11,218,352	\$ (5,790,890)	-51.6%
Noncurrent	381,020	2,761,629	(2,380,609)	-86.2%
Total Liabilities	<u>5,808,482</u>	<u>13,979,981</u>	<u>(8,171,499)</u>	-58.5%
Net Position				
Net Investment in Capital Assets	48,647,706	42,281,859	6,365,847	15.1%
Restricted	1,994,987	1,968,978	26,009	1.3%
Unrestricted	4,643,429	3,165,291	1,478,138	46.7%
Total Net Position	<u>55,286,122</u>	<u>47,416,128</u>	<u>7,869,994</u>	16.6%
Total Liabilities and Net Position	<u>\$ 61,094,604</u>	<u>\$ 61,396,109</u>	<u>\$ (301,505)</u>	-0.5%

Capital assets, net increased approximately \$281,000 or 0.6% from the prior year primarily due to a decrease in accumulated depreciation of \$1.9 million and an increase in construction work in progress of approximately \$397,000, offset by a decrease in plant in service of \$2.0 million. Current liabilities decreased by approximately \$5.8 million or 51.6% from the prior year due to decreases in unearned revenue of \$2.7 million and obligations under capital lease of \$3.7 million, offset by an increase in accounts payable of \$636,000. A reduction of approximately \$2.4 million or 86.2% in noncurrent liabilities was due to \$2.2 million of lower obligations under capital lease. As a result of these activities, net investment in capital assets increased approximately \$6.4 million or 15.1%.

FOUNTAIN VALLEY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2021 and 2020
(Unaudited)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>2021</u>	<u>2020</u>	<u>Variance</u>	<u>Percent Variance</u>
Operating Revenues	\$ 14,216,063	\$ 13,872,145	\$ 343,918	2.5%
Operating Expenses	<u>6,665,670</u>	<u>6,661,218</u>	<u>4,452</u>	0.1%
Operating Income	7,550,393	7,210,927	339,466	4.7%
Nonoperating Revenues (Expenses), net	<u>319,601</u>	<u>1,834,819</u>	<u>(1,515,218)</u>	-82.6%
Change in Net Position	7,869,994	9,045,746	(1,175,752)	-13.0%
Net Position, January 1	<u>47,416,128</u>	<u>38,370,382</u>	<u>9,045,746</u>	23.6%
Net Position, December 31	<u>\$ 55,286,122</u>	<u>\$ 47,416,128</u>	<u>\$ 7,869,994</u>	16.6%

Operating revenues increased approximately \$344,000 or 2.5% primarily due to increased revenue from partner billing for operations and maintenance of \$549,000 and capital projects of \$72,000, offset by decreased revenue from partner billing for loan principal of \$260,000.

Water conveyance increased by approximately 28.0 million gallons from the prior year.

Nonoperating revenues (expenses), which resulted in net revenue for 2021, decreased approximately \$1.5 million or 82.6% which was primarily driven by a decrease in miscellaneous conveyance revenues of \$1.9 million.

CAPITAL ASSETS AND TOTAL LONG-TERM DEBT

Capital assets and total long-term debt with comparative information as of December 31:

CAPITAL ASSETS

	<u>2021</u>	<u>2020</u>	<u>Variance</u>	<u>Percent Variance</u>
Plant in service	\$ 16,456,377	\$ 17,483,434	\$ (1,027,057)	-5.9%
Property under capital lease	74,537,000	75,518,435	(981,435)	-1.3%
Completed construction not classified	760,734	272,615	488,119	179.1%
Construction work in progress	734,397	825,061	(90,664)	-11.0%
Accumulated depreciation	<u>(41,882,788)</u>	<u>(43,774,403)</u>	<u>1,891,615</u>	4.3%
Total Capital Assets (net of accumulated depreciation)	<u>\$ 50,605,720</u>	<u>\$ 50,325,142</u>	<u>\$ 280,578</u>	0.6%

Capital asset projects during the current year include improvements to facilities and infrastructure and replacements related to the leased assets.

FOUNTAIN VALLEY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS
As of and for the Years Ended December 31, 2021 and 2020
(Unaudited)

TOTAL LONG-TERM DEBT

	<u>2021</u>	<u>2020</u>	<u>Variance</u>	<u>Percent Variance</u>
Long-term loan	\$ 554,720	\$ 722,818	\$ (168,098)	-23.3%
Lease	<u>1,403,294</u>	<u>7,320,465</u>	<u>(5,917,171)</u>	-80.8%
Total Long-Term Debt	<u>\$ 1,958,014</u>	<u>\$ 8,043,283</u>	<u>\$ (6,085,269)</u>	-75.7%

The final installment of interest and principal on the Series 2013 Refunding Revenue bonds was paid on December 1, 2019. In August 2013, the Authority issued \$5,255,000 of the Series 2013 Refunding Revenue Bonds to advance refund the Authority's outstanding Water Treatment Refunding Revenue Bonds, Series 2006.

The final payment on the 2000A Colorado Water Resources and Power Development Authority ("CWRPDA") loan was made on August 1, 2020. The Authority entered into the loan agreement with the CWRPDA in the amount of \$7,607,966 in April 2000, and the loan proceeds were used to pay for the relocation and replacement of a portion of the Conduit.

The Authority assessed its aging infrastructure and has identified and planned projects for needed replacements. In 2020, the Authority established a Projects Fund reserve account to fund these projects in future years in lieu of issuing debt. The Projects Fund balance was \$2,196,110 and \$810,765 as of December 31, 2021 and 2020, respectively.

FINANCIAL HIGHLIGHTS AND OUTLOOK

The Authority's overall financial position remains strong as of December 31, 2021 and for the year then ended. Operating revenues and expenses in 2022 are anticipated to be similar compared to 2021.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, investors, creditors and other financial users with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the Accounting Department of Colorado Springs Utilities, P.O. Box 1103, Mail Code 929, Colorado Springs, CO 80947-0929.

FOUNTAIN VALLEY AUTHORITY
STATEMENTS OF NET POSITION
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents-unrestricted	\$ 3,509,241	\$ 7,548,449
Accounts receivable	4,744,281	1,273,474
Inventories	238,208	239,618
Prepaid expenses	2,167	40,448
Total Current Assets	8,493,897	9,101,989
Noncurrent Assets		
Cash and cash equivalents-restricted	1,994,987	1,968,978
Capital assets:		
Land	65,147	65,147
Plant in service	90,928,230	92,936,722
Completed construction not classified	760,734	272,615
Construction work in progress	734,397	825,061
Accumulated depreciation	(41,882,788)	(43,774,403)
Total Capital Assets (net of accumulated depreciation)	50,605,720	50,325,142
Total Noncurrent Assets	52,600,707	52,294,120
Total Assets	\$ 61,094,604	\$ 61,396,109

The accompanying notes are an integral part of these statements.

FOUNTAIN VALLEY AUTHORITY
STATEMENTS OF NET POSITION
December 31, 2021 and 2020

	2021	2020
Liabilities		
Current Liabilities		
Accounts payable	\$ 1,217,831	\$ 581,916
Accrued interest	13,001	18,244
Unearned revenue	2,619,636	5,336,538
Current portion of loan payable	173,700	168,097
Current portion of lease payable	1,403,294	5,113,557
	5,427,462	11,218,352
Noncurrent Liabilities		
Loan payable	381,020	554,721
Capital lease payable	-	2,206,908
	381,020	2,761,629
Total Liabilities	5,808,482	13,979,981
Net Position		
Net investment in capital assets	48,647,706	42,281,859
Restricted	1,994,987	1,968,978
Unrestricted	4,643,429	3,165,291
	55,286,122	47,416,128
Total Liabilities and Net Position	\$ 61,094,604	\$ 61,396,109

The accompanying notes are an integral part of these statements.

FOUNTAIN VALLEY AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Conveyance charges	\$ 5,336,538	\$ 5,333,873
Water treatment charges	8,879,525	8,538,272
Total Operating Revenues	14,216,063	13,872,145
Operating Expenses		
Production and treatment	2,563,332	2,296,644
Purchased water for resale	297,817	344,891
Transmission and distribution	651,117	623,941
Maintenance	1,195,843	1,509,622
Administration and general	809,363	769,626
Depreciation	1,148,198	1,116,494
Total Operating Expenses	6,665,670	6,661,218
Operating Income	7,550,393	7,210,927
Nonoperating Revenues (Expenses)		
Investment income	473	4,054
Other revenues	848,246	2,801,400
Other expenses	(274,543)	(463,580)
Interest expense	(254,575)	(507,055)
Total Nonoperating Revenues (Expenses)	319,601	1,834,819
Change in Net Position	7,869,994	9,045,746
Total Net Position, January 1	47,416,128	38,370,382
Total Net Position, December 31	\$ 55,286,122	\$ 47,416,128

The accompanying notes are an integral part of these statements.

FOUNTAIN VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 8,028,355	\$ 13,934,239
Other cash receipts	44,631	46,377
Payments to suppliers	(4,688,658)	(5,815,983)
	3,384,328	8,164,633
Net Cash Provided by Operating Activities		
	-	-
Cash Flows from Capital and Related Financing Activities		
Capital expenditures	(1,857,402)	(1,468,935)
Principal paid on capital lease	(5,113,557)	-
Interest paid on capital lease	(222,981)	-
Repayment of long-term debt	(168,097)	(694,174)
Interest payments on long-term debt	(35,963)	(59,704)
Proceeds from sale of assets	-	14,480
	(7,398,000)	(2,208,333)
Net Cash Used in Capital and Related Financing Activities		
	-	-
Cash Flows from Investing Activities		
Interest received on investments	473	4,054
	473	4,054
Net Cash Provided by Investing Activities		
	-	-
Increase (Decrease) in Cash and Cash Equivalents	(4,013,199)	5,960,354
Cash and Cash Equivalents, January 1	9,517,427	3,557,073
Cash and Cash Equivalents, December 31	\$ 5,504,228	\$ 9,517,427
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position:		
Cash and cash equivalents	\$ 3,509,241	\$ 7,548,449
Restricted cash and cash equivalents	1,994,987	1,968,978
	\$ 5,504,228	\$ 9,517,427
Total Cash and Cash Equivalents	\$ 5,504,228	\$ 9,517,427

The accompanying notes are an integral part of these statements.

FOUNTAIN VALLEY AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 7,550,393	\$ 7,210,927
Adjustments to operating income:		
Depreciation	1,148,198	1,116,494
Other revenue	44,631	46,377
(Increase) Decrease in Assets		
Accounts receivable	(3,470,806)	59,428
Inventories	1,410	(56,811)
Prepaid expenses	37,407	(6,261)
Increase (Decrease) in Liabilities		
Accounts payable	789,997	(208,186)
Unearned revenue	(2,716,902)	2,665
Net Cash Provided by Operating Activities	\$ 3,384,328	\$ 8,164,633
Noncash Investing, Capital and Related Financing Activities:		
Adjustment of capital lease balance	\$ (580,636)	\$ 7,619,349
Adjustment of capital asset	(428,626)	(463,580)
Noncash acquisition of capital assets (incurrence of accounts payable)	154,083	162,412

The accompanying notes are an integral part of these statements.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NOTE 1 - FINANCIAL REPORTING ENTITY

Fountain Valley Authority (“Authority”) is a water authority, political subdivision and a public corporation of the State of Colorado. It was formed July 10, 1979, pursuant to the constitution and to statutes of the State of Colorado. The City of Colorado Springs (“City”), the City of Fountain, Security Water District, Stratmoor Hills Water District and Widefield Water and Sanitation District represent the member governments and customers of the Authority. Each customer of the Authority owns and operates a water system or joint utility system.

The Authority is a component unit of the City. The accompanying financial statements present only the Authority. The financial statements do not purport to, and do not present the financial position of the City or other member governments of the Authority. The Authority has no component units.

The Authority was formed to finance, construct and operate a water treatment plant for the purpose of treating raw water received through the Fountain Valley Conduit (“Conduit”) pursuant to the Conveyance Service Subcontract with the Southeastern Colorado Water Conservancy District (“District”) and delivering such treated water to its customers. The water is delivered to the water treatment plant and then to the customers by means of the Conduit primarily pursuant to a contract dated July 10, 1979 between the United States Department of the Interior, Bureau of Reclamation (“Bureau”) and the District for conveyance service from the Conduit.

The Authority treats the water delivered to the water treatment plant on behalf of the Authority’s customers and charges its customers for that water treatment. In addition, the Authority charges its customers for services other than water treatment associated with 1) the Establishing Contract between the Bureau and the District, dated January 21, 1965, for repayment of reimbursable costs of the Fryingpan-Arkansas (“Fry-Ark”) Project and 2) the Conveyance Service Contract dated August 22, 1985 between the Authority and the District for transfer of operations of the Conduit.

Most of the water delivered to the water treatment plant on behalf of the customers is Fry-Ark water purchased by the customers from the District. Fry-Ark water supplied by the District to the customers is billed through the Authority; the District pays the monies it receives from Fry-Ark water to the Bureau. Each customer’s allocated share in the capacity of the Conduit is expressed in acre-feet and as a percentage, as set forth below (at full capacity):

	Acre-Feet ⁽¹⁾	Percentage
City of Colorado Springs	14,353	71.41%
City of Fountain	2,000	9.95%
Security Water District	1,646	8.19%
Widefield Water and Sanitation District	1,500	7.46%
Stratmoor Hills Water District	601	2.99%
Total	20,100	100.00%

⁽¹⁾ 1 acre-foot = 325,851 gallons

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

The Authority is under the direction of a Board of Directors ("Board") or ("Directors") consisting of eight persons appointed by the member governments they represent for three year terms. Individuals may serve as Directors for consecutive terms without limit. The Establishing Contract specifies that the Board is made up of four members designated by the City, one designated by the City of Fountain, one designated by the Security Water District, one designated by the Stratmoor Hills Water District and one designated by the Widefield Water and Sanitation District.

Any action by the Authority requires the affirmative vote of no less than five Directors. In the event all of the members of the Authority are present and there is a tie vote on a matter being considered for action, the Establishing Contract provides that a "weighted vote" may be taken and each Director's vote will be given the proportion which "the total amount of water contributed to the Authority by the government appointing such Director divided by the number of Directors appointed by such government" bears to "the total amount of all water contributed to the Authority by all governments."

Colorado Springs Utilities ("Utilities"), created by the home rule charter of the City, consists of a water system and other systems designated in accordance with the charter of the City. The Authority and Utilities entered into a management agreement in which Utilities agreed to provide all necessary personnel for the operation and maintenance of the Conduit, its pumping stations and the water treatment plant. In addition, Utilities agreed to provide all of the services required for the operation and maintenance of the Conduit pursuant to the terms of the Conveyance Service Subcontract. All of the costs incurred by Utilities in providing the necessary personnel, equipment and facilities for the performance of the obligations assumed by Utilities are reimbursed by the Authority pursuant to billings by Utilities on a monthly basis.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Authority's accounting records are maintained and the accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as applied to units of local government and promulgated by the Governmental Accounting Standards Board ("GASB"). Consolidated 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 the related cash flows. Conveyance and water treatment charges are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

RECENT ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 87, *Leases* ("GASB 87") is effective for fiscal years beginning after June 15, 2021. GASB 87 requires recognition of certain leases and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Authority is currently assessing the adoption of GASB 87 and the impact it will have on the financial statements.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

FINANCIAL STATEMENT PRESENTATION

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the reporting entity's financial position and operations.

DEPOSITS

For purposes of the Statements of Cash Flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

Authority's cash and cash equivalents are considered to be cash on hand and demand deposits.

RECEIVABLES AND PAYABLES

Accounts receivable as of December 31, 2021 and 2020, includes amounts due from customers and related parties. Accounts payable includes amounts payable to Utilities, a related party. Outstanding balances between the Authority and the City are reported as "Due to or Due from other City funds." Management does not believe an allowance for doubtful accounts is necessary at December 31, 2021 and 2020.

INVENTORIES AND PREPAID EXPENSES

Inventories are valued at average cost. The cost of inventories is recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expense in the financial statements.

RESTRICTED ASSETS

Authority's loan and lease agreements require the creation and funding of individual reserve funds. The loan agreement requires that monies be restricted in separate principal and interest retirement funds. Refer to Note 4 for more information on different reserve funds.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

CAPITAL ASSETS

Plant is stated at cost. For constructed plant, cost includes contracted services, direct labor and materials. The cost of additions to plant and replacement units of property in excess of \$5,000 are capitalized. Maintenance costs and replacement of minor items of property are charged to expense as incurred.

The Authority performed an assessment of its legal obligations to perform future asset retirement activities related to its tangible capital assets and determined there are no material obligations as of December 31, 2021 and 2020. An annual assessment will be performed, and any future material obligations will be recorded in the period they are identified.

Depreciation is provided by the straight-line method based on estimated service lives of the various assets ranging from 1.75% to 16.67% per annum. The plant consists of a pipeline, pumping stations and storage reservoirs that originate at the Pueblo, Colorado reservoir and are used to convey water to and from the treatment plant.

UNEARNED REVENUE

The Authority receives payments for conveyance service in advance of rendering the service. This revenue is recognized as unearned revenue in the year of receipt.

CAPITAL LEASE PAYABLE

Depreciation is provided by the straight-line method based on estimated service lives of the various assets ranging from 1.0% to 10.0% per annum.

COMPENSATED ABSENCES PAYABLE

Employees of Utilities operate and manage the water treatment plant, the conduit and associated pumping stations under an agreement with the Authority. The compensated absences payable for these employees is recorded as a liability by Utilities and not by the Authority. When these employees retire or terminate their employment with Utilities, the compensated absences payable would be paid by Utilities.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NET POSITION

Net Investment in Capital Assets - Represents capital assets net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Unspent related debt proceeds are not offset against net position.

Restricted - Represents restrictions placed on net position use through external constraints imposed by creditors, contributors, law or regulations of other governments, law through constitutional provisions or enabling legislation.

Unrestricted - Represents the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

REVENUES AND EXPENSES

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's ongoing operation. The sole operating revenues of the fund are conveyance and water treatment charges. Operating expenses include treatment, transmission, maintenance and administration expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 3 - DEPOSITS

DEPOSITS

The Colorado Public Deposit Protection Act requires that financial institutions pledge a single institution pool of collateral against all the uninsured public deposits it holds and the market value of the securities in the pool is required to be in excess of 102.0% of the financial institution's total uninsured public deposits. The financial institutions in which the Authority has deposits at the end of the year are authorized.

As of December 31, 2021 and 2020, the carrying amount of the Authority's cash deposits was \$5,504,228 and \$9,517,427, and the bank balances were \$5,865,893 and \$10,194,400, respectively. As of December 31, 2021 and 2020, respectively, a portion of the bank balance in the amount of \$5,615,893 and \$9,944,400 was collateralized as required by Colorado Statutes.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NOTE 4 - CASH AND CASH EQUIVALENTS

RECONCILIATION TO CASH AND CASH EQUIVALENTS

The deposits above reconcile to cash and cash equivalents reported on the Statements of Net Position as of December 31:

	2021		
	Current	Noncurrent	Total
Deposits and cash on hand	\$ 3,509,241	\$ 1,994,987	\$ 5,504,228
Total	<u>\$ 3,509,241</u>	<u>\$ 1,994,987</u>	<u>\$ 5,504,228</u>

	2020		
	Current	Noncurrent	Total
Deposits and cash on hand	\$ 7,548,449	\$ 1,968,978	\$ 9,517,427
Total	<u>\$ 7,548,449</u>	<u>\$ 1,968,978</u>	<u>\$ 9,517,427</u>

RESTRICTED CASH AND CASH EQUIVALENTS

Summary of restricted cash and cash equivalents as of December 31:

	2021	2020
Emergency Reserve Fund	\$ 127,340	\$ 127,332
Replacement Reserve Fund	534,020	505,987
Bond funds:		
Operation and Maintenance Expense Reserve Fund	1,250,000	1,250,000
Principal and Interest Retirement Fund, Loan	<u>83,627</u>	<u>85,659</u>
Total Restricted Cash and Cash Equivalents	<u>\$ 1,994,987</u>	<u>\$ 1,968,978</u>

EMERGENCY RESERVE AND REPLACEMENT RESERVE FUND

The Authority has fulfilled its obligation under the Conveyance Service Subcontract to set aside cash in an Emergency Reserve Fund. Also under the Conveyance Service Subcontract, the Authority is required to make \$14,000 annual deposits to the Replacement Reserve Fund. A \$14,000 deposit was made to the fund in December 2021.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

OPERATION AND MAINTENANCE EXPENSE RESERVE FUND

The Authority shall maintain an operations and maintenance reserve in an amount equal to three months of operation and maintenance expenses, excluding depreciation, of the water system as set forth in the annual budget for the current fiscal year but in no event greater than \$1,250,000.

PRINCIPAL AND INTEREST RETIREMENT FUND, LOAN

This fund was established for the payment of the principal and interest on the loan with the Colorado Water Resources and Power Development Authority (“CWRPDA”).

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2021:

	Balance January 1, 2021	Additions	Reductions	Balance December 31, 2021
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Non-Depreciable Capital Assets				
Land	\$ 65,147	\$ -	\$ -	\$ 65,147
Construction work in progress	<u>825,061</u>	<u>1,215,200</u>	<u>(1,305,864)</u>	<u>734,397</u>
Total Non-Depreciable Capital Assets	<u>890,208</u>	<u>1,215,200</u>	<u>(1,305,864)</u>	<u>799,544</u>
Depreciable Capital Assets				
Fountain Valley Conduit	75,518,435	1,075,680	(2,057,115)	74,537,000
Water treatment plant	14,583,054	230,185	(120,664)	14,692,575
Vehicles and transportation equipment	461,901	-	-	461,901
Office furniture and equipment	218,291	-	(218,291)	-
Other assets and major equipment	802,514	-	-	802,514
Minor Equipment	1,352,527	-	(918,287)	434,240
Completed construction not classified	<u>272,615</u>	<u>760,734</u>	<u>(272,615)</u>	<u>760,734</u>
Total Depreciable Capital Assets	93,209,337	2,066,599	(3,586,972)	91,688,964
Accumulated Depreciation	<u>(43,774,403)</u>	<u>(1,139,768)</u>	<u>3,031,383</u>	<u>(41,882,788)</u>
Total Plant in Service (net of accumulated depreciation)	<u>49,434,934</u>	<u>926,831</u>	<u>(555,589)</u>	<u>49,806,176</u>
Total Capital Assets (net of accumulated depreciation)	<u>\$ 50,325,142</u>	<u>\$ 2,142,031</u>	<u>\$ (1,861,453)</u>	<u>\$ 50,605,720</u>

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

Capital assets activity for the year ended December 31, 2020:

	Balance January 1, 2020	Additions	Reductions	Balance December 31, 2020
Non-Depreciable Capital Assets				
Land	\$ 65,147	\$ -	\$ -	\$ 65,147
Construction work in progress	912,283	1,631,347	(1,718,569)	825,061
Total Non-Depreciable Capital Assets	<u>977,430</u>	<u>1,631,347</u>	<u>(1,718,569)</u>	<u>890,208</u>
Depreciable Capital Assets				
Fountain Valley Conduit	74,982,446	1,138,336	(602,347)	75,518,435
Water treatment plant	14,538,727	44,327	-	14,583,054
Vehicles and transportation equipment	354,210	164,592	(56,901)	461,901
Office furniture and equipment	218,291	-	-	218,291
Other assets and major equipment	3,068,120	44,224	(2,309,830)	802,514
Minor Equipment	1,298,052	54,475	-	1,352,527
Completed construction not classified	-	272,615	-	272,615
Total Depreciable Capital Assets	<u>94,459,846</u>	<u>1,718,569</u>	<u>(2,969,078)</u>	<u>93,209,337</u>
Accumulated Depreciation	<u>(45,163,407)</u>	<u>(1,116,494)</u>	<u>2,505,498</u>	<u>(43,774,403)</u>
Total Plant in Service (net of accumulated depreciation)	<u>49,296,439</u>	<u>602,075</u>	<u>(463,580)</u>	<u>49,434,934</u>
Total Capital Assets (net of accumulated depreciation)	<u>\$ 50,273,869</u>	<u>\$ 2,233,422</u>	<u>\$ (2,182,149)</u>	<u>\$ 50,325,142</u>

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NOTE 6 - TOTAL LONG-TERM DEBT

LOAN PAYABLE

On June 1, 2003, the Authority entered into a loan agreement with the CWRPDA in the amount of \$3,221,862 at an interest rate of 3.03%. This loan is payable semi-annually with the final payment due August 1, 2024. These funds were used to replace the motor controls at the Authority's pump stations.

The loan is to be repaid from and secured by a pledge of all net revenues (revenues after deducting operation and maintenance expenses, but excluding both revenues and expenses pursuant to the Conveyance Service Contract and Conveyance Service Subcontract).

Summary of scheduled maturities as of December 31, 2021:

<u>December 31,</u>	<u>Principal Maturities</u>	<u>Interest</u>
2022	\$ 173,700	\$ 25,002
2023	184,907	12,573
2024	196,113	357
Total	<u>\$ 554,720</u>	<u>\$ 37,932</u>

CAPITAL LEASE PAYABLE

As part of the Fry-Ark Project, the Bureau agreed to construct the Conduit for the purpose of transporting raw water to the customers from the Pueblo Dam and Reservoir approximately 25 miles north to the site of the water treatment plant. From the water treatment plant the Bureau constructed an additional 13 miles of mainline and 10 miles of laterals to deliver treated water to the customers. Title to the Conduit is in the name of the United States and remains there until otherwise provided by Congress.

The customers agreed to repay the Bureau the reimbursable costs of constructing the Conduit over time, based on each customer's allocated share of the total conveyance capacity of the Conduit, through payment of a conveyance service charge. In the Conveyance Service Contract, the District agreed to charge the conveyance service charge to each customer, based on the conveyance service allocated to each customer (which equates to the customer's participation in the water treatment plant). In addition, in the Conveyance Service Subcontract, the customers agreed to pay a per-acre-foot conveyance service rate to convey non-Fry-Ark water through the Conduit, and to pay a water service charge for Fry-Ark water delivered to them by the District. Charges by the District to the customers are billed through the Authority; the District pays the monies it receives to the Bureau. The total minimum lease payment is due from customers in the year before payment is made to the District and is recorded as unearned revenue.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

The Authority is required to reimburse actual construction costs of \$64,802,810 with interest over 40 years. The amount of capital lease payments from December 31, 1986 through December 31, 2025, varies annually with interest at 3.046% per annum. The Bureau's payout schedule is periodically credited for miscellaneous revenues derived from Fry-Ark excess capacity or exchange contracts executed after July 1, 2007 pursuant to Section 9115 of P.L. 111-11. Miscellaneous revenues for the year ended December 31, 2021 were estimated, because the Bureau's payout schedule was not available.

The assets acquired through the capital lease as of December 31:

	<u>2021</u>	<u>2020</u>
Asset:		
Fountain Valley Conduit		
Original Plant	\$ 60,529,874	\$ 62,507,958
Pipeline replacement	5,698,656	5,698,656
Conduit Improvements	8,308,470	7,311,821
Less: Accumulated depreciation	<u>(28,610,167)</u>	<u>(29,508,396)</u>
Total	<u>\$ 45,926,833</u>	<u>\$ 46,010,039</u>

Summary of the current conveyance service charges:

<u>Customer</u>	<u>Conveyance Service Rate per Acre-Foot</u>
City of Colorado Springs	\$ 305.97
City of Fountain	185.60
Security Water District	168.90
Stratmoor Hills Water District	153.84
Widefield Water and Sanitation District	146.31

The remaining future minimum lease payment under this capital lease is \$1,456,250, due in 2022. The present value of the net minimum lease payment is \$1,403,294, which is reduced by interest of \$52,956 as of December 31, 2021.

CHANGES IN LONG-TERM LIABILITIES

Summary of changes in long-term liabilities as of December 31, 2021:

	<u>Balance January 1, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2021</u>	<u>Due Within One Year</u>
Loan payable	\$ 722,818	\$ -	\$ 168,098	\$ 554,720	\$ 173,700
Capital lease payable	7,320,465	-	5,917,171	1,403,294	1,403,294
Total	<u>\$ 8,043,283</u>	<u>\$ -</u>	<u>\$ 6,085,269</u>	<u>\$ 1,958,014</u>	<u>\$ 1,576,994</u>

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NOTE 7 - NET POSITION

Net position represents the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources as of the end of each fiscal year.

	2021	2020
Net Investment in Capital Assets		
Net capital assets	\$ 50,605,720	\$ 50,325,142
Less:		
Loan payable	(554,720)	(722,818)
Capital lease payable	(1,403,294)	(7,320,465)
Total Net Investment in Capital Assets	48,647,706	42,281,859
Restricted		
Restricted for emergencies	127,340	127,333
Restricted for replacements	534,020	505,986
Principal and interest retirement fund, loan	83,627	85,659
Debt service		
Operation and maintenance expense reserve fund	1,250,000	1,250,000
Total Restricted	1,994,987	1,968,978
Unrestricted	4,643,429	3,165,291
Total Net Position	\$ 55,286,122	\$ 47,416,128

Summary of the change in amounts invested in capital assets:

	2021	2020
Balance, beginning	\$ 42,281,859	\$ 33,917,063
Change in capital assets	280,578	51,273
Change in related debt	6,085,269	8,313,523
Balance, ending	\$ 48,647,706	\$ 42,281,859

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NOTE 8 - COMMITMENTS

WATER TREATMENT CONTRACT

The Authority treats the water delivered to the water treatment plant on behalf of the customers and charges its customers for water treatment under the terms of the Water Treatment Contract. The Authority is required to provide, and the customers are required to pay for the rights to water treatment.

Purchase and Sale of Water Treatment and Treated Water - The Authority agrees to treat and cause delivery of water to each customer. Each customer agrees to take all actions necessary under the Conveyance Service Contract and Conveyance Service Subcontract to cause delivery to the water treatment plant of all water to be conveyed through the Conduit. The Authority also agrees to treat additional raw water received through the Conduit on behalf of each customer.

Rates - Each customer agrees to pay to the Authority a water treatment availability charge, proportionate to its participation, for the right to receive water treatment. The water treatment availability charge is a “take or pay” charge, payable whether or not a customer requests and receives any treated water. The water treatment availability charge is set at a rate sufficient to 1) provide net revenues in each fiscal year which will equal current fiscal year’s principal installments and interest on loan payments taking into account as net revenues amounts on deposit in the Operation and Maintenance Expense Reserve Fund, 2) to assist in cash funding future replacement projects and 3) pay annual plant costs (other than variable costs, comprising costs of chemicals and electricity directly related to water treatment). Variable costs are charged monthly to each customer receiving treated water based on each customer’s proportion of treated and delivered water.

The water treatment availability charge and variable costs are billed to each customer on a monthly basis. These charges are in addition to the Conveyance Service Rates set forth in Note 6 - Total Long-Term Debt, Capital Lease Payable. These billings, together with the Operation and Maintenance Expense Reserve Fund of \$1,250,000, were in excess of the above requirement for 2021 and 2020.

Each customer covenants that it will establish, maintain and collect reasonable rates and charges for water service of its water system or combined utility system, which, together with other legally available funds of that customer, will enable it to pay all of its obligations to the Authority under the Water Treatment Contract and the Conveyance Service Subcontract. Customers are not subject to the jurisdiction of the Public Utilities Commission of the State of Colorado concerning rates, water quality, metering and other matters.

Limited Obligations - The obligations of each customer under the Water Treatment Contract are not general obligations of each customer and are not secured by a pledge of tax revenues, but are payable and enforceable solely and only from the revenues derived from the operation of the water system or combined utility of such customer.

FOUNTAIN VALLEY AUTHORITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2021 and 2020

NOTE 9 - CONTINGENCIES AND CLAIMS

RISK MANAGEMENT

Risk management oversight in evaluating the insurable risk of loss to protect the Authority's assets is provided by Utilities. Tort claims against the Authority and its officers are subject to the terms, conditions and limitations of the Colorado Governmental Immunity Act, Colorado Revised Statutes ("C.R.S.") 24-10-101 et seq., which generally limit such claims to the greater of \$387,000 per person and \$1,093,000 per occurrence. In addition, the Authority purchases insurance for public officials' liability, general, automobile, excess liability and physical damage coverage for buildings, contents, equipment and automobiles with varying deductibles and limits. The pipeline is self-insured. Settled claims have not exceeded insurance coverage during any of the last three fiscal years.

AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20 ("Amendment"), which has several limitations, including raising revenue, spending abilities and other specific requirements of state and local governments. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10.0% of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The Authority is of the opinion that it qualifies for this exclusion. The Amendment is complex and subject to judicial interpretation. The Authority believes it is in compliance with the requirements of the Amendment. However, the Authority has made certain interpretations of the Amendment's language in order to determine its compliance.

The Authority is a political subdivision of the State of Colorado separate from each of the member governments. As such, the Authority believes it is not subject to any limitations regarding raising revenue or spending abilities that are set forth in the Charter of the City.

LEGAL MATTERS

The Authority is a political subdivision of the State of Colorado separate from each of the member governments. Tort claims against the Authority are subject to the terms, conditions and limitations provided by the Colorado Governmental Immunity Act, C.R.S. 24-10-101 et seq. No litigation was pending against the Authority as of December 31, 2021, and the Authority is not aware of any threatened claims or litigation that could be filed against the Authority.