

SOUTH DURANGO SANITATION DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT

December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

February 12, 2021

To the Board of Directors
South Durango Sanitation District**Report on the Financial Statements**

We have audited the accompanying statements of net position of South Durango Sanitation District as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, the statement of cash flows, and the notes to the financial statements for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Durango Sanitation District as of December 31, 2020 and 2019, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Durango Sanitation District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2020

The management of the South Durango Sanitation District (the "District") has provided this narrative overview and analysis of the financial affairs of the District for the fiscal year ended December 31, 2020 as part of the District's audited Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis, basic financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

BASIC FINANCIAL STATEMENTS

Statement of Net Position. The statement of net position includes all the District's assets and liabilities, with the difference between the two reported as *net position*. It provides information pertaining to the nature of the District's current assets and utility plant in service (assets) and its current and non-current obligations (liabilities). The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position. The statement of revenues, expenses and changes in net position includes all the revenues and expenses. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years. These statements measure the success of the District's overall operation and can be used to determine if the District's user fees, tap fees and other charges are adequate to cover expenses and develop adequate reserves.

Statement of Cash Flows. The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments and net cash from operating, non-capital financing, capital and related financing activities and investing.

FINANCIAL HIGHLIGHTS

1. The District's net position on December 31, 2020 totaled \$7,171,007, a slight increase the prior year. This increase was primarily the result of increases in current assets and the utility plant in service together with a decrease in total liabilities.
2. In 2020 Operating Revenues totaling \$936,214 exceeded Operating Expenses of \$911,93 resulting in an operating income of \$24,280. In 2019 there was an operating loss of \$180,811. The net increase of more than \$200,000 in 2020 was due to an increase in user fees.

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Management's Discussion and Analysis
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3. Cash receipts from tap fees were \$453,837 less than 2019 tap fee revenue. The decline is was most likely due to a decrease in new construction caused by the Covid-19 pandemic. It is expected that tap fee revenue will significantly increase in 2021 and future years.

FINANCIAL ANALYSIS OF THE SOUTH DURANGO SANITATION DISTRICT

The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

FINANCIAL POLICY PRIORITIES

The financial goal of the District is to operate in a cost-efficient manner similar to the practices of private enterprise. The Board of Directors of the District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way;
2. Cost of administration and operations are funded from user fees;
3. User fees will fund a portion of capital improvement costs when it is determined that the improvement is needed to serve current customers, make improvements to meet new regulatory requirements or when tap fees are not sufficient; and,
4. Tap fees are used for capital improvements or debt service for capital improvements that are required to serve new customers.

In order to develop and monitor financial policies that adhere to the financial policy priorities, the District completed a comprehensive master plan in 2003. The District made substantial improvements to its treatment and collection system as outlined in the master plan with the last major expansion completed in 2012. The District authorized the development of an updated master plan in 2017 originally scheduled for completion in 2019. A financial model has been developed as part of the plan which has allowed the District to better analyze future capital needs. Based on the projections in the financial model the District increased user and tap fees in 2019 for the first time in several years. Additional increases were approved in 2020. The financial model is updated each year to reflect actual revenues and expenditures as well as changes to future capital expenditures.

Day-to-Day Operational Control of the District

For operational control, the District has segmented its budget into two primary categories: (i) operating expenses including costs for sewage collection, sewage treatment and administration; and (ii) non-operating expenses consisting of capital projects, debt service for bonds and loans used to fund capital projects, and lease purchase obligations for funding equipment used in daily operations. This allows the District to track operating and non-operating revenues and expenditures to determine if the District's financial policy priorities are being achieved. Based on current growth trends and projections the District will be able to pay non-operating expenses from non-operating revenues (tap fees) except where those expenses are properly allocated to

SOUTH DURANGO SANITATION DISTRICT
Management's Discussion and Analysis
December 31, 2020

capital projects serving existing customers or lease purchase expenditures for equipment. Those expenses are paid with user fees.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents monthly financial reports to the District Board of Directors. The reports contain revenue and expenditure comparisons to the adopted budget. It is an essential tool for the District's long-range financial planning efforts.

Financial Analysis

Net Position

A summary of the statement of net position is included as Table A which appears below. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net position can be indicators of improving or deteriorating financial health. This, coupled with factors such as population growth and regulatory or policy changes, provide an integrated assessment of the District's health.

TABLE A
Summary Statement of Net Position

	2019	2020
Current assets	\$1,337,706	\$ 1,594,558
Net utility plant in service	<u>6,534,310</u>	<u>6,384,869</u>
Total assets	\$7,872,016	\$7,979,427
Current liabilities	\$ 204,312	\$ 236,144
Long-term liabilities	<u>669,364</u>	<u>572,276</u>
Total liabilities	\$ 873,676	\$808,420
Net position:		
Invested in capital assets (net)	\$5,770,166	\$5,715,513
Restricted for debt service	135,731	148,712
Unrestricted	<u>1,092,443</u>	<u>1,306,782</u>
Total net position	\$6,998,340	\$7,171,007

From December 31, 2019 to December 31, 2020, total assets increased by \$107,411. Total liabilities decreased by \$65,256 as a result of the reduction in existing long-term debt. The overall effect was an increase in total net position which is likely to continue increasing from tap fee revenue and reductions in long term debt in future years.

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Management's Discussion and Analysis
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Revenues, Expenses and Changes in Net Position

Table B shows the revenues, expenses and changes in net position for 2019-2020 for the District. Table B demonstrates that immediate financial needs are being budgeted and can be reasonably expected to be met. On a year-to-year basis, the District plans to operate in accordance with its financial policies. Tap fee revenue is expected to provide sufficient revenue in future years to pay all debt service except any portion which the Board has determined is properly allocated to existing customers.

Although non-cash expenditures such as depreciation are not always covered by operating revenue, in 2020 the District had operating income of \$24,280. When no tap fee revenue was available, user fee revenues were used to pay debt service so the amount available to cover depreciation was reduced. Future tap fee revenue is projected to be substantial and should provide adequate funds for payment of debt service, so operating revenue in excess of operating expenses is now available to fund reserves for depreciation. The District is also increasing budgeted amounts for equipment which is projected for replacement with a useful life of less than 10 years.

Future needs for revenue for increased operating expenses and treatment plant improvements to meet new regulatory requirements as demonstrated by the financial model developed as part of the updated master plan indicated a fee increase was required. Increases in fees were approved in 2020 and will be necessary in future years as operating costs increase and to accumulate adequate reserves for treatment plant improvements.

TABLE B
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2019	2020
Total operating revenues	\$ 759,437	\$ 936,214
Total operating expenses	<u>940,248</u>	<u>911,934</u>
Operating income	(180,811)	24,280
Non-operating revenue	\$ 616,757	\$ 164,184
Non-operating expense	<u>(17,667)</u>	<u>(15,797)</u>
Total non-operating revenue	599,090	148,387
Net income	\$ 418,249	\$ 172,667
Beginning net position	\$ 6,580,061	\$ 6,998,340
Ending net position	\$ 6,998,340	\$ 7,171,007

Table B shows a modest increase in net position of the District from 2019 to 2020. As noted in the highlights, this increase is primarily the result of increased user fee revenues. The District anticipates its financial statement will show an increase in net position in future years from increases in operating and tap fee revenue as the District continues to accumulate reserves for future capital needs.

SOUTH DURANGO SANITATION DISTRICT
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ECONOMIC FACTORS; NEXT YEAR'S BUDGET AND RATES

The Board of Directors and the management of the South Durango Sanitation District considered many factors when it established the budget for 2021. Projected revenue from user fees and changes in operating costs were evaluated and considered before a final budget was adopted. The 2021 budget projects an increase in user fee revenue due to an increase in the monthly user fee recommended by the District's financial model. The budget also projects substantial tap fee revenue based on commercial projects in the District service area currently planned for 2021 and a return to more typical residential development rates.

The Capital Improvements Plan (CIP) of the District is being updated in accordance with the recommendations in the master plan. In addition to major improvements projected in 2027 to meet new regulatory requirements, the CIP also includes substantial expenditures in the next 5 years for replacements and upgrades to the treatment plant which will allow for more efficient operations as growth increases treatment demands. In 2021 the District will complete a project to upgrade the treatment plant

CONTACTING THE DISTRICT

This financial report is designed to provide our residents, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact the South Durango Sanitation District at PO Box 2024, Durango, Colorado 81302-2024 or by telephone at (970)382-2623. Information is also available on the District website: <http://www.southdurangosanitation.org>.

South Durango Sanitation District
STATEMENTS OF NET POSITION

December 31,

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 849,395	\$ 874,290
Investments	615,456	361,390
Accounts receivable	100,257	71,464
Prepaid expenses	20,390	1,647
Inventory	615	615
Due from Loma Linda Sanitation District	1,875	5,712
Due from developers	6,570	22,588
	Total current assets	1,337,706
Utility Plant in Service		
Land and easements	243,120	243,120
Furniture and fixtures	5,035	5,035
Well	15,124	15,124
Plant and improvements	10,821,400	10,684,821
Storage building	20,828	20,828
Equipment	660,345	629,279
	11,765,852	11,598,207
Less accumulated depreciation	(5,380,983)	(5,063,897)
	Net utility plant in service	6,534,310
	Total assets	\$ 7,979,427
		\$ 7,872,016
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	\$ 47,072	\$ 29,832
Accrued interest	1,034	1,160
Accrued compensated absences	8,106	8,900
Revenue received in advance of service	82,852	69,640
Current portion of long-term debt	38,837	38,073
Current portion of capital lease obligation	58,243	56,707
	Total current liabilities	204,312
Non-current liabilities		
Long-term debt, net of current portion	481,973	520,809
Capital lease obligation, net of current portion	90,303	148,555
	Total non-current liabilities	669,364
	Total liabilities	873,676
Net Position		
Net investment in capital assets	5,715,513	5,770,166
Restricted for debt service	148,712	135,731
Unrestricted	1,306,782	1,092,443
	Total net position	6,998,340
	Total liabilities and net position	\$ 7,979,427
		\$ 7,872,016

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the years ended December 31,

	2020	2019
Operating Revenues		
Charges for services	\$ 936,214	\$ 759,437
Operating Expenses		
Collection and treatment	687,138	733,374
General and administrative	<u>224,796</u>	<u>206,874</u>
Total operating expenses	<u>911,934</u>	<u>940,248</u>
Operating income (loss)	24,280	(180,811)
Non-operating Revenues (Expenses)		
Tap fees	127,700	581,537
Investment earnings	30,484	29,220
Other income (expense)	6,000	6,000
Interest expense	<u>(15,797)</u>	<u>(17,667)</u>
Total non-operating revenues (expenses)	<u>148,387</u>	<u>599,090</u>
Net income (loss)	172,667	418,279
Net position at beginning of year	<u>6,998,340</u>	<u>6,580,061</u>
Net position at end of year	<u><u>\$ 7,171,007</u></u>	<u><u>\$ 6,998,340</u></u>

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2020	2019
Cash Flows from Operating Activities		
Cash received from customers	\$ 926,633	\$ 765,977
Cash paid to suppliers	(492,952)	(528,825)
Cash paid to employees	(105,457)	(90,825)
Net Cash Provided (Used) by Operating Activities	328,224	146,327
Cash Flows from Non-capital Financing Activities		
Tap fees	127,700	581,537
Net Cash Provided (Used) by Non-capital Financing Activities	127,700	581,537
Cash Flows from Capital and Related Financing Activities		
Debt and capital lease principal payments	(94,788)	(92,920)
Interest on debt	(15,923)	(17,791)
Purchases of capital assets	(146,526)	(50,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(257,237)	(160,711)
Cash Flows from Investing Activities		
Sale (purchase) of investments	(254,066)	17,112
Interest income	30,484	29,220
Net Cash Provided (Used) by Investing Activities	(223,582)	46,332
Net Cash Increase (Decrease)	(24,895)	613,485
Cash at beginning of year	874,290	260,805
Cash at end of year	\$ 849,395	\$ 874,290
Reconciliation of Operating Income to Net		
Cash Provided by Operating Activities		
Net operating income (loss)	\$ 24,280	\$ (180,811)
Items to reconcile operating income to cash provided (used) by operating activities		
Depreciation	317,086	311,894
Other income (expense)	6,000	6,000
(Increase) Decrease in accounts receivable	(28,793)	(17,316)
(Increase) Decrease in prepaid expenses	(18,743)	(1,647)
(Increase) Decrease in due from Loma Linda Sanitation District	3,837	1,560
(Increase) Decrease in due from / to developers	16,018	2,184
Increase (Decrease) in accounts payable, net of noncash capital and investing activities	(3,879)	759
Increase (Decrease) in accrued payroll	(794)	5,848
Increase (Decrease) in revenue received in advance of service	13,212	17,856
Total Adjustments	303,944	327,138
Net Cash Provided (Used) by Operating Activities	\$ 328,224	\$ 146,327
Noncash Capital and Related Financing Activities		
Accounts payable incurred for capital assets	\$ 30,970	\$ 9,851

The accompanying notes are an integral part of these statements.

South Durango Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE A – DEFINITION OF REPORTING ENTITY

The South Durango Sanitation District (the District) was formed November 9, 1983, for the purpose of providing sanitation services for the residents and businesses located within the District. The District has its own governing board which is elected by eligible voters of the District.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as proprietary enterprise funds. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private business enterprise where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

Proprietary Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The District's operations are accounted for as one enterprise fund.

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Unbilled sewer system utility service receivables are recorded at year end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Tap fees received are recorded as non-operating revenues.

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the person designated by the Board of Directors submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the preceding year. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.
2. Public hearings are conducted to obtain public comment.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The person designated by the Board is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.
5. State statutes require the adoption of a summary budget for proprietary funds.
6. Appropriations lapse at the end of each calendar year.
7. The District Board may authorize supplemental appropriations during the year.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Prepaid Items

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

Allowances for Uncollectibles

No allowance for uncollectibles has been provided because the District has a statutory lien against the property served for all unpaid charges. The Board of Directors of the District believes it will collect on all past due accounts because by statute the lien is perpetual until paid.

Inventories

Inventories are stated at cost.

Fixed Assets

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the statement of net position. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives range from 5 to 40 years.

Net Position

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditor, grantors, or laws or regulations of governments. The District's policy with regard to the order of spending is to spend the restricted funds first

South Durango Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE C – CASH AND INVESTMENTS

Cash is stated at cost, which approximates fair value, and consists of cash in checking and certificates of deposit. Investments consist of money market accounts, Colotrust, and CSAFE. The differences between the carrying amount and the bank balances are due to outstanding checks and deposits not yet processed by the bank.

Balances in these accounts at December 31, 2020 and 2019, are as follows:

	2020			2019		
	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
Cash and cash equivalents	\$ 849,395	\$ 889,707	\$ -	\$ 874,290	\$ 877,960	\$ -

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

Pledged collateral must be held in an escrow account with another financial institution approved by the state banking commission. The pledged collateral cannot be released unless approval is obtained from the banking commission.

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C – CASH AND INVESTMENTS – CONTINUED

Investments

Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosure (GASB 40) establishes disclosure requirements related to investment risks including credit risk, custodial risk, interest rate risk and foreign currency risk.

Colorado state statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenues bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the District, in their name, or in custody of a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or all collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

South Durango Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE C – CASH AND INVESTMENTS – CONTINUED

The District has invested \$615,456 (2020) and \$361,390 (2019) in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by Colotrust.

Colotrust funds carry a Standard and Poor’s AAAM rating. The custodian's internal records segregate investments owned by the Trust. Colotrust is measured at net asset value (NAV). There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period. There is no custodial, interest rate or foreign currency risk exposure.

The Districts investments consisted of:

	<u>2020</u>	<u>2019</u>
ColoTrust	<u>\$615,456</u>	<u>\$361,390</u>
Total	<u><u>\$615,456</u></u>	<u><u>\$361,390</u></u>

NOTE D – TAX SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District qualifies as an “Enterprise” because it is a government owned business authorized to issue revenue bonds and it receives less than 10% of its annual revenue in grants from state and local grants. It is therefore exempt from some provisions of the 1992 amendment. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE E – LONG TERM DEBT

Long-term debt is comprised of the following:

	2020	2019
CWRPDA note payable	\$ 520,810	\$ 558,882
Less current portion	38,837	38,073
Noncurrent portion	\$ 481,973	\$ 520,809

Changes in long-term debt for 2020 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
CWRPDA note payable	\$ 558,882	\$ -	\$ 38,072	\$ 520,810	\$ 38,837
Total	\$ 558,882	\$ -	\$ 38,072	\$ 520,810	\$ 38,837

Changes in long-term debt for 2019 follow:

	Beginning Balance	Additions (Deletions)	Principal Payments	Ending Balance	Within One Year
CWRPDA note payable	\$ 596,581	\$ -	\$ 37,699	\$ 558,882	\$ 38,073
Total	\$ 596,581	\$ -	\$ 37,699	\$ 558,882	\$ 38,073

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE E – LONG TERM DEBT – CONTINUED

CWRPDA Note Payable

On May 15, 2012, the District obtained an \$800,000 loan from the Colorado Water Resources and Power Development Authority to expand the capacity of the District’s wastewater treatment facility.

The loan bears interest at 2% per annum and requires semi-annual principal and interest payments through November, 2032. The loan is secured by a lien on the District’s wastewater treatment facility.

The loan agreement contains a rate covenant requiring that the District establish rates, fees, and charges to generate revenues sufficient to pay all operation and maintenance expenses, provide for 110% of the debt service due for the year for the CWRPDA note payable and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for required additions to any debt service reserve account for the CWRPDA note and any other obligations with wastewater treatment facility liens on parity with the CWRPDA note, provide for the debt service on any obligations secured by a subordinate lien on the wastewater treatment facility, and provide amounts necessary to pay and discharge all other charges and liens payable from gross revenues for the year.

The loan requires the establishment of an operations and maintenance reserve fund in an amount equal to three months of operation and maintenance expenses, excluding depreciation.

The following is a summary of the debt service requirements to maturity on the District’s CWRPDA note payable:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 38,837	\$ 10,231	\$ 49,068
2022	39,619	9,449	49,068
2023	40,415	8,653	49,068
2024	41,227	7,841	49,068
2025	42,055	7,013	49,068
2026-2030	223,302	22,038	245,340
2031-2032	95,355	2,781	98,136
	<u>\$ 520,810</u>	<u>\$ 68,006</u>	<u>\$ 588,816</u>

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE F – CAPITAL LEASE OBLIGATION

NBH Bank Lease Purchase

On June 24, 2016, the District entered into a \$392,250 lease purchase agreement to finance the purchase of equipment.

The lease purchase agreement bears interest at 2.68% per annum and requires quarterly principal and interest payments of \$15,411 through June, 2023. The lessor owns the equipment until the obligation is satisfied in full. Though the lease payments are subject to annual appropriation, accounting standards require that the principal portion of future scheduled payments be presented as a liability of the District.

Equipment capitalized related to this lease purchase obligation amounts to \$392,250, with accumulated depreciation of \$88,256 at December 31, 2020. Amortization of this asset is included with depreciation expense.

The following is a schedule of the changes in the capital lease obligation for 2020:

	<u>Beginning Balance</u>	<u>Additions (Deletions)</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Within One Year</u>
NBH Bank lease purchase	\$205,262	\$ -	\$ 56,716	\$148,546	\$ 58,243

The following is a schedule of the changes in the capital lease obligation for 2019:

	<u>Beginning Balance</u>	<u>Additions (Deletions)</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Within One Year</u>
NBH Bank lease purchase	\$260,483	\$ -	\$ 55,221	\$205,262	\$ 56,707

The following reflects future scheduled payments of the capital lease obligation:

<u>Year</u>	<u>Scheduled Payments</u>
2021	\$ 61,644
2022	61,644
2023	30,822
	<u>\$ 154,110</u>
Less amount representing interest	5,564
Principal portion of capital lease obligation	<u>\$ 148,546</u>

South Durango Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE G – CAPITAL ASSETS

A summary of changes in capital assets during 2020 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land	\$ 243,120	\$ -	\$ -	\$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	629,279	31,066	-	660,345
Well	15,124	-	-	15,124
Storage building	20,828	-	-	20,828
Plant and improvements	10,684,821	136,579	-	10,821,400
	<u>11,598,207</u>	<u>167,645</u>	<u>-</u>	<u>11,765,852</u>
Less accumulated depreciation	<u>5,063,897</u>	<u>317,086</u>	<u>-</u>	<u>5,380,983</u>
Net Utility Plant in Service	<u>\$ 6,534,310</u>	<u>\$ (149,441)</u>	<u>\$ -</u>	<u>\$ 6,384,869</u>

A summary of changes in capital assets during 2019 is as follows:

	Beginning of Year	Additions	Adjustments / Deletions	End of Year
Non-depreciable assets:				
Land	\$ 243,120	\$ -	\$ -	\$ 243,120
Depreciable assets:				
Furniture and fixtures	5,035	-	-	5,035
Equipment	590,384	38,895	-	629,279
Well	15,124	-	-	15,124
Storage building	20,828	-	-	20,828
Plant and improvements	10,663,865	20,956	-	10,684,821
	<u>11,538,356</u>	<u>59,851</u>	<u>-</u>	<u>11,598,207</u>
Less accumulated depreciation	<u>4,752,003</u>	<u>311,894</u>	<u>-</u>	<u>5,063,897</u>
Net Utility Plant in Service	<u>\$ 6,786,353</u>	<u>\$ (252,043)</u>	<u>\$ -</u>	<u>\$ 6,534,310</u>

South Durango Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE H – TAP PURCHASE AGREEMENT

The District entered into a tap purchase agreement with the Tierra Group, LLC and its anticipated successor, GRVP, LLC (Developer), both of whom are wholly owned subsidiaries of the Southern Ute Indian Tribe (the Tribe) on April 16, 2004. This agreement grants the Developer exclusive right to purchase 490 taps between 2004 and 2009. The agreement also required the Developer to purchase taps when requested by the District (Guaranty Taps) when tap sales did not provide sufficient funds for payment of debt service on the District's 2004 revenue bonds. The Developer purchased 182 Guaranty Taps from the District which were assigned to various lots as development occurred. The final Guaranty Tap owned by the Developer was assigned in 2015.

The agreement recognizes the credit enhancement provided by the Tribe, which enabled the District to obtain funds necessary to complete Phase 1 of the Wastewater Treatment Plant and the Grandview Interceptor. In recognition of that enhancement, the District agreed to guarantee the Developer exclusive right to 40% of the capacity in the interceptor.

NOTE I – RISK OF LOSS

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries insurance. The District is insured for property, general liability, miscellaneous property and public official liability through membership in the Colorado Special District Property and Liability Insurance Pool (CSDPLP). The CSDPLP has a legal obligation for claims against its members to the extent that funds are available in its annually established loss fund and amounts are available from insurance providers under excess specific and aggregate insurance contracts. Losses incurred in excess of loss funds and amounts recoverable from excess insurance are direct liabilities of the participating members. The CSDPLP has indicated that the amount of any excess losses would be billed to members in proportion to their contributions in the years such excess occurs, although it is not legally required to do so. Ultimate liability to the District resulting from claims not covered by CSDPLP is not presently determinable. There were no material reductions in insurance coverage provided to the District and any amounts of settlements have not exceeded insurance coverage for the past three years.

South Durango Sanitation District
NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE I – RISK OF LOSS – CONTINUED

CSDPLP has contracted with other third parties to operate, administer and manage the Pool. The Pool is responsible for its own budgets. CSDPLP’s summary audited financial information as of December 31, 2019 (the most recent available), is as follows:

Assets	<u>\$ 55,602,023</u>
Liabilities	<u>\$ 33,163,342</u>
Surplus	<u>22,438,681</u>
	<u>\$ 55,602,023</u>
Revenues	\$ 23,610,572
Expenses	<u>25,355,739</u>
Net Income (Loss)	<u>\$ (1,745,167)</u>

SUPPLEMENTAL INFORMATION

South Durango Sanitation District

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2020	2019
Collection and treatment		
Depreciation	\$ 317,086	\$311,894
System maintenance	111,199	142,463
Employee payroll	104,663	96,673
Engineering costs	51,926	77,636
Utilities	69,276	74,016
Insurance	20,126	17,914
Chemical testing	12,862	12,778
	<u>687,138</u>	<u>\$733,374</u>
Total collection and treatment	\$ 687,138	\$733,374
General and Administrative		
Accounting and legal	\$ 121,543	\$111,202
Operators	37,500	37,500
Payroll tax expense	30,500	24,306
Postage and office	22,072	19,970
Other	6,092	7,123
Board of directors	5,921	5,705
Dues and licenses	1,168	1,068
	<u>224,796</u>	<u>\$206,874</u>
Total general and administrative expenses	\$ 224,796	\$206,874

South Durango Sanitation District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31, 2020 and 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures Reported on the GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
2020						
Total expenditures	\$ 1,401,096	\$ 1,401,096	\$ 927,731	\$ (75,772)	\$ 851,959	\$ 549,137
2019						
Total expenditures	\$ 1,030,196	\$ 1,030,196	\$ 957,915	\$ (168,974)	788,941	241,255

Adjustments to budgetary basis are comprised of principal reductions on long-term debt, capital expenditures, and depreciation expense.

South Durango Sanitation District

SCHEDULE OF COLORADO WATER RESOURCES AND
POWER DEVELOPMENT AUTHORITY LOAN COMPLIANCE

For the year ended December 31, 2020

Rate Covenant

Gross Revenue:

Charges for services		\$ 936,214
Tap fees		127,700
Investment earnings		30,484
Other income		6,000
		1,100,398

Operation and maintenance expenses:

Total operating expenses	911,934	
Less depreciation expense	(317,086)	
		594,848

Current year debt service requirements for CWRPDA loan and parity lien obligations:

2012 Colorado Water Resources and Power Development Authority Loan	49,068	
	49,068	
Required coverage	110%	
		53,975

Current year required payments into debt service reserve account for CWRPDA loan and parity lien obligations

-

Current year debt service requirements on subordinate lien obligations

61,644

Current year debt service requirements on other obligations

-

710,467

Excess (deficiency) of gross revenues over covered expenses

\$ 389,931

Operations and Maintenance Reserve Covenant

Required reserve equal to three months operations and maintenance expenses		\$ 148,712
Restricted net position on the Statement of Net Position		148,712

Lien Representation

No new obligations with liens on the wastewater treatment facility were incurred during the year.