

INDEPENDENCE WATER & SANITATION DISTRICT
BASIC FINANCIAL STATEMENTS

DECEMBER 31, 2023

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Independence Water & Sanitation District
Elbert County, Colorado

Opinion

We have audited the accompanying financial statements of the business-type activities of Independence Water & Sanitation District, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise Independence Water & Sanitation District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Independence Water & Sanitation District as of December 31, 2023, and the respective changes in financial position and cash flows for the year 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Independence Water & Sanitation District, 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 Independence Water & Sanitation District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 Independence Water & Sanitation District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Independence Water & Sanitation District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Independence Water & Sanitation District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Adams Group, LLC

Greenwood Village, Colorado
July 29, 2024

INDEPENDENCE WATER & SANITATION DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2023

Assets

Current assets

Cash and investments	\$ 1,666,032
Cash and investments - restricted	3,094,453
Utilities receivable	26,836
Capital contributions receivable	85,239
Other receivables	8,290
Prepaid expenses	68,864
Total current assets	<u>4,949,714</u>

Noncurrent assets

Capital assets not being depreciated	14,917,322
Capital assets being depreciated, net	9,417,035
Total noncurrent assets	<u>24,334,357</u>

Total assets	<u>29,284,071</u>
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Liabilities

Current liabilities

Accounts payable	149,842
Accrued interest payable	65,620
Total current liabilities	<u>215,462</u>

Noncurrent liabilities

Bonds payable	19,016,000
Developer advances	2,318,294
Total noncurrent liabilities	<u>21,334,294</u>

Total liabilities	<u>21,549,756</u>
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Net position

Net investment in capital assets	5,318,357
Restricted for debt service	3,044,955
Unrestricted	<u>(628,997)</u>

Total net position	<u>\$ 7,734,315</u>
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The notes are an integral part of these financial statements.

INDEPENDENCE WATER & SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2023

<u>Operating revenues</u>	
Water sales	\$ 482,153
Miscellaneous	13,991
Total operating revenues	<u>496,144</u>
<u>Operating expenses</u>	
Distribution	674,024
Administration and general	215,300
Engineering	10,894
Miscellaneous	21,240
Repairs and maintenance	306,843
Bad debt expense	484,860
Depreciation	232,218
Total operating expenses	<u>1,945,379</u>
Operating loss	<u>(1,449,235)</u>
<u>Nonoperating revenues (expenses)</u>	
Interest income	98,571
Intergovernmental	493,514
Interest expense	<u>(1,545,510)</u>
Total nonoperating revenues (expenses)	<u>(953,425)</u>
Net loss before contributions	(2,402,660)
Capital contributions	<u>4,562,421</u>
Change in net position	2,159,761
Net position, beginning of year	<u>5,574,554</u>
Net position, end of year	<u>\$ 7,734,315</u>

The notes are an integral part of these financial statements.

INDEPENDENCE WATER & SANITATION DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

Cash flows from operating activities:	
Receipts from customers and users	\$ 481,074
Payments to suppliers	(1,156,627)
Net cash used by operating activities	<u>(675,553)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(565,030)
Intergovernmental revenues	493,514
Capital contributions	4,788,360
Interest paid on long-term debt	(1,578,757)
Proceeds from developer advance	1,030,000
Payment of principal on bonds	(7,000)
Payment of principal on developer advance	(293,925)
Net cash provided by capital and related financing activity	<u>3,867,162</u>
Cash flows from investing activities:	
Purchase of investments	(3,394,254)
Interest and dividends	98,571
Net cash provided by investing activities	<u>(3,295,683)</u>
Net change in cash	<u>(104,074)</u>
Cash at beginning of year	<u>166,236</u>
Cash at end of year	<u>\$ 62,162</u>
Reconciliation of operating income (loss) to net cash used by operating activities	
Operating loss	\$ (1,449,235)
Bad debt expense	484,860
Depreciation expense	232,218
Adjustments to reconcile operating loss to net cash used by operating activities	
Increase in utilities receivable	(15,071)
Increase in other receivables	(8,290)
Increase in prepaid expenses	(2,687)
Increase in accounts payable	82,652
Net cash used by operating activities	<u>\$ (675,553)</u>
Total cash	\$ 62,162
Total investments	4,698,323
Total cash and investments	<u>\$ 4,760,485</u>
Cash and investments	\$ 1,666,032
Cash and investments - restricted	3,094,453
Total cash and investments	<u>\$ 4,760,485</u>

The notes are an integral part of these financial statements.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - DEFINITION OF REPORTING ENTITY

Independence Water & Sanitation District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, was established on November 7, 2017 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located within the County of Elbert, Colorado.

The District was established to acquire, construct, finance, and maintain public water, sewer and storm drainage improvements for the use and benefit of service users of the District's systems.

The District has no employees and all operations and administrative functions are contracted.

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 of the organization to provide specific financial benefits or burdens, and fiscal dependency.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District reports a single major proprietary enterprise fund which accounts for the revenues and expenses of water, wastewater, and irrigation services provided by the District. The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

In accordance with the State Budget Law, the District's Board of Directors hold public hearings each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget is adopted on a non-GAAP basis wherein payments for capital assets and principal on long-term obligations are budgeted as expenses and proceeds from long-term obligations are budgeted as revenues.

Cash and Cash Equivalents

For the purpose of the accompanying statement of cash flows, the District considers demand deposits with financial institutions to be cash and cash equivalents.

Utilities and Capital Contributions Receivable

Utilities and capital contributions receivable are recorded net of estimated uncollectible accounts. During 2023, the District wrote-off capital contributions receivable totaling \$484,860. Management believes all utilities and capital contributions receivable as of December 31, 2023 are fully collectible and therefore have not recorded an allowance for doubtful accounts.

Capital Assets

Capital assets consist of property, plant, equipment, and infrastructure assets (e.g. water and wastewater improvements). Such assets are recorded at acquisition cost or estimated acquisition cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Constructed capital assets which have not yet been completed are recorded as construction in progress. The District has not adopted a capitalization threshold.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

For applicable capital assets, depreciation has been recognized using the straight-line method over useful lives ranging from 15 to 40 years.

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component of net position consists of amounts that do not meet the definition of “restricted” or “net investment in capital assets.”

If both restricted and unrestricted resources are available to use for the same purpose, it is the District’s practice to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 could differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2023 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 1,666,032
Cash and investments - restricted	3,094,453
Total cash and investments	<u>\$ 4,760,485</u>

Cash and investments as of December 31, 2023, consist of the following:

Deposits with financial institutions	\$ 62,162
Investments	4,698,323
Total cash and investments	<u>\$ 4,760,485</u>

Restricted cash and investments consists of funds reserved for debt service requirements and future debt service payments.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by State regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in a trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories, the reporting of the uninsured deposits, and assets maintained in the collateral pools.

At December 31, 2023, the District's cash deposits had a bank balance of \$1,011,012 and a carrying balance of \$62,162.

Investments

The District has not adopted a formal investment policy, however, the District follows State statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk, and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

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

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2023, the District had the following investments:

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Amount</u>
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Less than 60 days	<u>\$ 4,698,323</u>

COLOTRUST

The District invested in the Colorado Local Government Liquid Trust (COLOTRUST) (the Trust), an investment vehicle established for local governmental entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust currently offers three portfolios – COLOTRUST PRIME, COLOTRUST PLUS+, and COLOTRUST EDGE.

COLOTRUST PRIME and COLOTRUST PLUS+, which operate similarly to a money market fund and each share is equal in value to \$1.00, offer daily liquidity. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper, and any security allowed under CRS 24-75-601.

COLOTRUST EDGE, a variable Net Asset Value (NAV) Local Government Investment Pool, offers weekly liquidity and is managed to approximate a \$10.00 transactional share price. COLOTRUST EDGE may invest in securities authorized by Section 24-75-601.1, CRS, including U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain obligations of U.S. government agencies, and highest rated commercial paper.

A designated custodial bank serves as custodian for the Trust’s portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust’s investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian’s internal records segregate investments owned by the Trust. COLOTRUST PRIME and COLOTRUST PLUS+ are rated AAAM by Standard & Poor’s. COLOTRUST EDGE is rated AA Af/S1 by FitchRatings. COLOTRUST records its investments at fair value and the District records its investments in COLOTRUST at NAV as determined by fair value. There are no unfunded commitments, the redemption frequency is daily or weekly, and there is no redemption notice period.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 4 - CAPITAL ASSETS

The following is an analysis of changes in capital assets for the year ended December 31, 2023.

	Balance 12/31/22	Additions	Deletions/ Transfers	Balance 12/31/23
Business-type activities:				
Capital assets not being depreciated:				
Water rights	\$ 14,917,322	\$ -	\$ -	\$ 14,917,322
Construction in progress	415,365	149,892	(565,257)	-
Total capital assets, not being depreciated	<u>15,332,687</u>	<u>149,892</u>	<u>(565,257)</u>	<u>14,917,322</u>
Capital assets, being depreciated				
Water system	4,638,875	587,695	-	5,226,570
Waste water system	4,250,969	180,439	-	4,431,408
Irrigation system	-	212,262	-	212,262
Total capital assets, being depreciated	<u>8,889,844</u>	<u>980,396</u>	<u>-</u>	<u>9,870,240</u>
Less: accumulated depreciation				
Water system	(114,547)	(119,897)	-	(234,444)
Waste water system	(106,440)	(106,440)	-	(212,880)
Irrigation system	-	(5,881)	-	(5,881)
Total capital assets, being depreciated	<u>(220,987)</u>	<u>(232,218)</u>	<u>-</u>	<u>(453,205)</u>
Total capital assets, being depreciated, net	<u>8,668,857</u>	<u>748,178</u>	<u>-</u>	<u>9,417,035</u>
Total capital assets, net	<u>\$ 24,001,544</u>	<u>\$ 898,070</u>	<u>\$ (565,257)</u>	<u>\$ 24,334,357</u>

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2023:

	Balance 12/31/22	Additions	Repayments	Balance 12/31/23	Due Within One Year
Business-type activities:					
Special revenue obligation bonds					
Series 2019	\$ 19,023,000	\$ -	\$ (7,000)	\$ 19,016,000	\$ -
Interest on Series 2019 bonds	49,541	1,379,125	(1,379,168)	49,498	-
Developer advances	1,582,219	1,030,000	(293,925)	2,318,294	-
Interest on developer advances	49,326	166,385	(199,589)	16,122	-
	<u>\$ 20,704,086</u>	<u>\$ 2,575,510</u>	<u>\$ (1,879,682)</u>	<u>\$ 21,399,914</u>	<u>\$ -</u>

Special Revenue Obligation Bonds, Series 2019

On March 7, 2019, the District issued \$22,270,000 of Tax-Exempt Special Revenue Obligation Bonds (the 2019 Bonds). The 2019 Bonds were issued with an interest rate of 7.25% per annum. Interest is payable annually on December 1, commencing on December 1, 2019. Any unpaid interest compounds annually thereafter. The 2019 Bonds mature on December 1, 2038.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The 2019 Bonds are structured as cash flow bonds, meaning that the Indenture contains no scheduled payments of principal on the Bonds other than at maturity. Principal is payable each December 1 from the available pledged revenues, if any, pursuant to a mandatory redemption. All unpaid principal is due upon maturity. The failure to pay principal of or interest on the 2019 Bonds when due shall not constitute an event of default

The 2019 Bonds are secured and payable from pledged revenue, consisting generally of (i) Tap Fee Revenues, (ii) Capital User Fee Revenues, if imposed, and (iii) all Net Water Rights Sales Proceeds. The primary source of revenue is expected to be the Tap Fee Revenues. The issuer of the 2019 Bonds and the developer entered into an Unsecured Tap Fee Agreement, whereby the developer has the option to pay a certain amount of the tap fees each year if a shortfall event occurs; however, there is no guarantee that the developer will purchase water taps in the amounts required by the Unsecured Tap Fee agreement. The proceeds of the 2019 Bonds were used to: (i) finance water and sanitation improvements, including the acquisition of conveyed water rights, and (ii) pay the costs of issuance of the 2019 Bonds. The 2019 Bonds are also secured by amounts held in the Project Fund, the Bond Fund, the Interest Account, and the Mandatory Redemption Account.

Developer Advances

The District entered into an Advance and Reimbursement Agreement to repay advances made by the Developer to the District. The District agreed to repay the Developer for such advances plus accrued interest at the rate higher of 7% or U.S. Prime Rate plus 2%. As of December 31, 2023, the interest rate was 10.50%.

Authorized Debt

On November 7, 2017, a majority of qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$190,456,500 to fund the acquisition of water rights and the acquisition and/or construction of public improvements. At December 31, 2023, the District had authorized and issued indebtedness from the election in the following amounts:

	<u>Authorized</u>	<u>Remaining</u>
Water rights & public improvements	\$ 190,456,500	\$ 165,922,885

NOTE 6 - NET POSITION

The District's net position consists of three components – net investment in capital assets, restricted for debt service, and unrestricted.

Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term obligations that are attributable to the acquisition, construction, or improvements of those assets.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 6 - NET POSITION (CONTINUED)

Restricted for debt service consists of cash and investments restricted for payment on the Series 2019 Bonds reduced by accrued interest on the bonds.

NOTE 7 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years. The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments, except those governmental activities designated as Enterprises.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District operates as an enterprise fund under Title 37, Article 45.1, C.R.S., to provide wholesale water and wastewater services in accordance with its Service Plan. An enterprise fund under Section 20 of the Colorado Constitution may receive less than 10% of its annual revenue in grants from Colorado state and local governments combined.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

On November 7, 2017, the District's voters passed an election question authorized the retention of all revenues received from any source during the 2017 budget year and each budget year thereafter that are in excess of the revenue and fiscal year spending limits that would otherwise apply under Article X, Section 20 of the Colorado Constitution or any other law.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

NOTE 9 - RELATED PARTIES

The District is one of six districts in the development and board members serve on all districts. The developer of the infrastructure which constitutes the District is Craft Bandera Acquisition Company, LLC and Craft Companies, LLC. The members of the Board of Directors are employed, owners of, or consultants of the developer.

As of December 31, 2023, the District owed the Developer \$2,318,294 of outstanding principal and accrued interest of \$16,122.

During the year ended December 31, 2023, the District received \$493,514 transferred from Independence District No. 3 which is included in intergovernmental revenue in the accompanying statement of revenues, expenses, and changes in net position.

SUPPLEMENTARY INFORMATION

INDEPENDENCE WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS
YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<u>Revenues</u>			
Builder construction water fee	\$ 10,000	\$ 11,211	\$ 1,211
Bulk water sales	2,000	-	(2,000)
Irrigation water sales	60,000	-	(60,000)
Storm drainage account set-up fees	2,500	1,725	(775)
Storm drainage facility fees	675,779	416,819	(258,960)
Storm drainage maintenance fees	16,500	15,223	(1,277)
Tap fees	3,581,600	4,011,612	430,012
Potable water sales	10,000	7,955	(2,045)
Potable water base rate	250,000	216,460	(33,540)
Irrigation water base rate	69,300	59,048	(10,252)
Irrigation water use	60,000	13,259	(46,741)
Water meters and equipment	70,000	105,831	35,831
Wastewater service charges	250,000	185,431	(64,569)
Late fees	-	3,771	3,771
Title requests	100	700	600
Interest income	50,000	98,571	48,571
Status letter fees	3,200	9,520	6,320
Transfer from Independence #3	-	493,514	493,514
Developer advances	300,000	1,030,000	730,000
Reg 84 education grant	14,000	-	(14,000)
Total revenues	5,424,979	6,680,650	1,255,671
<u>Expenses</u>			
Administrative:			
Audit	10,000	10,000	-
Dues and subscriptions	1,500	1,238	262
Elections	2,500	-	2,500
Engineering	3,000	10,894	(7,894)
Insurance	-	250	(250)
Legal	10,000	63,206	(53,206)
Management and accounting	50,000	62,415	(12,415)
Miscellaneous	-	15,294	(15,294)
Emergency reserves	5,000	-	5,000
Administrative totals	82,000	163,297	(81,297)

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INDEPENDENCE WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS - (CONTINUED)
YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Water Operations:			
Capital improvements	2,200,000	352,770	1,847,230
Chemicals	10,000	14,843	(4,843)
Dues and subscriptions	500	639	(139)
Engineering	40,000	-	40,000
Generator maintenance	6,000	-	6,000
Insurance	23,000	22,059	941
Lab analysis	20,000	9,194	10,806
Landscaping maintenance	1,000	-	1,000
Legal	10,000	7,708	2,292
Locates	32,000	18,365	13,635
Meter reading	1,000	3,043	(2,043)
Operations	70,000	53,474	16,526
Permit fees	3,000	-	3,000
Water Operations (Continued):			
Repairs and maintenance	25,000	147,242	(122,242)
Telephone	1,200	1,792	(592)
Tools and supplies	25,000	32,039	(7,039)
Trash	400	1,282	(882)
Utilities	90,000	101,692	(11,692)
Utility billing	3,600	20,314	(16,714)
Water meters and equipment	100,000	806	99,194
Water rights	15,000	4,263	10,737
Well maintenance	10,000	40,044	(30,044)
Contingency	5,000	-	5,000
Water operations totals	<u>2,691,700</u>	<u>831,569</u>	<u>1,860,131</u>
Wastewater Operations:			
Chemicals	16,000	20,548	(4,548)
Dues and subscriptions	500	396	104
Engineering	20,000	-	20,000
Generator maintenance	6,000	-	6,000
Insurance	23,000	22,059	941
Irrigation	-	1,246	(1,246)
Lab analysis	5,500	7,519	(2,019)
Landscaping maintenance	1,000	-	1,000
Legal	5,000	-	5,000

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INDEPENDENCE WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS - (CONTINUED)
YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Wastewater Operations (Continued):			
Locates	8,000	16,638	(8,638)
Operations	75,000	60,156	14,844
Permits	75,000	-	75,000
Repairs and maintenance	15,000	100,142	(85,142)
Sludge disposal	75,000	53,323	21,677
Telephone	1,200	1,479	(279)
Tools and supplies	10,000	39,221	(29,221)
Trash	400	1,282	(882)
Utilities	25,000	26,925	(1,925)
Utility billing	3,500	7,262	(3,762)
Video/jetting	15,000	-	15,000
Contingency	5,000	-	5,000
Wastewater operations totals	<u>385,100</u>	<u>358,196</u>	<u>26,904</u>
Irrigation Operations:			
Capital improvements	500,000	212,260	287,740
Chemicals	7,500	16,001	(8,501)
Engineering	12,000	-	12,000
Insurance	23,000	22,059	941
Landscaping maintenance	1,000	-	1,000
Locates	8,000	1,727	6,273
Meter reading	500	1,797	(1,297)
Operations	20,000	34,248	(14,248)
Permits	2,000	9,140	(7,140)
Repairs and maintenance	282,500	59,459	223,041
Reg 84 education grant	14,000	-	14,000
Tools and supplies	15,000	62,993	(47,993)
Utilities	12,000	11,430	570
Utility billing	2,500	238	2,262
Water meters and equipment	-	2,971	(2,971)
Contingency	5,000	-	5,000
Irrigation operations totals	<u>905,000</u>	<u>434,323</u>	<u>470,677</u>

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INDEPENDENCE WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – BUDGET AND ACTUAL - BUDGETARY BASIS - (CONTINUED)
YEAR ENDED DECEMBER 31, 2023

	Original and Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
Debt Service:			
Bond principal payments	-	7,000	(7,000)
Interest expense	1,379,168	1,545,510	(166,342)
Electric infrastructure	20,000	-	20,000
Legal	1,000	-	1,000
Developer advance reimbursement	-	293,925	(293,925)
Paying agent fees	4,000	4,000	-
Bank charges	750	1,946	(1,196)
Debt services totals	<u>1,404,918</u>	<u>1,852,381</u>	<u>(447,463)</u>
 Total expenses	 <u>5,468,718</u>	 <u>3,639,766</u>	 <u>1,828,952</u>
 Excess of Revenues Over Expenses	 <u>\$ (43,739)</u>	 3,040,884	 <u>\$ 3,084,623</u>
 Reconciliation to GAAP Basis			
Bad debt expense		(484,860)	
Capital outlay		565,030	
Depreciation expense		(232,218)	
Proceeds from developer advance		(1,030,000)	
Bond principal payments		7,000	
Developer advance reimbursement		<u>293,925</u>	
 Change in net position, GAAP Basis		 2,159,761	
 Net Position, Beginning		 <u>5,574,554</u>	
 Net Position, Ending		 <u>\$ 7,734,315</u>	

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