

INVERNESS WATER & SANITATION DISTRICT

Arapahoe and Douglas Counties, Colorado

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2023 and 2022

INVERNESS WATER & SANITATION DISTRICT

TABLE OF CONTENTS

December 31, 2023 and 2022

| | |
|---|-----------|
| Independent Auditor's Report | I |
| Management's Discussion and Analysis..... | IV |
| Basic Financial Statements: | |
| Statements of Net Position | 1 |
| Statements of Revenues, Expenses and Changes in Net Position | 2 |
| Statements of Cash Flows | 3 |
| Notes to Financial Statements | 4 |
| Supplemental Information: | |
| Statement of Revenues, Expenditures and Changes in Funds Available – Budget and Actual (Budgetary Basis) | 20 |
| Reconciliation of Actual (Budgetary Basis) to Statement of Revenues, Expenses, and Changes in Net Position | 22 |

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Inverness Water and Sanitation District
Arapahoe and Douglas Counties, Colorado

Opinions

We have audited the accompanying financial statements of Inverness Water and Sanitation District (the District), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2023 and 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

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 District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, 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 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 the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages IV through VIII 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.

Supplemental Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as identified in the table of contents is presented for purposes of additional analysis and legal compliance 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Fiscal Focus Partners LLC

Arvada, Colorado
July 27, 2024

Inverness Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2023

The discussion and analysis of Inverness Water and Sanitation District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2023. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should review the information presented here in conjunction with the basic financial statements and the notes to financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- Total assets of the District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$43,484,312 (net position). Of this amount, \$20,595,228 (unrestricted net position) may be used to meet the government's ongoing obligations to its citizens and creditors.
- The District's total net position increased by \$382,455 from the prior fiscal year.
- The District earned \$3,443,837 in operating revenue, a decrease of \$443,728, or 11%, from the prior year.
- Operating expenses decreased \$82,944, or 2%, from the prior year.

Overview of the Financial Statements

The Inverness Water and Sanitation District basic financial statements included in this report are those of a special-purpose government engaged in a business-type activity, providing water and sewer services. The statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Basic Financial Statements. The basic financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statements of Net Position* present information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned compensation). The statement reports the District's operating and non-operating revenue by source along with operating and non-operating expenses and capital contributions.

Inverness Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)
December 31, 2023

The *Statements of Cash Flows* report the District's cash flows from operating activities, investing, capital and noncapital activities.

The *Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

A budgetary comparison schedule has been provided in the *supplemental information* to demonstrate compliance with the budget.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Inverness Water and Sanitation District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$43,484,312 at the close of the most recent fiscal year.

| Statement of Net Position | | |
|----------------------------------|-----------------------------|-----------------------------|
| December 31, | | |
| | 2023 | 2022 |
| Current assets | \$ 7,494,035 | \$ 5,546,856 |
| Investment in Authorities | 15,715,098 | 14,537,039 |
| Capital assets, net | 26,264,371 | 27,626,241 |
| Total assets | <u>49,473,504</u> | <u>47,710,136</u> |
| Current liabilities | 1,090,783 | 360,989 |
| Long-term obligations | 3,430,287 | 2,723,003 |
| Total liabilities | <u>4,521,070</u> | <u>3,083,992</u> |
| Deferred inflows of resources | 1,468,122 | 1,524,287 |
| Net position: | | |
| Net invested in capital assets | 22,834,084 | 24,903,238 |
| Restricted | 55,000 | 58,000 |
| Unrestricted | 20,595,228 | 18,140,619 |
| Net position | <u><u>\$ 43,484,312</u></u> | <u><u>\$ 43,101,857</u></u> |

- A portion of the District's net position (53%) reflects its investment in capital assets (e.g. infrastructure, plant, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are *not* available for future spending.

Inverness Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)
December 31, 2023

- Restricted net position consists of \$55,000 is restricted for emergencies under TABOR; the remaining net position of \$20,595,228 is unrestricted and available for on-going obligations of the District.

| | Changes in Net Position | |
|-------------------------------------|---|-----------------------------|
| | For the Years Ended December 31, | |
| | 2023 | 2022 |
| Revenues | | |
| Operating revenue | | |
| Water operations | \$ 1,884,551 | \$ 2,478,176 |
| Wastewater operations | 1,328,969 | 1,181,545 |
| Other operating revenue | 230,317 | 227,844 |
| Nonoperating revenue | | |
| Taxes | 1,842,363 | 1,920,310 |
| Net investment income | 154,279 | 50,331 |
| Miscellaneous income | 73,046 | 23,064 |
| Total revenues | <u>5,513,525</u> | <u>5,881,270</u> |
| Expenses | | |
| Operating expenses | | |
| Water operations | 1,580,536 | 1,749,263 |
| Wastewater operations | 810,893 | 712,694 |
| General and administrative expenses | 1,049,595 | 1,069,007 |
| Depreciation | 1,602,396 | 1,595,400 |
| Nonoperating expenses | | |
| County Treasurer fees | 22,456 | 24,761 |
| Debt service | 87,740 | 109,424 |
| Amortization | — | 5,746 |
| Total expenses | <u>5,153,616</u> | <u>5,266,295</u> |
| Capital contributions – Tap Fees | <u>22,546</u> | <u>—</u> |
| Change in net position | 382,455 | 614,975 |
| Net position - beginning | <u>43,101,857</u> | <u>42,486,882</u> |
| Net position - ending | <u><u>\$ 43,484,312</u></u> | <u><u>\$ 43,101,857</u></u> |

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay and debt repayment in addition to operations and non-operating revenue and expenses and contributions. Depreciation is not reflected in the budget since it does not affect funds available. Funds available increased \$1,273,550 during 2023.

Inverness Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
 (continued)
 December 31, 2023

Capital Assets

The District's net investment in capital assets as of December 31, 2023 and 2022 is as follows:

| | December 31, | |
|--|----------------------|----------------------|
| | 2023 | 2022 |
| Capital assets not being depreciated | | |
| Land and easements | \$ 67,416 | \$ 67,416 |
| Water and supply rights | 4,779,738 | 4,779,738 |
| Construction in progress | 337,972 | 976,316 |
| Total | 5,185,126 | 5,823,470 |
| Capital assets being depreciated | | |
| Plant, infrastructure and improvements | 47,964,793 | 47,085,923 |
| Storm drainage system | 3,474,804 | 3,474,804 |
| Equipment and vehicles | 309,310 | 309,310 |
| Total | 51,748,907 | 50,870,037 |
| Less accumulated depreciation | (30,669,662) | (29,067,266) |
| Total assets being depreciated, net | 21,079,245 | 21,802,771 |
| Capital assets, net | <u>\$ 26,264,371</u> | <u>\$ 27,626,241</u> |

Additional information relating to the District's capital assets activity can be found in Note 4 of this report.

Debt Administration

The District entered into a Colorado Water Conservation Board loan on May 22, 2014 for an amount not to exceed \$4,908,600. The loan bears an interest rate of 2.75%. The purpose of the loan is to provide funds related to the District's participation in the Water Infrastructure and Supply Efficiency Authority (WISE) project. The draw and repayments obligations are evidenced by promissory notes based on four phases of the project. Two phases have been completed and two remain in process.

Additional information relating to the District's long-term debt can be found in Note 5 of this report.

Economic Factors and Next Year's Budget

- Minimal growth in the District is expected in 2024
- The District has budgeted for 2024 construction and/or investment projects to support water resources in the amount of \$3,279,000.

**Inverness Water and Sanitation District
MANAGEMENT'S DISCUSSION AND ANALYSIS
(continued)
December 31, 2023**

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mulhern MRE, Inc., District Manager
Inverness Water and Sanitation District
58 Inverness Drive East, Suite 100
Englewood, CO 80112
(303) 649-9857

BASIC FINANCIAL STATEMENTS

INVERNESS WATER & SANITATION DISTRICT

STATEMENTS OF NET POSITION

December 31, 2023 and 2022

| | 2023 | 2022 |
|---|----------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash and investments | \$ 3,873,015 | \$ 2,149,787 |
| Cash and investments - restricted | 55,000 | 58,000 |
| Receivable - county treasurer | 22,759 | 9,819 |
| Accounts receivable - service charges | 295,585 | 210,415 |
| Prepaid expenses | 136,757 | 84,160 |
| Property taxes receivable | 1,468,122 | 1,524,287 |
| LTCWRF Renewal and Replacement Reserve | 1,642,797 | 1,510,388 |
| Total current assets | 7,494,035 | 5,546,856 |
| Noncurrent assets | | |
| Investments in Authorities | 15,715,098 | 14,537,039 |
| Total noncurrent assets | 15,715,098 | 14,537,039 |
| Capital assets | | |
| Capital assets, not being depreciated | 5,185,126 | 5,823,470 |
| Capital assets, net of accumulated depreciation | 21,079,245 | 21,802,771 |
| Total capital assets, net | 26,264,371 | 27,626,241 |
| Total assets | 49,473,504 | 47,710,136 |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 1,077,051 | 331,293 |
| Escrow deposits payable | 1,813 | 3,813 |
| Compensated absences payable | 6,963 | 1,308 |
| Accrued interest payable | 4,956 | 24,575 |
| Total current liabilities | 1,090,783 | 360,989 |
| Noncurrent liabilities | | |
| Due within one year | 103,545 | 100,773 |
| Due in more than one year | 3,326,742 | 2,622,230 |
| Total noncurrent liabilities | 3,430,287 | 2,723,003 |
| Total liabilities | 4,521,070 | 3,083,992 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred property tax | 1,468,122 | 1,524,287 |
| Total deferred inflows of resources | 1,468,122 | 1,524,287 |
| NET POSITION | | |
| Net investment in capital assets | 22,834,084 | 24,903,238 |
| Restricted | 55,000 | 58,000 |
| Unrestricted | 20,595,228 | 18,140,619 |
| Total net position | \$ 43,484,312 | \$43,101,857 |

The accompanying Notes to the Financial Statements are an integral part of these statements.

INVERNESS WATER & SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|-----------------------------|-----------------------------|
| OPERATING REVENUES | | |
| Water operations | \$ 1,884,551 | \$ 2,478,176 |
| Wastewater operations | 1,328,969 | 1,181,545 |
| Contract operating fees | 190,440 | 184,000 |
| Solar revenue | 37,877 | 43,356 |
| Other revenue | 2,000 | 488 |
| Total operating revenues | <u>3,443,837</u> | <u>3,887,565</u> |
| OPERATING EXPENSES | | |
| General and administrative expenses | 1,049,595 | 1,069,007 |
| Water operations | 1,580,536 | 1,749,263 |
| Wastewater operations | 810,893 | 712,694 |
| Depreciation | 1,602,396 | 1,595,400 |
| Total operating expenses | <u>5,043,420</u> | <u>5,126,364</u> |
| OPERATING INCOME (LOSS) | <u>(1,599,583)</u> | <u>(1,238,799)</u> |
| NONOPERATING REVENUES (EXPENSE) | | |
| Property taxes | 1,498,252 | 1,512,437 |
| Specific ownership taxes | 113,473 | 125,234 |
| Property tax equivalent | 230,638 | 282,639 |
| Net investment income | 154,279 | 50,331 |
| Miscellaneous income | 73,046 | 23,064 |
| County treasurer's fees | (22,456) | (24,761) |
| Interest expense | (87,740) | (109,424) |
| Amortization - cost of refunding | - | (5,746) |
| Total nonoperating revenues | <u>1,959,492</u> | <u>1,853,774</u> |
| INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | 359,909 | 614,975 |
| CAPITAL CONTRIBUTIONS | | |
| Tap Fees | 22,546 | - |
| Total capital contributions | <u>22,546</u> | <u>-</u> |
| CHANGE IN NET POSITION | 382,455 | 614,975 |
| NET POSITION - beginning of the year | <u>43,101,857</u> | <u>42,486,882</u> |
| NET POSITION - end of the year | <u><u>\$ 43,484,312</u></u> | <u><u>\$ 43,101,857</u></u> |

The accompanying Notes to the Financial Statements are an integral part of these statements.

INVERNESS WATER & SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
For the Years ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 3,115,410 | \$ 3,699,583 |
| Cash received from contract services | 190,440 | 184,000 |
| Cash received from solar | 37,877 | 43,356 |
| Payments to suppliers for goods and services | (2,411,626) | (3,226,956) |
| Payments to and on behalf of employees for services | (330,582) | (314,966) |
| Net cash provided by operating activities | <u>601,519</u> | <u>385,017</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Property taxes | 1,498,252 | 1,512,437 |
| Specific ownership taxes | 113,473 | 125,234 |
| Property tax equivalent | 230,638 | 282,639 |
| Miscellaneous income | 73,046 | 23,064 |
| County Treasurer's fees | (22,456) | (24,761) |
| Net cash provided by noncapital financing activities | <u>1,892,953</u> | <u>1,918,613</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Payments on long-term debt | (100,773) | (1,513,076) |
| Proceeds from CWCB loans | 808,057 | - |
| Acquisition of capital assets | (240,526) | (766,859) |
| Tap fees | 22,546 | - |
| Interest paid on debt | (107,359) | (145,201) |
| Net cash provided (used) by capital and related financing activities | <u>381,945</u> | <u>(2,425,136)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net investment activity | 154,279 | 50,331 |
| LTCWRF renewal and replacement increase | (132,409) | (132,410) |
| Investment in authorities | (1,178,059) | (1,687,578) |
| Net cash provided (used) by investing activities | <u>(1,156,189)</u> | <u>(1,769,657)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,720,228 | (1,891,163) |
| CASH AND CASH EQUIVALENTS - beginning of year | <u>2,207,787</u> | <u>4,098,950</u> |
| CASH AND CASH EQUIVALENTS - end of year | <u><u>\$ 3,928,015</u></u> | <u><u>\$ 2,207,787</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income (loss) | \$ (1,599,583) | \$ (1,238,799) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation | 1,602,396 | 1,595,400 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (98,111) | 42,373 |
| Prepaid expenses | (52,597) | 80,422 |
| Increase (decrease) in: | | |
| Accounts payable for operations | 745,759 | (90,176) |
| Escrow deposits payable | (2,000) | (2,999) |
| Accrued compensation absences | 5,655 | (1,204) |
| Net cash provided by operating activities | <u><u>\$ 601,519</u></u> | <u><u>\$ 385,017</u></u> |

The accompanying Notes to the Financial Statements are an integral part of these statements.

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2023 and 2022

Note 1 – Definition of reporting entity

The Inverness Water and Sanitation District (the "District"), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Arapahoe and Douglas Counties, Colorado. The District was established in 1973 to provide water, sewer and storm drainage services and facilities to the District's commercial business and residents. The District's primary revenue sources are property taxes and water and sewer charges. The District is governed by an elected five-member Board of Directors.

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. The District is comprised of a Water Enterprise and a Sewer Enterprise.

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

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

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

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

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from nonoperating 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 water and sewer 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 capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Cash equivalents

For purposes of the Statements of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition, to be cash equivalents.

Investments

Investments for the District are reported at fair value.

Accounts receivable, allowance for doubtful accounts

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

Property Taxes

Property taxes are levied based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November and December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

Capital assets

Capital assets include water and supply contract rights, land and easements, water system, effluent water system, sewer system, storm drainage system, vehicles and equipment, are reported in the financial statements net of accumulated depreciation. Capital assets are defined by the District as assets with an individual cost of more than \$5,000 and an initial estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation or at the developer's cost.

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. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

| | |
|-----------------------------|----------------|
| Water and Sewer systems | 10 to 50 years |
| Effluent Irrigation systems | 25 to 50 years |
| Storm Drainage system | 45 to 50 years |
| Equipment and Vehicles | 5 years |

Land and easements are not depreciated.

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

Compensated absences

The District accrues vacation pay when earned. Employees earn vacation at a rate of 15 to 20 days per year based on length of service. Employees may carry over up to 150% of their annual earned vacation into subsequent years. These amounts are reported in Accrued Compensated Absences Payable on the Statement of Net Position.

Long-Term Obligations

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

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement classification represents a consumption of net position that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditures) until then. The District has no items reported as deferred outflows of resources at December 31, 2023 and 2022.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement classification represents an acquisition of net position that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until then. The District has an item related to unavailable revenue – property taxes that is reported as deferred inflows of resources at December 31, 2023 and 2022.

Capital contributions

Tap fees are generally recorded as capital contributions when received. Water and sewer lines contributed to the District by developers are recorded as capital contributions and additions to the water and sewer system when received.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall 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 total appropriation can only be modified upon completion of notification and publication requirements.

Use of estimates

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

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2023 and 2022

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2023 and 2022 Statements of Net Position as follows:

| | 2023 | 2022 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 234,373 | \$ 646,170 |
| Cash and cash equivalents - restricted | 55,000 | 58,000 |
| Investments | 3,638,642 | 1,503,617 |
| | <u>\$ 3,928,015</u> | <u>\$ 2,207,787</u> |

Cash and investments as of December 31, 2023 and 2022 consist of the following:

| | 2023 | 2022 |
|--------------------------------------|---------------------|---------------------|
| Deposits with financial institutions | \$ 289,373 | \$ 704,170 |
| Investments | 3,638,642 | 1,503,617 |
| | <u>\$ 3,928,015</u> | <u>\$ 2,207,787</u> |

At December 31, 2023 and 2022, the District's cash deposits had bank balances of \$387,452 and \$738,983 with carrying balances of \$289,373 and \$704,170, respectively.

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. As of December 31, 2023 and 2022, the federal insurance limits were \$250,000. 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 trust. The market value of the collateral must be at least 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 and reporting of the uninsured deposits and assets maintained in the collateral pools.

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not adopted a deposit policy for custodial credit risk. As of December 31, 2023 and 2022, none of the District's bank balance was exposed to custodial credit risk, as amounts were either insured or collateralized. The District carried bank balances in excess of federally insured amounts of \$38,559 and \$452,794 at December 31, 2023 and 2022, respectively. All amounts not federally insured are fully collateralized as required under the PDPA.

Investments

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

The District generally limits its investments to certain U.S. government agency securities, money market funds and local government investments pools, 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 custodial credit risk for investments that are in the possession of another party.

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

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest including the following:

- Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- General obligation and revenue bonds of U.S. local government entities
- Certain securities lending agreements
- Certain certificates of participation
- 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

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); CSAFE which record their investments at amortized cost, and COLOTRUST which is recorded at net asset value.

As of December 31, 2023 and 2022, the District had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>2023</u> | <u>2022</u> |
|--|-----------------------------------|---------------------|---------------------|
| Colorado Liquid Asset Trust (COLOTRUST) | Weighted average under 60 days | <u>\$ 3,638,642</u> | <u>\$ 1,503,617</u> |

COLOTRUST

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

The Trust operates similarly to a money market fund and each share of PRIME and PLUS is equal in value to \$1.00, and EDGE shares are approximately equal to \$10.00. Each portfolio may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. PLUS and EDGE may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies.

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.

PRIME and PLUS are rated AAAM by Standard & Poor's, and EDGE is rated AAASF/S1 by Fitch Ratings. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

All of the District's investments are held in COLOTRUST PLUS+ as of December 31, 2023 and 2022.

Inverness Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023 and 2022

Note 4 – Capital assets

Capital asset activity for the year ended 2023 was as follows:

| | Balance at December 31, 2022 | Additions | Deletions | Balance at December 31, 2023 |
|---|------------------------------------|---------------------|-------------------|------------------------------------|
| Capital assets not being depreciated | | | | |
| Water and Supply Contract Rights | \$ 4,779,738 | \$ – | \$ – | \$ 4,779,738 |
| Land and Easements | 67,416 | – | – | 67,416 |
| Construction in Progress | 976,316 | 240,526 | 878,870 | 337,972 |
| Total capital assets not being depreciated | <u>5,823,470</u> | <u>240,526</u> | <u>878,870</u> | <u>5,185,126</u> |
| Capital assets being depreciated | | | | |
| Water system | 18,489,900 | 236,716 | – | 18,726,616 |
| Effluent Irrigation System | 3,577,239 | 288,241 | – | 3,865,480 |
| Sewer System | 25,018,784 | 353,913 | – | 25,372,697 |
| Storm Drainage System | 3,474,804 | – | – | 3,474,804 |
| Equipment and Vehicles | 309,310 | – | – | 309,310 |
| Total capital assets being depreciated | <u>50,870,037</u> | <u>878,870</u> | <u>–</u> | <u>51,748,907</u> |
| Less accumulated depreciations for | | | | |
| Water system | (10,670,202) | (566,895) | – | (11,237,097) |
| Effluent Irrigation System | (2,496,256) | (134,939) | – | (2,631,195) |
| Sewer System | (13,798,427) | (812,661) | – | (14,611,088) |
| Storm Drainage System | (1,842,291) | (69,500) | – | (1,911,791) |
| Equipment and Vehicles | (260,090) | (18,401) | – | (278,491) |
| Total accumulated depreciation | <u>(29,067,266)</u> | <u>(1,602,396)</u> | <u>–</u> | <u>(30,669,662)</u> |
| Total capital assets being depreciated, net | <u>21,802,771</u> | <u>(723,526)</u> | <u>–</u> | <u>21,079,245</u> |
| Capital assets, net | <u>\$ 27,626,241</u> | <u>\$ (483,000)</u> | <u>\$ 878,870</u> | <u>\$ 26,264,371</u> |

Inverness Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023 and 2022

Capital asset activity for the year ended 2022 was as follows:

| | Balance at December 31, 2021 | Additions | Deletions | Balance at December 31, 2022 |
|---|------------------------------------|---------------------|-------------|------------------------------------|
| Capital assets not being depreciated | | | | |
| Water and Supply Contract Rights | \$ 4,779,738 | \$ - | \$ - | \$ 4,779,738 |
| Land and Easements | 67,416 | - | - | 67,416 |
| Construction in Progress | 334,781 | 641,535 | - | 976,316 |
| Total capital assets not being depreciated | <u>5,181,935</u> | <u>641,535</u> | <u>-</u> | <u>5,823,470</u> |
| Capital assets being depreciated | | | | |
| Water system | 18,415,198 | 74,701 | - | 18,489,899 |
| Effluent Irrigation System | 3,577,240 | - | - | 3,577,240 |
| Sewer System | 25,017,524 | 1,260 | - | 25,018,784 |
| Storm Drainage System | 3,474,804 | - | - | 3,474,804 |
| Equipment and Vehicles | 259,948 | 49,362 | - | 309,310 |
| Total capital assets being depreciated | <u>50,744,714</u> | <u>125,323</u> | <u>-</u> | <u>50,870,037</u> |
| Less accumulated depreciations for | | | | |
| Water system | (10,083,127) | (587,075) | - | (10,670,202) |
| Effluent Irrigation System | (2,380,763) | (115,493) | - | (2,496,256) |
| Sewer System | (13,008,456) | (789,971) | - | (13,798,427) |
| Storm Drainage System | (1,772,793) | (69,498) | - | (1,842,291) |
| Equipment and Vehicles | (226,727) | (33,363) | - | (260,090) |
| Total accumulated depreciation | <u>(27,471,866)</u> | <u>(1,595,400)</u> | <u>-</u> | <u>(29,067,266)</u> |
| Total capital assets being depreciated, net | <u>23,272,848</u> | <u>(1,470,077)</u> | <u>-</u> | <u>21,802,771</u> |
| Capital assets, net | <u>\$ 28,454,783</u> | <u>\$ (828,542)</u> | <u>\$ -</u> | <u>\$ 27,626,241</u> |

Depreciation expense of \$1,602,396 and \$1,595,400 for the years ended December 31, 2023 and 2022, respectively, was charged to water and sewer operations.

Inverness Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023 and 2022

Note 5 – Long-term obligation

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

| | Balance at December 31, 2022 | Borrowings | Repayments | Balance at December 31, 2023 | Due Within One Year |
|-------------------------|------------------------------------|-------------------|-------------------|------------------------------------|------------------------|
| CWCB 2014 Loan - Note A | \$ 1,392,505 | \$ – | \$ 82,888 | \$ 1,309,617 | \$ 85,168 |
| CWCB 2014 Loan - Note B | 381,080 | – | 17,885 | 363,195 | 18,377 |
| CWCB 2014 Loan - Note C | 604,943 | 808,057 | – | 1,413,000 | – |
| CWCB 2014 Loan - Note D | 344,475 | – | – | 344,475 | – |
| Totals | \$ 2,723,003 | \$ 808,057 | \$ 100,773 | \$ 3,430,287 | \$ 103,545 |

The following is an analysis of changes in the District's long-term obligations for the year ended December 31, 2022:

| | Balance at December 31, 2021 | Borrowings | Repayments | Balance at December 31, 2022 | Due Within One Year |
|-------------------------|------------------------------------|-------------|---------------------|------------------------------------|------------------------|
| 2012 GO Refunding Bonds | \$ 1,415,000 | \$ – | \$ 1,415,000 | \$ – | \$ – |
| CWCB 2014 Loan - Note A | 1,473,175 | – | 80,670 | 1,392,505 | 82,888 |
| CWCB 2014 Loan - Note B | 398,486 | – | 17,406 | 381,080 | 17,885 |
| CWCB 2014 Loan - Note C | 604,943 | – | – | 604,943 | – |
| CWCB 2014 Loan - Note D | 344,475 | – | – | 344,475 | – |
| Totals | \$ 4,236,079 | \$ – | \$ 1,513,076 | \$ 2,723,003 | \$ 100,773 |

Series 2012 GO Refunding Bonds

On April 3, 2012, the District issued bonds in the amount of \$10,000,000, titled Series 2012 General Obligation Refunding Bonds. The proceeds were used to refund and pay-off the Series 2008 Bonds. Principal and interest payments are due semi-annually on June 1 and December 1. Interest accrues at 2.39% per annum. The Bonds are secured by pledged property tax revenues derived by the required mill levy.

The Series 2012 Bonds shall be subject to redemption prior to maturity, in whole or in part, at the option of the District on any interest payment date at par with no redemption premium.

During 2022 the remaining outstanding principal balance of the Series 2012 General Obligation Refunding Bonds was paid in full.

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2023 and 2022

2014 Colorado Water Conservation Board (CWCB) Loan

On May 22, 2014, the District entered into a loan agreement with the CWCB for an amount not to exceed \$4,908,600 for costs related to the District's participation in the Water Infrastructure and Supply Efficiency Authority (WISE) project. The District's draws and repayment obligation will be evidenced by four separate promissory notes as follows:

Note A – \$1,845,270 for the District's share of the Western Pipeline,

Note B – \$1,181,700 for the District's share of cost of Phase 1 Infrastructure to be constructed by WISE,

Note C – \$1,427,130 for the District's share of cost for Phase 2 Infrastructure to be constructed by WISE, and

Note D – \$454,500 for the District's share of the cost of a use of pipeline.

This loan is pledged by an ad valorem property tax revenue. Interest accrues at 2.75% per annum for each individual promissory note commencing on the date of the initial note draw. Principal and interest payments will commence 1 year from the date CWCB determines the projects are substantially complete. As of December 31, 2023 and 2022, \$4,034,659 and \$3,226,602, respectively, had been drawn from CWCB.

Required loan payments for each of the next five years, and five-year increments beyond that, for Notes A and B, are as follows:

| Year Ended December 31, | Principal | Interest | Total |
|----------------------------|---------------------|-------------------|---------------------|
| 2024 | \$ 103,545 | \$ 46,002 | \$ 149,547 |
| 2025 | 106,392 | 43,155 | 149,547 |
| 2026 | 109,317 | 40,229 | 149,546 |
| 2027 | 112,324 | 37,223 | 149,547 |
| 2028 | 115,413 | 34,134 | 149,547 |
| 2029-2033 | 626,453 | 121,280 | 747,733 |
| 2034-2038 | 471,764 | 33,606 | 505,370 |
| 2039-2040 | 27,604 | 759 | 28,363 |
| Total | <u>\$ 1,672,812</u> | <u>\$ 356,388</u> | <u>\$ 2,029,200</u> |

The payment schedules for Notes C and D are not included above as the loans have not been finalized and payments calculated.

Debt Authorization

At elections held May 4, 2004 and November 1, 2005, a majority of the qualified electors of the District who voted in the elections authorized the issuance of general obligation indebtedness in an amount not to exceed \$15,000,000 for the purposes of the extension and improvements of the existing sanitary sewer system and \$20,000,000 for the extension and improvement of the

Inverness Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023 and 2022

existing potable and non-potable water supply, storage transmission and distribution system of the District, respectively. After the issuance of Series 2008 Bonds, which were refunded with the Series 2012 Refunding Bonds, the District has the authority to issue additional obligations for sanitary sewer purposes in the amount of \$3,154,400 from the May 2004 election and \$4,561,110 from the November 2005 election and to issue \$7,778,530 for water improvements from the November 2005 election.

Note 6 – Net Position

The District's net position consists of three components – net investment in capital assets, restricted, and unrestricted. When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2023 and 2022, the District had net investment in capital assets of \$22,834,084 and \$24,903,238, respectively.

Restricted position includes net position that is restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislations. The purposes for the restrictions of net position are described in Note 11. As of December 31, 2023 and 2022, the District had restricted net position as follows:

| | 2023 | 2022 |
|--------------------|-----------|-----------|
| Emergency reserves | \$ 55,000 | \$ 58,000 |

The District's unrestricted net position as of December 31, 2023 and 2022 was \$20,595,228 and \$18,140,619, respectively

Note 7 – Intergovernmental Agreements

Loan Tree Creek Water Reclamation Facility (LTCWRF)

On April 19, 2005, the District entered into an agreement with Arapahoe County Water and Wastewater Authority (ACWWA) to share in the modifications and expansion of the existing ACWWA wastewater treatment facility to construct the LTCWRF. The LTCWRF expansion provided a total treatment capacity of 3.6 million gallons per day with the District's capacity at 1.1 million gallons per day. The expansion was completed, and the District began sending flows to the LTCWRF in July 2009. The District's capacity in the LTCWRF is intended to accommodate all future water treatment needs. The District's wastewater treatment plant and advanced wastewater treatment plant used prior to the LTCWRF expansion are currently idle.

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

On September 20, 2011, the District and ACWWA executed the first amendment to the aforementioned agreement. This amendment defined the treatment rates to be paid by the District. This amendment also established a renewal and replacement reserve for the LTCWRF. The District and ACWWA are to make annual deposits of \$132,384 and \$300,949, respectively, for this reserve until a maximum reserve balance of \$7,500,000 is attained. For the year ended December 31, 2023 and 2022, the District made reserve deposits of \$132,409 each year. As of December 31, 2023 and 2022 the District's renewal and replacement reserve balances were \$1,642,797 and \$1,510,388, respectively.

Cottonwood Water and Sanitation District

The District has an intergovernmental agreement with Cottonwood Water and Sanitation District (Cottonwood) in which the District provided operations and maintenance of the Cottonwood facilities for a monthly fee of \$15,870 and \$15,333, respectively, for the years ended December 31, 2023 and 2022.

Note 8 – Investments in Authorities

Cherry Creek Project Water Authority

On October 14, 2005, the Cherry Creek Project Water Authority (Cherry Creek Authority) was created by a Water Project Agreement between the District, Cottonwood Water and Sanitation District, ACWWA, and Denver Southeast Suburban Water and Sanitation District. On November 17, 2005, the Cherry Creek Authority purchased certain water rights, well rights, facilities and storage rights at a bankruptcy action for \$14,000,000 plus closing costs. The District's share of participation is 31.12%, which had a value of \$9,161,434 and \$8,005,875, at December 31, 2023 and 2022, respectively. For a copy of the Cherry Creek Authority's financial statements, contact the Cherry Creek Authority.

South Metro Water Supply Authority (SMWSA)

Barr Lake Pipeline Enlargement

On March 25, 2005, certain members of SMWSA entered into an agreement with East Cherry Creek Valley Water and Sanitation District (ECCV) to participate in the incremental enlargement capacity in the ECCV Barr Lake Pipeline. Pursuant to this agreement, the District contributed \$732,200 to reserve future transmission capacity of 0.7 million gallons per day. The District does not currently have any connecting infrastructure to utilize this line capacity and will need to construct such facilities if the District is to use the pipeline capacity in the future. At December 31, 2023 and 2022, the District reported \$732,200 as Investments in Authorities.

WISE Partnership (WISE)

On March 31, 2013, the District entered into an amended WISE Negotiations and Cost Sharing Participation Agreement with South Metro Water Supply Authority (SMWSA). In the amended agreement the costs will be shared based on the participants' pro-rata share of the annual

Inverness Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2023 and 2022

subscription amount in relation to the total of all annual subscription amounts. The District has committed to subscribing to 500 acre feet (5.0%) out of a revised total of 10,000 (previously 7,225) acre feet of renewable water to be delivered annually from the WISE Partnership. In December of 2013, the District along with other members of the WISE Partnership entered into the WISE Partnership-Water Delivery Agreement between the City and County of Denver, acting by and through its Board of Water Commissioners, the City of Aurora acting by and through its Utility Enterprise, and the South Metro WISE Authority. The Water Delivery Agreement is the overarching agreement that defines the terms under which Denver and Aurora will deliver water to the South Metro WISE Authority members.

Pursuant to the WISE Agreements, the District pays its proportionate share of WISE capital costs, operations and maintenance costs, and the cost of water delivered. During the year ended December 31, 2023 and 2022, the District analyzed its investment in WISE, and adjusted the amount to \$5,821,464 and \$5,798,964, respectively, which is reported as Investment in Authorities in the financial statements. The District received its first water deliveries from the WISE project in 2017. For the years ended December 31, 2023 and 2022, the District's water purchases were \$211,436 and \$452,157, respectively.

Note 9 – Excluded Properties

The District has excluded approximately 80 acres under various agreements dated between 2005 and 2019. The District will continue to provide facilities, services and programs to these properties in the same manner and to the same extent as previously provided. These property owners are obligated to pay debt service property taxes for debt service existing prior to the exclusion. Additionally, they are obligated to pay a tax equivalency fee for debt service on bonds issued after their exclusion.

Note 10 – Risk management

The District is 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 District Property and Liability Pool (the Pool) as of December 31, 2023. 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, and 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.

Inverness Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2023 and 2022

Note 11 – 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.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes a significant portion of its operations qualifies for this exclusion.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

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'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 and qualification as an Enterprise will require judicial interpretation.

On November 1, 2005, a majority of the District voters authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

SUPPLEMENTAL INFORMATION

INVERNESS WATER & SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL - BUDGETARY BASIS
For the Year Ended December 31, 2023

| | Original and Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--|--------------------|---|
| ENTREPRISE FUND | | | |
| Revenues | | | |
| Charges for services | \$ 4,046,000 | \$ 3,443,837 | \$ (602,163) |
| Net investment income | 29,000 | 154,279 | 125,279 |
| Tap fees | - | 22,546 | 22,546 |
| Miscellaneous income | 1,000 | 73,046 | 72,046 |
| Total revenues | 4,076,000 | 3,693,708 | (382,292) |
| Expenditures | | | |
| Denver water purchases | 1,003,000 | 915,604 | 87,396 |
| WISE water purchases | 420,000 | 211,436 | 208,564 |
| Utilities | 210,000 | 187,460 | 22,540 |
| ACWWA treatment costs | 713,000 | 797,264 | (84,264) |
| Repairs & maintenance | 183,000 | 195,723 | (12,723) |
| Chemicals, supplies & materials | 95,000 | 83,942 | 11,058 |
| Salaries | 271,000 | 239,649 | 31,351 |
| Payroll taxes and benefits | 103,300 | 85,278 | 18,022 |
| District management | 243,000 | 222,480 | 20,520 |
| District operator administration | 38,000 | 36,000 | 2,000 |
| District billing and accounting | 118,000 | 115,087 | 2,913 |
| Legal and other professional services | 61,000 | 66,122 | (5,122) |
| Insurance | 79,000 | 85,272 | (6,272) |
| Rent | 29,900 | 31,476 | (1,576) |
| Office expenses | 31,500 | 47,622 | (16,122) |
| Landscaping and snow removal | 24,800 | 30,095 | (5,295) |
| Vehicle expenses | 29,800 | 14,840 | 14,960 |
| Other administration | 22,100 | 3,839 | 18,261 |
| Contingency | 100,000 | - | 100,000 |
| Investment in CCPWA | 1,949,000 | 1,155,559 | 793,441 |
| Investment in SMSWA-WISE | 868,500 | 22,500 | 846,000 |
| CCPWA/SMSWA operating costs | 102,000 | 71,835 | 30,165 |
| Capital expenditures | 1,610,000 | 240,526 | 1,369,474 |
| Total expenditures | 8,304,900 | 4,859,609 | 3,445,291 |
| Excess (deficit) of revenues over (under) enterprise expenditures | (4,228,900) | (1,165,901) | 3,062,999 |

INVERNESS WATER & SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL - BUDGETARY BASIS (continued)
For the Year Ended December 31, 2023

DEBT FUND

Revenues

| | | | |
|--------------------------|------------------|------------------|--------------------|
| Property taxes | 1,525,000 | 1,498,252 | (26,748) |
| Specific ownership taxes | 137,000 | 113,473 | (23,527) |
| Tax equivalent fees | 274,000 | 230,638 | (43,362) |
| Net investment income | 2,000 | - | (2,000) |
| Loan proceeds | 4,400,000 | 808,057 | (3,591,943) |
| Total revenues | <u>6,338,000</u> | <u>2,650,420</u> | <u>(3,687,580)</u> |

Expenditures

| | | | |
|---------------------------|----------------|----------------|---------------|
| County treasurer fees | 23,000 | 22,456 | 544 |
| Debt service | | | |
| CWCB Loan - principal | 136,165 | 100,773 | 35,392 |
| CWCB Loan - interest | 76,352 | 87,740 | (11,388) |
| Contingency | 20,000 | - | 20,000 |
| Total expenditures | <u>255,517</u> | <u>210,969</u> | <u>44,548</u> |

**Excess (deficit) of revenues over (under)
general government expenditures**

| | | |
|------------------|------------------|--------------------|
| <u>6,082,483</u> | <u>2,439,451</u> | <u>(3,643,032)</u> |
|------------------|------------------|--------------------|

| | | | |
|---|---------------------|---------------------|---------------------|
| Total district revenues | 10,414,000 | 6,344,128 | (4,069,872) |
| Total district expenditures | <u>8,560,417</u> | <u>5,070,578</u> | <u>3,489,839</u> |
| Total excess (deficit) of revenues over (under) expenditures | 1,853,583 | 1,273,550 | <u>\$ (580,033)</u> |
| Funds available - beginning of year | <u>2,053,099</u> | <u>3,661,580</u> | |
| Funds available - end of year | <u>\$ 3,906,682</u> | <u>\$ 4,935,130</u> | |

Funds available is computed as follows:

| | |
|--------------------------------------|---------------------|
| Current assets | \$ 7,494,035 |
| Current liabilities | (1,090,783) |
| Deferred inflows of resources | (1,468,122) |
| Funds available - end of year | <u>\$ 4,935,130</u> |

INVERNESS WATER & SANITATION DISTRICT

**RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

For the Year Ended December 31, 2023

| | |
|---|--------------------------|
| Revenues (budgetary basis) | \$ 6,344,128 |
| Proceeds from long-term debt issuance | <u>(808,057)</u> |
| Total revenues per Statement of Revenues, Expenses and Changes in Net Position | <u>5,536,071</u> |
| Expenditures (budgetary basis) | 5,070,578 |
| Depreciation and amortization | 1,602,396 |
| Investment in authorities | (1,178,059) |
| Capital outlay | (240,526) |
| Principal paid on long-term debt | <u>(100,773)</u> |
| Total expenses per Statement of Revenues, Expenses and Changes in Net Position | <u>5,153,616</u> |
| Change in net position per Statement of Revenues, Expenses and Changes in Net Position | <u><u>\$ 382,455</u></u> |