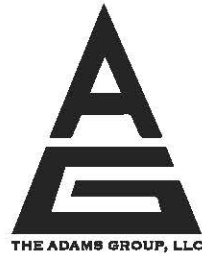


INDEPENDENCE WATER & SANITATION DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2019

TABLE OF C O N T E N T S

Independent Auditors' Report	2 - 3
BASIC FINANCAL STATEMENTS	
Statement of Net Position	4
Statement of Revenues, Expenses, and Changes in Net Position	5
Statement of Cash Flows	6
NOTES TO THE BASIC FINANCIAL STATEMENTS	7 - 15
SUPPLEMENTARY INFORMATION	
Water & Sanitation Fund – Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Budgetary Basis)	16



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the business-type activities of the Independence Water & Sanitation District (the District), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Independence Water & Sanitation District as of December 31, 2019, and the respective changes in financial position and, cashflows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Debt Service

As described in Notes 4 and 7 to the financial statements, the 2019 Bonds are structured as cash flow bonds. Debt service payments will be made as tap fees are received. The receipt of tap fees and the timing of the payment of principal and interest on the Tax-Exempt Special Revenue Obligation Bonds dependent on the development of the District.

Implementation of Accounting Standard

As discussed in Note 1 to the financial statements, in fiscal year 2019, the District early adopted Governmental Accounting Standards Board (GASB) Statement No. 89 *Accounting for Interest Cost Incurred before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management Discussion & 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.

Other Information

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the Independence Water & Sanitation District's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

March 30, 2020
Denver, Colorado

The Adams Group, LLC

INDEPENDENCE WATER & SANITATION DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2019

Assets

Current assets	
Cash	\$ 8,939
Investments - restricted	2,676,388
Noncurrent assets	
Capital assets-not being depreciated	18,801,068
Total assets	<u>21,486,395</u>

Liabilities

Current liabilities	
Accounts payable	119,905
Noncurrent liabilities	
Amounts due in more than one year	
Developer advances	110,000
Accrued interest	1,297,684
Bonds payable	22,270,000
Total liabilities	<u>23,797,589</u>

Net Position (Deficit)

Net investment in capital assets	(792,544)
Restricted	2,680,073
Unrestricted (deficit)	(4,198,723)
Total net position	<u>\$ (2,311,194)</u>

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

INDEPENDENCE WATER & SANITATION DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

Operating Expenses	
Bank charges	\$ 6,591
Dues and subscriptions	292
Information technology	150
Lab analysis	4,804
Legal	91,437
Management and accounting	19,555
Total operating expenses	<u>122,829</u>
Operating loss	<u>(122,829)</u>
Nonoperating Revenues/Expenses	
Interest income	77,929
Interest expense	(1,508,808)
Bond issuance cost	(720,166)
Total nonoperating revenues/expenses	<u>(2,151,045)</u>
Change in net position	(2,273,874)
Net position, beginning of year	<u>(37,320)</u>
Net position, end of year	<u><u>\$ (2,311,194)</u></u>

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

INDEPENDENCE WATER & SANITATION DISTRICT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

Cash Flows from Operating Activities	
Cash paid for goods and services	\$ (54,269)
Cash Flows from Noncapital Financing Activities	
Interest paid	(211,124)
Cash Flows from Capital and Related Financing Activities	
Acquisition and construction of capital assets	(18,762,043)
Proceeds from capital debt	21,634,834
Net Cash Provided by Capital and Related Financing Activity	<u>2,872,791</u>
Cash Flows from Investing Activities	
Interest on investments	77,929
Purchase of investments	(2,676,388)
Net Cash Used by Investing Activities	<u>(2,598,459)</u>
Net Change in Cash and Cash Equivalents	8,939
Cash and Cash Equivalents - Beginning	<u>0</u>
Cash and Cash Equivalents - Ending	<u>\$ 8,939</u>
Reconciliation of Operating Income (Loss) to	
Net Cash Used by Operating Activities	
Operating loss	\$ (122,829)
Adjustments to reconcile operating income (loss) to net cash used by operating activities	
Increase (decrease) in accounts payable	<u>68,560</u>
Net Cash Used by Operating Activities	<u>\$ (54,269)</u>
Supplemental information	
Non-cash capital financing activity	<u>\$ 39,025</u>

See the accompanying independent auditor's report

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 District organization nor is the District a component unit of any other primary governmental entity.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District is 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. 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.

The financial statements present the financial position of the District as of December 31, 2019, and the results of its operations and cash flows for the year ended December 31, 2019. The statement of revenues, expenses, and changes in net position distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations.

Budgets

In accordance with the State Budget Law, the District's Board of Directors hold 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 appropriation can only be modified upon completion of notification and publication requirements. During the year ended December 31, 2019, the District approved a supplemental appropriation which changed the fund structure from governmental to an enterprise fund. Budgets are adopted on a non-GAAP basis wherein debt proceeds are budgeted and recorded as revenues and capital expenditures are budgeted and recorded as expenditures.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy

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 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, Level 3 inputs are significant unobservable inputs. The District valued the water rights purchased from the Developer using the hierarchy. See Note.3

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water and wastewater improvements), are reported in the financial statements. The District has not adopted a capitalization policy. The total costs of constructing improvements have been capitalized on the statement of net position. 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. Constructed capital assets which have not yet been completed are recorded as construction in progress.

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.

Tap Fees

The District records tap fee revenue upon receipt of cash. The District did not collect any tap fee revenue for the year ended December 31, 2019.

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:

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.”

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

If both restricted and unrestricted resources are available to use for the same purpose, it is the District's policy 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 2 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2019 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 8,939
Cash and investments - restricted	<u>2,676,388</u>
Total cash and investments	<u>\$ 2,685,327</u>
Deposits with financial institutions	\$ 8,939
Investments	<u>2,676,388</u>
Total cash and investments	<u>\$ 2,685,327</u>

Cash Deposits

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, 2019, the District's cash deposits had a bank balance of \$118,305, and a carrying balance of \$8,939. At December 31, 2019, of the District's deposits were covered by the Federal Deposit Insurance Corporation (FDIC).

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Credit Risk

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

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
- Bankers acceptances of certain banks
- Commercial paper
- Certain reverse repurchase agreements
- Certain securities and lending agreements
- Certain corporate bonds
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- *Local government investment pools

The District generally limits its concentration of investments to those noted with an asterisk (*) above, 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.

Interest Rate Risk

Through its bond trustee UMB Bank, the District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. 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 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. As of December 31, 2019, the District's investments were held in the COLOTRUST Prime Fund.

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 is rated AAAM by Standards & Poor's. COLOTRUST does not have any unfunded commitments, redemption restrictions or redemption notice periods. As of December 31, 2019, COLOTRUST Prime Fund had weighted average maturities of 55 days to reset and 80 days to maturity

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments held in COLOTRUST are restricted for the following purposes:

Capital outlay	\$	2,676,387
Bond funds		1
Total cash and investments - restricted	\$	2,676,388

NOTE 3 - CAPITAL ASSETS

The following is an analysis of changes in capital assets for the year ended December 31, 2019.

	Balance 12/31/2018	Additions	Dispositions	Balance 12/31/2019
Business-type Activities:				
Capital assets not being depreciated:				
Water rights	\$ -	\$ 14,917,322	\$ -	\$ 14,917,322
Construction in progress	-	3,883,746		3,883,746
	\$ -	\$ 18,801,068	\$ -	\$ 18,801,068

As described in the Note 1, determination of fair market values is based on a three-level hierarchy. The District hired engineers to value water rights totaling \$14,917,322 which were purchased from the Developer. The process to develop the value was to take the total tap fee cost subtract the cost required to provide water supply to the Districts and the remainder is the value of the water rights. This constitutes a Level 3 valuation whose inputs are significant unobservable inputs.

NOTE 4 - LONG-TERM OBLIGATIONS

The following is an analysis of changes in long-term obligations for the year ended December 31, 2019:

	Balance 12/31/2018	Additions	Repayments	Balance 12/31/2019	Due Within One Year
Business-type Activities:					
Special Revenue Obligation Bonds:					
Series 2019	\$ -	\$ 22,270,000	\$ -	\$ 22,270,000	\$ -
Interest on 2019 Bonds	-	1,294,139	-	1,294,139	-
Developer advances	25,000	85,000	-	110,000	-
Interest on Developer advances	-	3,545	-	3,545	-
	\$ 25,000	\$ 23,652,684	\$ -	\$ 23,677,684	\$ -

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

NOTE 4 - 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. All principal is due upon maturity. During 2019, the District collected no tap fees. As a result, the estimated payments of principal and interest were not made. 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 and the Bond Fund.

The 2019 Bonds cannot be prepaid prior to June 1, 2024. From June 1, 2024 to May 31, 2025 bonds can be prepaid at a redemption premium of 3%. From June 1, 2025 to May 31, 2026 bonds can be prepaid at a redemption premium of 2%. From June 1, 2026 to May 31, 2027 bonds can be prepaid at a redemption premium of 1%. After May 31, 2027 bonds can be redeemed without premium.

As noted above these are cash flow bonds, the following is an estimated schedule of the debt services requirements to maturity as of December 31, 2019.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 5,608,000	\$ 2,608,717	\$ 8,216,717
2021	3,436,000	1,207,995	4,643,995
2022	4,016,000	958,885	4,974,885
2023	4,786,000	667,725	5,453,725
2024	4,424,000	320,740	4,744,740
Total	<u>\$22,270,000</u>	<u>\$ 5,764,062</u>	<u>\$ 28,034,062</u>

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 prime plus 2%.

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, 2019, the District had authorized and issued indebtedness from the election in the following amounts:

	<u>Authorized</u>	<u>Remaining</u>
Water rights & public improvements	<u>\$190,456,500</u>	<u>\$168,186,500</u>

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NET POSITION (CONTINUED)

The District's net position consists of three components – net investment in capital assets, restricted, and unrestricted. The restricted net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

The District had a restricted net position as of December 31, 2019, as follows:

	<u>Business-type Activities</u>
Restricted net position:	
Debt service	\$ 1
Capital outlay	2,676,387
Emergencies (see Note 8)	<u>3,685</u>
	<u>\$ 2,680,073</u>

In the government-wide financial statements, the District's liabilities exceeded assets by \$2,311,194 as a result of interest on and costs incurred for the issuance of long-term debt which was used to fund improvements. The District believes that future tap fees and related revenues will eliminate this deficit.

NOTE 6 - 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 7 - CONTINGENCY

The property in the service area of the District is currently vacant and undeveloped and there is no assurance that it will be developed as currently contemplated or at all. A number of factors may affect the development, including the overall economy of the region, Elbert County, and the southeast Denver metropolitan area in particular. The sale of taps is dependent on the development occurring in the District, and the timing of interest payments is dependent on the tap sales.

The Developer has estimated the cost of public improvements necessary to serve all Districts in the development to be approximately \$105 million but could be as high as \$184 million. The developer plans to fund \$61 million of the cost of the development.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

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.

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 PARTY

This is one of six districts and board members serve on all Districts. The developer of the infrastructure which constitutes the development is owned in part by Craft Bandera Acquisition Company, LLC and Craft Companies, LLC. All members of the Board of Directors are employed by, are owners of, or are consultants to the developer, and may have a conflict of interest in dealing with the District.

Districts No. 1-3 will build the infrastructure. The roads and related infrastructure will be donated to Elbert County. The water and sanitation infrastructure will be donated to the Independence Water and Sanitation District. The developer of the infrastructure which constitutes the District is Craft Bandera Acquisition Company, LLC and Craft Companies, LLC.

During the year, the District purchased \$16,888,795 of capital assets from the Developer. Related to this purchase the District also paid \$228,869 in interest to the Developer. During this year, the District received advances from the Developer totaling \$85,000. At December 31, 2019, the District owed the Developer \$110,000 and accrued interest of \$3,545.

INDEPENDENCE WATER & SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2019 the District implemented the following GASB statements.

Governmental Accounting Standards Board Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). It establishes criteria for determining the timing and pattern of the recognition of a liability and a corresponding deferred outflow of resources for AROs and also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. As a result of implementing this statement, the District recorded no additional transactions related to AROs.

Governmental Accounting Standards Board Statement No. 84 *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement changes the definition of fiduciary activities, providing more refined guidance on how to determine if activity is fiduciary in nature and therefore should be reported as such. The statement defines types of fiduciary funds, eliminating Agency Funds and replacing them with Custodial Funds. Under this guidance, all fiduciary funds will now report a net position and a statement of changes in that net position. As a result of implementing this statement, the District recorded no additional transactions related to fiduciary activities.

Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements and also clarify which liabilities governments should include when disclosing information related to debt. The impact of statement can be seen in change in Note 4 Long-Term Obligations.

Governmental Accounting Standards Board Statement No. 89, *Accounting For Interest Cost Incurred Before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Due to implementing this statement, the District has not capitalized any interest related to capital assets. The District early implemented this statement.

Governmental Accounting Standards Board Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The implementation of this statement did not result in any additional component units being included in the reporting entity.

SUPPLEMENTARY INFORMATION

INDEPENDENCE WATER & SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL (BUDGETARY BASIS)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
Net investment income	\$ -	\$ 80,000	\$ 77,929	\$ (2,071)
Bond proceeds	21,231,000	21,824,000	22,270,000	446,000
Developer advances	45,000	80,000	110,000	30,000
Total revenues	<u>21,276,000</u>	<u>21,984,000</u>	<u>22,457,929</u>	<u>473,929</u>
Expenditures				
Current:				
Audit	500	500	-	500
Bank charges	-	6,150	6,591	(441)
Dues and subscriptions	300	300	292	8
Information technology	-	150	150	-
Insurance and bonds	2,600	2,600	-	2,600
Lab analysis	-	3,500	4,804	(1,304)
Legal	20,000	75,000	91,437	(16,437)
Management and accounting	20,000	20,000	19,555	445
Emergency reserve	1,500	1,500	-	1,500
Interest expense	-	-	1,508,808	(1,508,808)
Cost of issuance	-	274,766	720,166	(445,400)
Capital improvements:				
Project management	-	100,000	148,415	(48,415)
Engineering	-	60,000	79,116	(19,116)
Water	-	1,250,000	1,108,986	141,014
Wastewater	-	1,189,534	575,756	613,778
Capital outlay from developer	-	19,000,000	16,888,795	2,111,205
Total expenditures	<u>44,900</u>	<u>21,984,000</u>	<u>21,152,871</u>	<u>831,129</u>
Excess of revenues over (under) expenditures	<u>\$ 21,231,100</u>	<u>\$ -</u>	<u>1,305,058</u>	<u>\$ 1,305,058</u>
Reconciliation to GAAP Basis				
Capital outlay			18,801,068	
Proceeds from long-term debt			<u>(22,380,000)</u>	
Change in Net Assets, GAAP Basis			(2,273,874)	
Fund Balances, Beginning			<u>(37,320)</u>	
Fund Balances, Ending			<u>\$ (2,311,194)</u>	