

# Cottonwood Water & Sanitation District

Financial Statements  
and Supplemental Information

Years Ended December 31, 2024 and 2023



**WIPFLI**



Board of Directors  
Cottonwood Water & Sanitation District  
Douglas County, Colorado

Independent Auditor’s Report

**Opinion**

We have audited the accompanying financial statements of the business-type activities of Cottonwood Water & Sanitation District (the “District”), as of and for the year ended December 31, 2024 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 financial position of Cottonwood Water & Sanitation District as of December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 opinion.

**Prior Period Financial Statements**

The financial statements of Cottonwood Water & Sanitation District as of December 31, 2023 were audited by other auditors whose report dated August 5, 2024 expressed an unmodified opinion on those statements.

**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 (GAAP), 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

## Other Matters

### Required Supplemental Information

The management's discussion and analysis information on pages IV through VIII is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

### Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

*Wipfli LLP*

Wipfli LLP  
Denver, Colorado

September 30, 2025

## **Cottonwood Water and Sanitation District MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis of Cottonwood Water and Sanitation District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2024. 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**

- Assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$56,163,585 (net position). Of this amount, \$16,077,865 (unrestricted net position) may be used to meet the government's ongoing obligations to its citizen and creditors.
- The District's total net position increased by \$ 2,886,859 from the prior fiscal year, largely due to non-operating revenue, including property taxes and investment income.
- Total operating revenues increased approximately 12 % from the prior year. Water demands during the summer of 2024 were higher than average due to abnormally dryer weather pattern across the Denver front range.
- Total operating expenses increased by approximately 11%, from the prior year, primarily due to a 21% increase in infrastructure depreciation. Overall operating expenses, excluding depreciation expenses, rose by 8%, primarily due to WISE water purchases to meet potable demands and water treatment and utility costs from 2024.
- Property tax revenues for 2024 decreased by 27% as the result of a lower mill levy needed to serve the District's outstanding general obligation debt from the prior year.
- Tap fees collections amounted to \$648,024, due to continued growth within the District.
- Capital expenditures totaled \$584,770.
- Long-term debt was reduced by \$1,694,526 in principal payments.

### **Overview of the Financial Statements**

The Cottonwood 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

## **Cottonwood Water and Sanitation District MANAGEMENT'S DISCUSSION AND ANALYSIS**

statements. This report also contains other supplementary 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 *Statement of Net Position* presents 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 *Statement of Revenues, Expenses and Changes in Net Position* presents 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 nonoperating revenue by source along with operating and nonoperating expenses and capital contributions.

The *Statement of Cash Flows* reports 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 section* to demonstrate compliance with the budget.

Unlike the basic financial statements, the fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. The fund statements of revenues, expenditures, and changes in fund balances are reconciled to facilitate a comparison between budget-basis fund statements and the basic financial statements.

### **Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the District's case, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$56,163,583 at the close of the most recent fiscal year.

**Cottonwood Water and Sanitation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Statement of Net Position**

	<b>2024</b>	<b>December 31, 2023</b>	<b>2022</b>
Current assets	\$ 15,504,102	\$ 13,667,252	\$ 10,713,313
Noncurrent assets	15,744,163	15,187,407	7,219,306
Capital assets	34,817,619	35,690,375	34,694,814
Total assets	<u>66,065,883</u>	<u>64,545,034</u>	<u>52,627,433</u>
Deferred outflows of resources	<u>0</u>	<u>55,806</u>	<u>74,487</u>
Current liabilities	2,336,335	2,409,377	2,237,136
Noncurrent liabilities	5,965,548	7,561,152	6,277,150
Total liabilities	<u>8,301,883</u>	<u>9,970,529</u>	<u>8,514,286</u>
Deferred inflows of resources	<u>1,600,419</u>	<u>1,353,586</u>	<u>1,767,583</u>
Net position:			
Net investment in capital assets	30,253,824	29,422,640	26,761,192
Restricted	9,831,894	9,606,054	1,729,279
Unrestricted	16,077,865	14,238,031	13,929,580
Net position	<u>\$ 56,163,584</u>	<u>\$ 53,276,725</u>	<u>\$ 42,420,051</u>

- The largest portion of the District's net position (54%) 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.
- Restricted net position consists of amounts restricted for emergencies under TABOR and amounts reserved pursuant to loan and intergovernmental agreements.
- The remaining net position of \$ 16,077,865 is unrestricted and available for on-going obligations of the District.

**Cottonwood Water and Sanitation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(continued)**

**Changes in Net Position**

	<b>For the Years Ended December 31,</b>		
	<b>2024</b>	<b>2023</b>	<b>2022</b>
<b>Revenues</b>			
Operating revenue			
Water charges	\$ 3,194,798	\$ 2,670,891	\$ 2,944,472
Wastewater charges	2,771,422	2,531,220	2,429,660
Other revenue	37,857	162,137	118,245
Nonoperating revenue			
Taxes	1,412,349	1,963,312	1,869,281
Other nonoperating	1,044,338	720,253	289,817
Settlement revenue	-	4,636,000	-
Capital contributions			
Tap fees, net	648,024	3,826,402	2,200,800
Total revenues	<u>9,108,788</u>	<u>16,510,215</u>	<u>9,852,275</u>
<b>Expenses</b>			
Operating expenses			
Water treatment and utilities	1,248,700	866,713	1,510,030
Wastewater treatment	1,982,823	2,128,107	2,025,524
Repairs, maintenance and operating fees	355,501	365,319	327,293
Professional services and administration	870,186	769,760	702,761
Depreciation	1,457,523	1,200,456	1,040,068
Nonoperating expenses			
Interest	176,267	219,990	269,063
Other nonoperating	130,928	103,196	105,699
Total expenses	<u>6,221,928</u>	<u>5,653,541</u>	<u>5,980,438</u>
Change in net position	2,886,859	10,856,675	3,871,837
Net position - beginning	53,276,726	42,420,051	38,548,214
Net position - ending	<u>\$ 56,163,583</u>	<u>\$ 53,276,725</u>	<u>\$ 42,420,051</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 nonoperating revenue and expenses and contributions. Depreciation is not reflected in the budget since it does not affect funds available. Funds available increased \$1,963,097 during 2024.

The budget to actual comparison statement is presented in the supplemental information accompanying the financial statements.

**Cottonwood Water and Sanitation District  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(continued)**

**Economic Factors and Next Year's Budget**

- Considering that usage varies from year to year, and there is moderate growth within the District, the District has budgeted 2025 operating revenue to be 11% higher than 2024. The increase in projected revenue accounts for the District's withdrawal of the remaining available funds from the Colorado Water Conservation Board's loans.
- \$200,000 for tap fees are budgeted to be received in 2025.
- The District is budgeting for significant capital improvements in 2025 (\$7,645,500), to be mainly funded using existing reserves.

The District's complete budget is available on the Colorado Department of Local Affairs website.

**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:

Luis Tovar, Mulhern MRE, Inc., District Manager  
Cottonwood Water and Sanitation District  
58 Inverness Drive East, Suite 100  
Englewood, Colorado 80112  
303-649-9857

## **BASIC FINANCIAL STATEMENTS**

**COTTONWOOD WATER AND SANITATION DISTRICT**

**STATEMENTS OF NET POSITION**

**December 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 11,508,930	\$ 9,636,893
Cash and cash equivalents - restricted	1,758,137	1,931,137
Accounts receivable - service charges	473,916	423,090
Accounts receivable - other	56,984	200,279
Receivable - County Treasurer - restricted	10,020	29,603
Property taxes receivable	1,600,419	1,353,586
Prepaid expenses	57,744	54,712
JWPP operating reserve - restricted	37,952	37,952
<b>Total current assets</b>	<u>15,504,102</u>	<u>13,667,252</u>
<b>Noncurrent assets</b>		
Investment in authorities	7,670,406	7,502,490
Restricted investments	8,073,757	7,684,917
<b>Total noncurrent assets</b>	<u>15,744,163</u>	<u>15,187,407</u>
<b>Capital assets</b>		
Capital assets not being depreciated	7,554,479	8,191,958
Capital assets being depreciated, net	27,263,140	27,498,417
<b>Total capital assets</b>	<u>34,817,619</u>	<u>35,690,375</u>
<b>Total assets</b>	<u>66,065,883</u>	<u>64,545,034</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Cost of refunding, net	0	55,806
<b>Total deferred outflows of resources</b>	<u>0</u>	<u>55,806</u>
<b>Total assets and deferred outflows of resources</b>	<u>66,065,883</u>	<u>64,600,840</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	471,243	586,044
Accrued interest	118,079	119,632
Long-term debt - current portion	1,747,013	1,703,701
<b>Total current liabilities</b>	<u>2,336,335</u>	<u>2,409,377</u>
<b>Noncurrent liabilities</b>		
Long-term debt	2,816,782	4,564,034
Settlement escrow	3,148,766	2,997,118
<b>Total noncurrent liabilities</b>	<u>5,965,548</u>	<u>7,561,152</u>
<b>Total liabilities</b>	<u>8,301,883</u>	<u>9,970,529</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property tax revenue	1,600,419	1,353,586
<b>Total deferred inflows of resources</b>	<u>1,600,419</u>	<u>1,353,586</u>
<b>NET POSITION</b>		
Net investment in capital assets	30,253,824	29,422,640
Restricted	9,831,894	9,616,054
Unrestricted	16,077,865	14,238,031
<b>Total net position</b>	<u>56,163,583</u>	<u>53,276,725</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$66,065,883</u>	<u>\$64,600,840</u>

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

**COTTONWOOD WATER AND SANITATION DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>OPERATING REVENUES</b>		
Water system	\$ 3,194,798	\$ 2,670,891
Wastewater system	2,771,422	2,531,220
Storm sewer fees	29,141	8,421
Other	8,716	153,716
<b>Total operating revenues</b>	<u>6,004,077</u>	<u>5,364,248</u>
<b>OPERATING EXPENSES</b>		
Water treatment	737,962	500,907
Wastewater treatment	1,982,823	2,128,107
System operating fees	210,000	191,435
Repairs and maintenance	145,501	173,884
Utilities	200,881	185,077
Professional services	81,130	82,354
WISE water purchases	309,858	180,729
Administration	789,057	687,406
Depreciation	1,457,523	1,200,456
<b>Total operating expenses</b>	<u>5,914,733</u>	<u>5,330,355</u>
<b>OPERATING INCOME</b>	<u>89,344</u>	<u>33,893</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	1,300,565	1,783,869
Specific ownership taxes	111,784	179,443
Fees in lieu of taxes	97,792	108,324
Investment income	895,874	571,935
Capital recovery fees	50,672	39,994
Settlement income	0	4,636,000
WISE participation	(50,000)	(50,000)
Authority participation	(15,000)	(17,143)
County Treasurer fees	(19,536)	(26,786)
CWCB interest and fiscal charges	(30,004)	(30,540)
Debt service interest and fiscal charges	(146,263)	(189,450)
Amortization of debt premium	9,414	9,414
Amortization of cost of refunding	(55,806)	(18,681)
<b>Total nonoperating revenues (expenses)</b>	<u>2,149,491</u>	<u>6,996,379</u>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	<u>2,238,835</u>	<u>7,030,272</u>
<b>CAPITAL CONTRIBUTIONS</b>		
Tap fees received	648,024	3,826,402
<b>Total capital contributions</b>	<u>648,024</u>	<u>3,826,402</u>
<b>CHANGE IN NET POSITION</b>	2,886,859	10,856,674
<b>NET POSITION - beginning of the year</b>	<u>53,276,726</u>	<u>42,420,051</u>
<b>NET POSITION - end of the year</b>	<u>\$ 56,163,583</u>	<u>\$ 53,276,725</u>

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

**COTTONWOOD WATER AND SANITATION DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2024 and 2023**

	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 6,087,832	\$ 5,130,799
Miscellaneous receipts	8,716	153,716
Payments to suppliers for goods and services	(4,528,648)	(3,988,053)
<b>Net cash provided (used) by operating activities</b>	<b>1,567,899</b>	<b>1,296,462</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property taxes	1,320,149	1,766,156
Specific ownership taxes	111,784	179,443
Fees in lieu of taxes	97,792	108,324
County Treasurer's fees	(19,536)	(26,786)
<b>Net cash provided (used) by noncapital financing activities</b>	<b>1,510,188</b>	<b>2,027,137</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Tap fees	648,024	3,826,402
Capital recovery fees	50,672	39,994
WISE participation	(50,000)	(50,000)
Authority participation	(15,000)	(17,143)
Acquisition of capital assets	(584,770)	(2,196,015)
Settlement payment	-	7,600,000
Principal paid	(1,694,526)	(1,656,471)
CWCB interest and fiscal charges	(30,004)	(30,580)
Debt service interest and fiscal charges	(146,263)	(172,768)
<b>Net cash provided (used) by capital and related financing</b>	<b>1,821,867</b>	<b>7,343,459</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of restricted investments	-	(7,684,917)
Net investment in Authorities	(167,916)	(283,184)
Net of Amounts Reinvested	610,738	571,935
<b>Net cash provided (used) by investing activities</b>	<b>442,822</b>	<b>(7,396,166)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,699,043</b>	<b>3,270,892</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b>11,568,030</b>	<b>8,297,138</b>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b>\$ 13,267,067</b>	<b>\$ 11,568,030</b>

(continued)

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

**COTTONWOOD WATER AND SANITATION DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
 (continued)

	<b>2024</b>	<b>2023</b>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 89,346	\$ 33,893
Adjustments to reconcile operating income (loss) to		
Depreciation and amortization	1,503,915	1,209,723
Changes in assets and liabilities:		
Accounts receivable	92,470	(79,733)
Prepaid expenses	(3,032)	(2,288)
Deposits	-	2,700
Accounts payable for operations	(114,800)	132,167
Total adjustments	1,478,553	1,262,569
<b>Net cash provided (used) by operating activities</b>	<b>\$ 1,567,899</b>	<b>\$ 1,296,462</b>

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

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Note 1 – Definition of reporting entity**

The Cottonwood Water and Sanitation District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Douglas County, Colorado. The District was organized in 1980 to provide water and sanitation services to property within the District's boundaries.

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

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

The District has no employees and is governed by an elected five-member Board of Directors.

**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.

## **Cottonwood Water and Sanitation District**

### **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

#### **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.

#### **Operating revenues and expenses**

The District distinguishes between operating revenues and expenses from non-operating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Operating revenues consist of charges to customers for services 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 non-operating revenues and expenses or capital contributions.

#### **Cash equivalents**

For purposes of the Statement 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.

#### **Accounts receivable, allowance for doubtful accounts**

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements. 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 in regard to engineering and design cost reimbursement receivables.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**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 revenue 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.

**Capital assets**

Capital assets include land, water rights, water and sewer plants and transmission systems, buildings, and equipment, and are reported net of accumulated depreciation. Capital assets are defined by the District as those assets with an initial, individual cost of \$5,000 or greater and an estimated useful life in excess of two years. 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.

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:

Plant and improvements, buildings, collection and transmission systems	5 to 50 years
Equipment and engineering costs	3 to 30 years

**Water rights**

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

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Capital contributions**

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

**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.

**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's cost of refunding is reported as a deferred outflow of resources at December 31, 2024 and 2023.

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 one item that qualifies for reporting in this category. Deferred property tax is reported as a deferred inflow of resources at December 31, 2024 and 2023.

**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.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Net Position**

Net position results from the accumulation of net earnings from operating income, non-operating revenues and expenses, and capital contributions and are classified in the financial statements as follows:

Net investment in capital assets consists of capital assets, net of accumulated depreciation reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows of resources related to those assets. This amounted to \$30,253,824 and \$29,422,640, respectively, at December 31, 2024 and 2023.

Restricted net position includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. At December 31, 2024 and 2023, the District had net position restricted as follows:

	December 31, 2024	December 31, 2023
Emergency reserve	\$ 45,304	\$ 76,100
Operation and maintenance reserve	1,275,875	1,284,025
Debt service reserve	436,958	571,012
Settlement escrow	8,073,757	7,684,917
	<u>\$ 9,831,894</u>	<u>\$ 9,616,054</u>

Unrestricted net position includes the residual net position that does not meet the classification of “net investment in capital assets” or “restricted”, and amounted to \$ 16,077,865 and \$ 14,238,031 at December 31, 2024 and 2023, respectively.

**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.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Note 3 – Cash and investments**

Cash and investments are reflected on December 31, 2024 and 2023 Statements of Net Position as follows:

	December 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 11,508,930	\$ 9,636,893
Cash and cash equivalents - restricted	1,758,137	1,931,137
	<u>\$ 13,267,067</u>	<u>\$11,568,030</u>

Cash and investments as of December 31, 2024 and 2023 consist of the following:

Deposits with financial institutions	\$ 327,331	\$ 532,998
Investments	12,939,736	11,035,032
Total cash and investments	<u>\$13,267,067</u>	<u>\$11,568,030</u>

At December 31, 2024 and 2023, the District's cash deposits had bank balances of \$382,171 and \$531,245, respectively, and carrying balances of \$327,331 and \$532,998, respectively.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**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, 2024 and 2023, 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.

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. None of the District's deposits at December 31, 2024 were exposed to credit risk. As of December 31, 2024 and 2023, the District's bank balances and carrying balances were insured or collateralized as follows:

	<u>2024</u>	<u>2023</u>
Bank balances		
Federally insured	\$ 250,000	\$ 250,000
Collateralized	\$ 132,171	\$ 81,245
Total bank balances	<u>\$ 382,171</u>	<u>\$ 331,245</u>
Carrying balances		
Federally insured	\$ 250,000	\$ 250,000
Collateralized	\$ 77,331	\$ 282,998
Total carrying balances	<u>\$ 327,331</u>	<u>\$ 532,998</u>

**Investments**

The District's investment policy restricts investments to only those permitted by state statutes.

The District primarily 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

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

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

**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 is recorded at amortized cost, and COLOTRUST which is recorded at net asset value.

As of December 31, 2024 and 2023, the District had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>2024</u>	<u>2023</u>
Colorado Liquid Assets Trust (Colotrust)	Weighted average under 60 days	<u>\$ 12,939,736</u>	<u>\$ 11,035,032</u>

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**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 a 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 AAAF/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. The District invested in PLUS accounts during 2024.

**Restricted cash and investments**

Restricted cash and investments consist of amounts for operating & maintenance reserves, and debt service reserves as required by the District's loans and revenue bonds, and restricted project funds.

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan, the District is required to maintain an operating reserve equal to three months of operations and maintenance expenses budgeted for the then-current fiscal year. As of December 31, 2024 and 2023, the required operating reserve of \$1,275,875 and \$1,284,025 respectively, was restricted by the District.

In accordance with bonded debt obligations, property taxes collected in excess of the required debt service payments are to be reserved to pay future debt obligations. As of December 31, 2024 and 2023, the District had \$436,958 and \$571,012, respectively, restricted for debt service.

At December 31, 2024 and 2023 the District restricted \$45,304 and \$76,100, respectively, for emergency reserves (Note 10).

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Note 4 – Capital assets**

Capital asset activity for the year ended December 31, 2024 was as follows:

	December 31, 2023	Additions	Deletions	December 31, 2024
Capital assets, not being depreciated				
Land	\$ 405,270	\$ -	\$ -	\$ 405,270
Water rights	7,099,945	21,091	-	7,121,036
Construction in progress	686,743	584,770	(1,243,340)	28,173
Total capital assets, not being depreciated	<u>8,191,958</u>	<u>605,861</u>	<u>(1,243,340)</u>	<u>7,554,479</u>
Capital assets being depreciated				
Water system	40,046,818	1,005,716	-	41,052,534
Wastewater system	7,491,147	78,562	-	7,569,709
Engineering studies	249,484	0	-	249,484
Sewage treatment rights	2,098,641	137,968	-	2,236,609
Equipment	129,786	0	-	129,786
Total capital assets being depreciated	<u>50,015,876</u>	<u>1,222,246</u>	<u>-</u>	<u>51,238,122</u>
Less accumulated depreciation for				
Water system	16,351,874	1,230,764	-	17,582,638
Wastewater system	5,543,638	127,353	-	5,670,991
Engineering studies	225,149	10,880	-	236,029
Sewage treatment rights	267,012	88,526	-	355,538
Equipment	129,786	0	-	129,786
Total accumulated depreciation	<u>22,517,459</u>	<u>1,457,523</u>	<u>-</u>	<u>23,974,982</u>
Total capital assets being depreciated, net	<u>27,498,417</u>	<u>235,277</u>	<u>-</u>	<u>27,263,140</u>
Capital assets, net	<u>35,690,375</u>	<u>\$ 370,584</u>	<u>(1,243,340)</u>	<u>34,817,619</u>

Depreciation expense for the year ended 12/31/2024 was charged to District programs as follows:

Water system	\$ 1,230,764
Wastewater system	215,879
Administration	<u>10,880</u>
 Total	 <u>\$ 1,457,523</u>

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Note 5 – Long-term debt**

Following is a summary of long-term debt transactions for the year ended December 31, 2024:

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Due Within One Year
Bonds Payable:					
Series 2019 GO Refunding Bonds	\$1,228,000	-	\$606,000	\$622,000	\$622,000
Direct Placement Borrowings:					
2016 GO Refunding Loan	1,440,000	-	470,000	970,000	480,000
2006B CWRPDA Loan	2,571,814	-	598,991	1,972,822	615,477
2014 CWCB Loan - Note A	272,499	-	11,303	261,196	11,642
2014 CWCB Loan - Note B	317,368	-	8,232	309,136	8,479
2014 CWCB Loan - Note C	282,384	-	-	282,384	-
2014 CWCB Loan - Note D	127,427	-	-	127,427	-
Total direct placement borrowings	5,011,493	-	1,088,526	3,922,965	1,115,598
Total long-term obligations	6,239,493	-	1,694,526	4,544,965	1,737,598
Bond premium, net	28,244	-	9,414	18,830	9,415
Total	<u>\$6,267,737</u>	<u>-</u>	<u>\$1,703,940</u>	<u>\$4,563,795</u>	<u>\$1,747,013</u>

**Series 2019 GO Refunding Bonds**

On September 27, 2008, the District issued Series 2008A General Obligation Refunding Bonds in the amount of \$6,730,000 to refund the District's Series 1998A General Obligation Refunding Bonds. Principal and interest payments were due semi-annually on June 1 and December 1 through December 1, 2027. Interest accrues at rates ranging from 4% to 5% per annum. The Bonds maturing on and after December 1, 2017 were subject to redemption prior to maturity, in whole or

## Cottonwood Water and Sanitation District

### NOTES TO FINANCIAL STATEMENTS

December 31, 2024

in part, in such a manner as the District may determine on December 1, 2018, or on any interest payment date thereafter, without any redemption premium. On June 3, 2019, the District refunded the Series 2008A GO Refunding Bonds with the issuance of \$4,000,000 GO Refunding Bond, Series 2019 (the "Note"). The Note proceeds along with monies from the debt service fund were used to currently refund and pay-off the Series 2008A GO Refunding Bonds. This refunding resulted in a net present value savings of interest in the amount of \$297,601. Principal and interest payments are due annually on September 1, through September 1, 2025. Interest accrues at 2.61%.

#### **Series 2016 GO Refunding Loan**

On November 9, 2016, the District obtained a loan in the amount of \$4,500,000, titled Series 2016 General Obligation Refunding Loan with BOKF, NA, dba Colorado State Bank and Trust, to currently refund the District's Series 2006A General Obligation Refunding Bonds. The loan proceeds along with monies from the debt service fund were used to refund and pay-off the 2006A GO Refunding Bonds in order to obtain an interest savings of approximately \$55,000. Principal and interest payments are due semi-annually on June 1 and December 1, commencing on June 1, 2017 through December 1, 2026. Interest accrues at 1.86% per annum. The Loan is not subject to redemption prior to maturity.

Pledged Revenues 2016 and 2019 – The above bonds and loan are payable solely from revenues of the District's ad valorem property tax mill levy sufficient to pay the debt service requirements. During the year ended December 31, 2024, property and specific ownership tax revenues of \$1,412,349 plus existing debt fund balances from the previous year were available to pay the annual debt service of \$1,134,922

#### **2006 Colorado Water Resources and Power Development Authority (CWRPDA) Loan**

On November 1, 2006, the District obtained a loan in the amount of \$9,996,005 from the Colorado Water Resources and Power Development Authority (the "Authority") to finance a water project. Principal and interest payments are due semi-annually on February 1 and August 1, through August 1, 2027. Interest accrues at 3.54% per annum.

The water project consists of the District's undivided interest in the Joint Water Purification Plant constructed by the District, Arapahoe County Water and Wastewater Public Improvement District, and the Arapahoe County Water and Wastewater Authority pursuant to an intergovernmental agreement, including production wells, a pumping station and transmission pipelines.

Pledged Revenues - The District and Authority agree that the amounts payable

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

under this loan agreement are payable solely from pledged property, as defined as ad valorem taxes without limitation as to rate, on all taxable property in the District, in an amount necessary to pay the loan payments but not to exceed \$1,100,000, and that nothing shall be deemed to prevent the District from repaying the loan amounts from any other legally available source. During the year ended December 31, 2024, property and specific ownership tax revenues of \$1,412,349 were available to pay the annual debt service of \$700,194.

Covenants and Remedies of Default – CWRPDA Loan

The District has committed to various covenants that must be maintained to avoid events of default. The most significant covenant is for the District to establish rates and fees in amounts sufficient to pay loan and operating requirements. Failure to pay any amounts owed under the loan agreement constitute an event of default. In the event of a default, the lender has the option to take any action pursuant to the loan agreement. Including declaring that all amounts are immediately due and payable, or to take legal action to require the District to appointment of a receiver of the systems of the District.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**2014 Colorado Water Conservation Board (CWCB) Loan**

On November 17, 2014, the District entered into a loan agreement with the CWCB for an amount not to exceed \$4,508,640 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 – an amount not to exceed \$381,780 (amended to \$342,921) for the District's share of the costs of a portion of the East Cherry Creek Valley Water and Sanitation District's Western Pipeline,

Note B – an amount not to exceed \$2,636,100 (amended to \$347,967) for the District's share of costs related to Phase 1 Infrastructure - a pipeline that will connect Denver Water's treated distribution system to Denver International Airport and Aurora's Prairie Water's pipeline,

Note C – an amount not to exceed \$ 1,127,160 for the District's share of the costs of certain Phase 2 Infrastructure – Binney Connection, and

Note D – an amount not to exceed \$363,600 for the District's share of costs of DIA Connection.

Each promissory note will include a 1% loan service fee. Interest accrues at 3% per annum for each individual promissory note commencing on the date of the initial note draw. Interest payments will commence 1 year from the date of initial note draw. Principal payments will not commence until the entire amount of an individual promissory note has been drawn, or the District communicates to the CWCB that no additional draws will be taken on the promissory note, at which time a repayment schedule will be established by the CWCB. During the year ended December 31, 2019, Note B, was substantially complete, and the District began paying principal and interest on Note B. During the year ended December 31, 2018, Note A, was substantially complete, and the District began paying principal and interest on Note A.

Covenants and Remedies of Default – CWCB Loan

The District has committed to various covenants that must be maintained to avoid events of default. The most significant covenant is for the District to establish rates and fees in amounts sufficient to pay loan and operating requirements. Failure to pay any amounts owed under the loan agreement constitute an event of default. In the event of a default, the lender has the option to take any action pursuant to the loan agreement, including imposing a 5% late payment charge and suspending loan disbursements pending corrective action by the District. There is no provision in the contract to accelerate loan payments.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

Annual debt service requirements for the District's outstanding bonds and loans at December 21, 2024 are as follows:

Year Ended			
<u>Dec 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$1,737,598	\$177,821	\$1,915,419
2026	1,170,164	64,025	1,234,190
2027	719,253	6,096	725,349
2028	21,987	15,244	37,231
2029	22,647	14,585	37,231
2030 - 2034	123,841	62,315	186,156
2035 - 2039	143,565	42,590	186,156
2040 - 2044	114,796	21,003	135,799
2045 - 2049	81,304	7,462	88,765
Unknown Amortization Terms	<u>489,442</u>	<u>-</u>	<u>489,442</u>
	<u>4,624,597</u>	<u>411,141</u>	<u>5,035,738</u>

The unknown amortization terms balance represents the balance of the 2014 CWCB Loans C and D, based on amounts remaining to be drawn down under these loans to determine the amortization terms of each loan.

On May 23, 2022, voters in the District authorized the issuance of \$10,500,000 of general obligation bonds or other multiple fiscal year financial obligations, to be used for renewable water supply projects, water storage, water treatment, and water infrastructure improvements. No amounts were issued during 2024 or through the date of the auditor's report.

**Note 6 – Intergovernmental Agreements**

The District participates in various intergovernmental agreements, the more significant agreements being as noted below.

**Arapahoe County Water and Wastewater Authority**

On June 18, 2003, the District entered into an agreement with Arapahoe County Water and Wastewater Authority (ACWWA) to mutually construct and operate a water treatment facility known as the Joint Water Purification Plant (JWPP). The JWPP facility began operations in 2010. In 2014, the District and ACWWA executed an agreement for operations and maintenance of, and improvements to the JWPP.

Under the original agreement, ACWWA operated the JWPP facility. The District paid its share of operating expenses each year. The agreement required two reserves be established, an operating reserve and capital replacement reserve. At December 31, 2024 and 2023, ACWWA held the District's

## Cottonwood Water and Sanitation District

### NOTES TO FINANCIAL STATEMENTS

December 31, 2024

portion of these reserves in the amount of \$37,952.

The August 2018 amendment defined responsibilities related to the future construction of improvements to the JWPP and establish a commitment to use a contract plant operator after the completion of the improvements. The amended agreement required each District to deposit an amount into a Colotrust account to be held for these improvements. Plant operations were turned over to a contract operator in May 2019.

#### **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, Inverness 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 contributed \$1,175,680 towards this purchase. The District's share of participation is 7.14%, which had a value of \$3,135,394 and \$2,971,375 at December 31, 2024 and 2023, respectively, which is reported as Investment in Authorities in the financial statements. During 2021, Cherry Creek Authority began construction on the Walker Reservoir project, Phase I and II. The District's share of Phase I of the project totals \$1,476,859, for which an initial assessment of \$452,944 was paid, and an additional amount of \$960,731 was paid in 2022. The remaining commitment for the project of \$63,184 was paid in 2023. Phase II assessment for \$117,860 was paid in 2024. Other capital projects completed by the Authority in 2024 required the District to pay its share of such expenses which was \$46,159. For a copy of the Cherry Creek Authority's financial statements, contact the Cherry Creek Authority.

#### **Note 7 – Cost sharing agreement – WISE Partnership**

On March 31, 2013, the District entered into an amended WISE Negotiations and Cost Sharing Participation Agreement with South Metro Water Supply Authority (SMWSA) that amends the method of cost sharing. In the amended agreement the costs will be shared based on the participants' pro-rata share of the annual subscription amount in relation to the total of all annual subscription amounts. The District has committed to subscribing to 400-acre feet (4.0%) out of a total of 10,000-acre feet (previously 7,225) 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 years ended December 31, 2024 and 2023, the District analyzed its investment in WISE and adjusted the amounts to \$4,531,115 and \$4,531,115, 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, 2024 and 2023, the District's water purchases were \$309,858 and \$180,729, respectively. There were no WISE CIP assessments in 2024.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

**Note 8 – Settlement**

During 2023, the District and ACWWA, together, reached a \$7,600,000 settlement (the Settlement) with a contractor related to construction failures incurred in 2018 at a joint project. ACWWA and the District entered into a Memorandum of Understanding (MOU), which states that the funds, together with interest, are to be maintained in a reserve escrow account, which is held by the District. Funds are to be used to improve the existing RO concentrate biological treatment system at the JWWP, with either district allowed to enter into construction contracts with the Authority's approval. The MOU states that any funds remaining in the escrow account, following necessary JWPP biological system improvements, are to be divided between ACWWA and the District in the same ratio as the contribution to the original funding mechanism implemented for the 2018 JWPP Improvements Project (the Contract). ACWWA contributed 39% and the District contributed 61% of the original Contract. Accordingly, the District recognized 61% of the Settlement amount as revenue, as well as 61% of the interest earnings on the escrow account. The District has restricted the entire escrow account balance (\$8,073,757 and 7,6894,917 at December 31, 2024 and 2023, respectively), and has presented ACWWA's 39% of the escrow reserve (\$3,148,766 and 2,997,118 at December 31, 2024 and 2023, respectively) as a noncurrent liability.

**Note 9 – Risk management**

**Public Entity Risk Pool**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets. The District plans to provide for or restore the economic damages of those losses through risk transfer. The District participates in the Colorado Special Districts Property and Liability Pool and Workmen's Compensation Pool (the "Pool").

The purposes of the Pool are to provide members with defined liability, property, and workers compensation coverage and to assist members in preventing and reducing losses and injuries to property and to persons or property which might result in claims being made against members of the Pool, their employees and officers. Settled claims have not exceeded this coverage in any of the past three fiscal years.

It is the intent of the members of the Pool to create an entity in perpetuity which will administer and use funds contributed by the members to defend and indemnify, in accordance with the bylaws, any member of the Pool against stated liability of loss, to the limit of the financial resources of the Pool.

It is also the intent of the members to have the Pool provide continuing stability and availability of needed coverage at reasonable costs.

**Cottonwood Water and Sanitation District**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2024**

All income and assets of the Pool shall be at all times dedicated to the exclusive benefit of its members. The Pool is a separate legal entity and the District does not approve budgets nor does it have the ability to significantly affect the operations of the Pool.

The District pays annual premiums to the Pool for liability, property and public officials' liability. 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 10 – 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. At December 31, 2024 and 2023, an emergency reserve of \$45,304 and \$76,100, respectively, was reported as a restricted net position in the statement of net position.

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.

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## SUPPLEMENTAL INFORMATION

**COTTONWOOD WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**ENTERPRISE FUND**

**For the Year Ended December 31, 2024**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>			
<b>Operating</b>			
Charges for services			
Water system	\$ 2,546,900	\$ 3,194,798	\$ 647,898
Wastewater system	2,767,000	2,771,422	4,422
Storm Sewer fees	8,400	29,141	20,741
Trash pickup services	-	0	0
Miscellaneous	95,000	8,716	(86,284)
<b>Total operating revenues</b>	<u>5,417,300</u>	<u>6,004,077</u>	<u>586,777</u>
<b>Nonoperating</b>			
Tap fees	200,000	648,024	448,024
Bond proceeds	1,600,000	0	(1,600,000)
Investment income	140,000	893,917	753,917
Capital recovery fees	-	50,672	62,460
Settlement income	4,636,000	0	(4,636,000)
<b>Total nonoperating revenues</b>	<u>6,576,000</u>	<u>1,592,613</u>	<u>(4,971,599)</u>
<b>Total revenues</b>	<u>11,993,300</u>	<u>7,596,691</u>	<u>(4,384,821)</u>
<b>Expenditures</b>			
<b>Operating</b>			
Water treatment	800,000	736,097	63,903
Wastewater treatment	2,317,000	1,982,823	334,177
System operating fees	195,000	210,000	(15,000)
Repairs and maintenance	140,000	145,501	(5,501)
Utilities	215,000	200,881	14,119
Professional services	50,000	81,130	(31,130)
WISE water purchases	547,000	309,858	237,142
<b>Administration</b>			
Insurance	58,000	57,450	550
Management fees	190,000	176,130	13,870
Accounting and billing	193,000	250,269	(57,269)
Audit	7,500	7,500	0
Legal	90,000	98,733	(8,733)
Miscellaneous	201,000	193,757	7,243
Water conservation rebates	15,000	7,082	7,918
<b>Contingency</b>	200,000	-	200,000
<b>Total operating expenditures</b>	<u>5,218,500</u>	<u>4,457,210</u>	<u>761,290</u>
<b>Nonoperating</b>			
Capital outlay	6,660,500	584,770	6,075,730
CWCB debt service	94,738	30,004	64,734
WISE participation and capital	415,000	53,897	361,103
Authority participation and capital	870,000	179,020	690,981
<b>Total nonoperating expenditures</b>	<u>8,040,238</u>	<u>847,690</u>	<u>7,192,548</u>
<b>Total expenditures</b>	<u>13,258,738</u>	<u>5,304,900</u>	<u>7,953,838</u>
<b>Net changes in funds available</b>	(1,265,438)	2,291,790	3,557,228
<b>Funds available - beginning of year</b>	\$ 15,540,331	\$ 15,540,331	0
<b>Funds available - end of year</b>	<u>\$ 14,274,893</u>	<u>\$ 17,843,164</u>	<u>\$ 3,557,228</u>

**COTTONWOOD WATER AND SANITATION DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUNDS AVAILABLE -  
BUDGET AND ACTUAL - BUDGETARY BASIS**

**DEBT FUND**

**For the Year Ended December 31, 2024**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Revenues</b>			
Property taxes	\$ 1,353,533	\$ 1,300,565	(\$52,968)
Specific ownership taxes	180,000	111,784	(68,216)
Fees in lieu of taxes	71,300	97,792	26,492
Interest income	53,600	1,956	(51,644)
Loan Proceeds	<u>1,600,000</u>	<u>-</u>	<u>(\$1,600,000)</u>
<b>Total revenues</b>	<u>3,258,433</u>	<u>1,512,097</u>	<u>(1,746,336)</u>
<b>Expenditures</b>			
County Treasurer's fees	33,000	19,536	13,464
Debt service 2006B	700,194	692,333	7,861
Debt service 2016	496,784	496,008	776
Debt service 2019	638,051	632,913	5,138
Debt Service 2023	74,000	-	74,000
Transfer Out to CIP Fund	1,600,000	-	1,600,000
Contingency	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total expenditures</b>	<u>3,542,029</u>	<u>1,840,790</u>	<u>1,701,239</u>
<b>Net changes in funds available</b>	(283,596)	(328,693)	(45,097)
<b>Funds available - beginning of year</b>	<u>701,365</u>	<u>701,365</u>	<u>0</u>
<b>Funds available - end of year</b>	<u>\$ 417,769</u>	<u>\$ 372,672</u>	<u>(\$45,097)</u>

**COTTONWOOD WATER AND SANITATION DISTRICT**

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

**For the Year Ended December 31, 2024**

Revenues (total budgetary basis)	<u>\$9,108,788</u>
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>\$9,108,788</u>
Expenditures (total budgetary basis)	7,145,691
Depreciation and amortization	1,503,913
Capital outlay	(584,770)
WISE capital contributions	(3,897)
CCPWA capital contributions	(164,020)
Principal payments	(1,694,526)
Escrow adjustment	(20,467)
Change in accrued interest	<u>13,899</u>
Total Expenses per Statement of Revenues, Expenses and Changes in Net Position	6,221,929
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$ 2,886,859</u></u>