

BEAR CREEK WATER AND
SANITATION DISTRICT
JEFFERSON COUNTY, COLORADO

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2017 AND 2016



Crady, Puca & Associates

Certified Public Accountants & Chartered Accountants



RECEIVED

Office of the State Auditor

June 19, 2018

**BEAR CREEK WATER AND SANITATION DISTRICT
JEFFERSON COUNTY, COLORADO**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Bear Creek Water and Sanitation District

We have audited the accompanying financial statements of the Bear Creek Water and Sanitation District (District) as of and for the years ended December 31, 2017 and 2016, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bear Creek Water and Sanitation District, as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through xiii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial

statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 on pages 18 and 19 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Crady, Puca & Associates

Centennial, CO 80112
June 11, 2018

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MANAGEMENT DISCUSSION AND ANALYSIS
OF THE ANNUAL AUDIT FOR YEARS ENDED 2017 AND 2016



MISSION STATEMENT

OUR MISSION IS TO PROVIDE PUBLIC WATER AND SANITARY SEWER SERVICES TO THE TAXPAYERS AND RATEPAYERS OF BEAR CREEK WATER AND SANITATION DISTRICT IN A SAFE, EFFICIENT, COST-EFFECTIVE AND SUSTAINABLE MANNER, WHILE MEETING ALL STATUTORY AND REGULATORY REQUIREMENTS.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE ANNUAL AUDIT FOR YEARS ENDED 2017 AND 2016

Introduction

As management of the Bear Creek Water and Sanitation District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2017 and 2016. The District, comprised of roughly 2,600 acres, lies approximately 75 percent within the City of Lakewood and 25 percent in unincorporated Jefferson County. A daytime population of approximately 30,000 is served public water and sanitary sewer services by the District. The public water distribution and sanitary sewer transmission systems are owned, operated, and maintained by the District. The business of providing these services and operating these systems is accounted for in a single proprietary fund.

The District Management's Discussion and Analysis is intended to provide you, the reader and user of our financial statements, with

- an understanding of the financial issues of the District.
- an overview of the District's financial activities.
- an explanation of the changes in the District's financial position.
- an explanatory analysis of the variations of the annual, approved budget.
- an assessment of any future financial or operating issues of the District.

Because this discussion and analysis is intended to focus on the 2017 activities, resulting changes, and currently known facts and conditions, it should be read in conjunction with the accompanying audited financial statements and related notes to the financial statements beginning on Page 1.

Financial Highlights

2017 Financial Highlights Compared to 2016

- The District collected \$2,150,863 in operating revenue in 2017 which reflected an increase of \$1,154,531 from 2016. This increase is primarily due to an increase in the sewer utility rate in accordance with the mitigation plan that addresses extraordinary fluctuations in sewage treatment charges.
- Property and specific ownership taxes decreased by \$4,663 from 2016.
- Net investment income increased by \$56,561 from \$104,119 in 2016 to \$160,580 in 2017 due to changes in unrealized gains and losses from 2016.
- The District billed \$2,071,183 in sanitary sewer use fees to its customers to cover both annual sewage treatment charges of \$1,584,821 and related operations, maintenance and billing costs of \$193,548 in 2017.
- Operations, preventative maintenance and repair of public water and sanitary sewer systems increased by \$56,414 in 2017 from 2016.
- Salaries, wages, contract services decreased by \$80,096 due to the District Manager's transition plan for retirement in 2017.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's financial condition. The District's basic financial statements are comprised of three components:

- 1) Management's Discussion and Analysis (Required Supplemental Information),
- 2) Financial Statements, and
- 3) Notes to the financial statements that explain in more detail some of the information in the financial statements.

To demonstrate compliance with state budget law, the District has included supplemental information consisting of a comparison of budgeted to actual revenue and expenses. Also included is a reconciliation of budgetary basis revenues and expenses compared to the statement of revenues, expenses and changes in fund net position.

Required Financial Statements

The financial statements of the District report information using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the District's overall financial position. The annual audit report includes the following information:

- 1) Statements of Net Position (Page 1)
- 2) Statements of Revenues, Expenses, and Changes in Net Position (Page 2)
- 3) Statements of Cash Flows (Page 3)
- 4) Notes to Financial Statements (Pages 4-17)
- 5) Supplemental Information
 - a. Schedule of Revenues, Expenditures and Changes in Funds Available - Budget and Actual (Budgetary Basis) (Page 18)
 - b. Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes in Net Position (Page 19)

The schedules provide information about the District's financial position as of December 31, 2017 with results of its operations, cash flows, and information comparing actual revenues and expenses with budgeted revenues and expenses for the year. Except for the Other Supplemental Information, these schedules are presented with current year and prior year comparison. The schedules are repeated below for further discussion:

1) The Statement of Net Position presents information on all of the District's assets, liabilities and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and the amounts of investments in resources owned by the District (assets) and the obligations owed to the District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, other non-financial factors should be considered, such as changes in economic conditions, population, growth, and the effects of new or changed government legislation.

2) The revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement provides information about the components of the District's annual operating activities and how those activities affected the net position.

3) The final, required financial statement is the Statement of Cash Flows. This statement provides an analysis of the sources and uses of District cash during the year and how the operating, financing and investment activities affected the District's cash balances.

4) The Notes to the Financial Statements provide additional disclosures about the District, its accounting policies and practices, its financial position and operating activities, and other required information. The information included in these notes is essential to a full understanding of the information contained in the financial statements.

5) Supplemental Information: Though these schedules are not required as part of the basic financial statements, they are added for review as Supplemental Information.

- a) The Schedule of Revenues, Expenditures and Changes in Funds Available—Budget and Actual (Budgetary Basis) compares budgeted revenues and expenses with actual revenue and expense activities; and
- b) The Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes in Net Position provides a recapitulation of accounting activities that affect the Change in Net Position.

Condensed Comparative Financial Information

The following tables of Condensed Comparative Financial Information offer summaries of the financial information contained in the District’s financial statements.

Condensed Comparative Financial Information			
Statement of Net Position			
	2017	2016	2015
ASSETS			
Current Assets			
Cash and cash equivalents, deposits and investments	\$ 4,565,311	\$ 2,756,769	\$ 3,038,555
Other current assets	1,292,199	647,033	650,008
Total Current Assets	5,857,510	3,403,802	3,688,563
Noncurrent Assets			
Deposits and investments	8,863,183	11,366,655	11,485,932
Capital assets, net	12,729,397	12,534,311	12,762,255
Other noncurrent assets	243,984	247,572	248,170
Total Noncurrent Assets	21,836,564	24,148,538	24,496,357
Total Assets	27,694,074	27,552,340	28,184,920
LIABILITIES			
Other liabilities	306,867	209,799	188,140
Total Liabilities	306,867	209,799	188,140
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	677,816	582,824	594,054
Total Deferred Inflows of Resources	677,816	582,824	594,054
NET POSITION			
Net investment in capital assets	12,729,397	12,534,311	12,762,255
Restricted for emergencies (TABOR)	26,100	26,100	26,100
Unrestricted	13,953,894	14,199,306	14,614,371
Total Net Position	\$26,709,391	\$26,759,717	\$27,402,726

Condensed Comparative Financial Information			
Statement of Revenues, Expenses and Changes in Fund Net Position			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 2,150,863	\$ 996,332	\$ 861,419
Less Operating Expenses	(2,591,094)	(1,946,836)	(2,028,521)
Less Depreciation	(435,834)	(433,729)	(426,853)
Net Loss from Operations	(876,065)	(1,384,233)	(1,593,955)
Non-operating Revenues (Expenses)	792,363	736,199	796,044
Capital Contributions	33,376	5,025	102,540
Change in Net Position	(50,326)	(643,009)	(695,371)
Net Position - Beginning of Year	26,759,717	27,402,726	28,098,097
Net Position - End of Year	<u>\$26,709,391</u>	<u>\$26,759,717</u>	<u>\$27,402,726</u>

For more information on the figures contained in these tables, a close review of the accompanying audited financial statements beginning on Page 1 is recommended.

Analysis of Financial Position and Operating Results

2017 Financial Analysis

Cash, cash equivalents and investments of the District decreased from \$14,123,424 in 2016 to \$13,428,494 at December 31, 2017, representing approximately 48.4 percent of the District's total assets in 2017. This change includes expenses paid from reserves for capital improvements made in accordance with the master plan.

The District signed a contract in 2017 with C&L Water Solutions, Inc. in the amount of \$1,030,210.30 to rehabilitate the sanitary sewer lines with CIPP (Cured in Place Pipe) and the sanitary sewer services with LMK technology within four areas of the Westgate area. The District also signed a contract in 2017 with Guildner Pipeline Maintenance, Inc. in the amount of \$189,800 to rehabilitate the sanitary sewer manholes in the four areas of Westgate. The sewer mains in these four areas of the Westgate neighborhood have reached their fifty-year life expectancy. Lining the mains, service taps and manholes should add an additional fifty to seventy years of life expectancy to the sewer mains and should reduce flows to Metro Wastewater Reclamation District for sewage treatment. The District placed a hold in 2017 on reinvesting a portion of the District's reserve funds to maintain a cash position to fund the sewer rehabilitation project.

Property and specific ownership taxes decreased by \$4,663 in 2017; from \$641,019 collected in 2016 to \$636,356 collected in 2017. An ad valorem property tax is levied on the assessed valuation of real and personal property within the District. Upon the 2016 assessed valuation of \$155,627,599, a total net mill levy rate of 3.742 mills was certified in 2016 to Jefferson County for collection of \$582,824 in 2017.

This levy includes budgeted general property taxes of \$687,251, a temporary revenue reduction of **(\$105,049)** to protect the District's mill levy of 4.416 and an additional amount of \$622 for refunds and abatements. Specific ownership tax collected in 2017 was \$52,764. Property tax and specific ownership tax revenue is classified under General Government for the purposes of TABOR compliance.

Net position decreased over the course of the year by \$50,326 to a total of \$27,709,391 at December 31, 2017.

The District's capital assets net of accumulated depreciation at December 31, 2017, totaled \$12,729,397 which represents 46 percent of the District's total assets.

Total Operating Revenue increased from \$996,332 in 2016 to \$2,150,863 in 2017, or by approximately 116 percent, due to an increase in the sewer utility rate in accordance with the mitigation plan that addresses extraordinary fluctuations in sewage treatment charges (explanation follows).

Prior to 2013, the District smoothed the fees to maintain an even level of annual charges billed to customers, balancing out the variances between amounts paid to MWRD and amounts billed to customers over time.

Notification was received in 2016 that the annual sewage treatment charges to be billed by Metro Wastewater Reclamation District (MWRD) for 2017 were to be \$1,576,128 which represents a 63.70% increase over 2016. It was determined that the mitigation plan established in 2014 with its annual 20 percent increase in the rate per thousand gallons of winter water consumed by each customer and a 15 percent increase in the minimum bills each year would not be enough to cover the increase from MWRD for 2017 or to return any of the monies advanced from reserves from 2014 and 2015.

The Board of Directors decided at the November 14, 2016 meeting that the 2016 rate per thousand gallons of winter water consumed be doubled for 2017. This increase should be sufficient to collect the amount necessary to pay the 2017 MWRD annual charges of \$1,576,128 and begin to return \$803,643 borrowed from reserves in 2014 and 2015. To mitigate the significant increases in customer bills, the annual billing will be divided into four quarterly installments.

Sanitary sewer use fees of \$2,071,183 were billed in 2017 to cover annual sewage treatment charges of \$1,584,821 and related operations, maintenance and billing costs of \$193,548.

Investment income net of unrealized gains and losses income increased by \$56,561 from \$104,119 in 2016 to \$160,580 in 2017 due to changes in unrealized gains and losses from 2016. The overall effective rate of the return on investments increased from 1.415 percent at the end of 2016 to 1.621 percent by the end of 2017. Interest rates have slowly begun to recover from the 2007-2009 Great Recession.

Tap permit sales increased to \$33,376 for 2017 from \$5,025 in 2016. Tap sales and growth within the District has not been significant since 2009.

Expenses for operation and maintenance of public water and sanitary sewer systems increased from \$269,209 in 2016 to \$325,623 in 2017. The District has a proactive, predictive, planned and preventative program for operations, maintenance and repair of the public systems. The entire public water system and a third of the public sanitary sewer system are inspected annually. The total expenses for this activity can fluctuate from year to year, due to the age and condition of the public systems and the number of components in each of the program areas in the District.

Salaries, wages and contract services and associated payroll expenses for 2017 were \$380,617 which is approximately 17.4 percent lower than in 2016 due the District Manager's transition plan for retirement in 2017. These costs constitute approximately 14.6 percent of the District's \$2,591,094 Total Operating Expenses without depreciation for 2017.

2016 Financial Analysis

Cash, cash equivalents and investments of the District decreased from \$14,524,487 in 2015 to \$14,123,424 at December 31, 2016, representing approximately 51.2 percent of the District's total assets in 2016. This change includes a reduction in investment income as well as expenses paid from reserves for capital improvements made in accordance with the master plan.

Net position decreased 2.3 percent over the course of the year by \$643,009 to a total of \$26,759,717 at December 31, 2016.

The District's capital assets net of accumulated depreciation at December 31, 2016, totaled \$12,534,311 which represents 45.4 percent of the District's total assets. The District placed a temporary hold at the end of 2016 on the reinvestment of District's reserves to prepare for a significant increase in Metro Wastewater Reclamation District sewage treatment charges and to maintain a cash position to fund a large capital improvement sewer lining project scheduled for 2017.

Total Operating Revenue increased from \$861,419 in 2015 to \$996,332 in 2016, or by approximately 15.1 percent, due to an increase in the sewer utility rate in accordance with the mitigation plan that addresses extraordinary fluctuations in sewage treatment charges (explanation follows).

Prior to 2013, the District smoothed the fees to maintain an even level of annual charges billed to customers, balancing out the variances between amounts paid to MWRD and amounts billed to customers over time. The Board of Directors, at their regular meeting held on September 8, 2014, adopted a plan to mitigate the unexpectedly high 2014 sewage treatment charges of \$1,271,089 (which represented an increase of more than 120 percent of the prior year's charges) and to manage unpredictable future annual charges, smoothing the sewer utility fees charged to the District's customers, and eventually establishing an Assigned Reserves Account to cover the volatility of future sewage treatment charges, which became effective in 2014 and affected the 2015 and 2016 sewer utility billings. These increases are unexpected and unpredictable since neither the District's service area nor population had grown in the past several years. Implementation of the 2014 mitigation plan has included a 20 percent increase in the rate per thousand gallons of winter water consumed by each customer and a 15 percent increase in the minimum bills from 2015 for the 2016 annual sewer use fee billings.

Sanitary sewer use fees of \$991,929 were billed to the customers which covered the sewage treatment charges billed by MWRD and the cost of billing for 2016. No money was advanced from the District's reserve funds to cover 2016 annual sewage treatment charges of and related costs of billing totaling \$988,696. Sewage treatment charges paid to MWRD fluctuate from year to year. Even though the 2016 sewage treatment charges of \$962,840 billed by MWRD decreased by \$120,208, the increase in 2016 sewer use billing fees have repaid a small portion of the monies advanced from reserves in 2014 and 2015 in accordance with the mitigation plan.

Investment income net of unrealized gains and losses decreased from \$184,306 in 2015 to \$104,119 in 2016. The overall effective rate of the return on investments decreased from 1.535 percent at the end of 2015 to 1.415 percent by the end of 2016. The fixed income markets rates remain low when compared to rates before the December 2007 to June 2009 Great Recession.

Tap permit sales have been insignificant since 2009 as there has been minimal growth within the District.

Expenses for operation and maintenance of public water and sanitary sewer systems decreased slightly from 2015. The District has a proactive, predictive, planned and preventative program for operations, maintenance and repair of the public systems. The entire public water system and a third of the public sanitary sewer system are inspected annually. The total expenses for this activity can fluctuate

from year to year, due to the age and condition of the public systems and the number of components in each of the program areas in the District.

Salaries, wages and contract services for 2016 were \$334,193 which is approximately 17.1 percent higher than in 2015 due to cost of living/merit increases and the District Manager's transition plan for retirement in 2017. Payroll taxes and employee benefits increased 22 percent due to the transition plan for the District Manager's retirement in 2017 and other changes in District staff. These costs for salary, wages, payroll taxes and benefits constitute approximately 23.6 percent of the District's \$1,946,836 Total Operating Expenses. Administration costs, including payroll, commonly represent a significant portion of a Special District's costs of operation.

For more information about the changes in net position and the operating activities, please review the accompanying audited financial statements beginning on Page 1.

Analysis of the Schedule of Revenues, Expenditures and Changes in Funds Available—Budget and Actual (Budgetary Basis) — for Year Ended December 31, 2017 (Page 18)

Anticipated expenditures of \$6,873,704 were budgeted for 2017. In addition to the anticipated revenue of \$3,721,750, use of a reserves amount of \$3,151,954 was planned to realize budgeted expenses. Actual revenues of \$3,002,275 were under budget by \$719,475 and actual expenditures of \$3,247,687 were under budget by \$3,626,017. Actual use of reserves to realize budgeted expenses was \$245,412 which was under budget by \$2,906,542.

An amount of \$630,920 was used for 2017 capital water and sanitary sewer projects in accordance with the District's Master Plan. Capital funds are collected and reserved over time by the Water and Wastewater Activity Enterprise for replacement of capital water and sanitary sewer lines and other capital projects.

Approximately \$3.626 million of operating and capital expense budgets were not spent in 2017. There are several capital projects that are scheduled to be done when determined necessary, upon receipt of easements, or when the projects can be coordinated with other governmental entities. These projects are included in the capital budget each year in the event they can be accomplished. Since 1986, property owners in the KEMO Country Area (KEMO) have approached the District for public water and sanitary sewer services. Many of the properties in KEMO have been included in the District's official boundaries and have connected to the water system. Since there is no developer responsible for KEMO properties, property owners would be required to include each lot in the District, provide necessary easements, deposit full funding for any public line extensions, and sign a Supplemental Inclusion Agreement before public water or sanitary sewer service could be provided.

A notable difference between the 2017 official budget and actual expenses for legal fees that were expended for costs associated with forming a sub-committee task force to review completion costs for public water and sanitation service to the KEMO Country Area (KEMO). The purpose of the task force was to prepare a plan to take to KEMO community meetings to discuss options for the land owners to include their properties into the District, to grant the District the necessary easements, and to present alternative methods available to complete the construction of public water and sanitation lines. Two community meetings were held with property owners in the KEMO Country neighborhood. An inclusion election was held in October 2017 to ask property owners to include into the District so that water and sewer lines would be completed and the properties would be able to connect to public water and sanitary sewer at a time in the future that wells and septic systems failed. The inclusion election was unsuccessful. The results of the Inclusion Election are as follows:

25 Votes Against Inclusion 9 Votes For Inclusion

A notable difference between the 2017 official budget and actual amounts collected was an unrealized \$25,500 of tap fee revenue. Anticipated tap permit fee income was based on the sale of ten water and ten sanitary sewer tap permits. Although this is a conservative estimate, sales still fell short of the anticipated permit sales due to slow growth of construction within the District's boundaries.

Public water and sanitary sewer lines serving properties in the District are generally constructed by developers and contributed to the District. The District takes ownership upon acceptable completion of construction and inspection, followed by a warranty. No public water or sanitary sewer systems were constructed for contribution to the District in 2017.

Investment Income received of \$160,580 was lower than the budgeted amount of \$220,511 in 2017. This continuing decrease results from the condition of the fixed markets and investment securities being placed for maturity for different periods of time.

Significant Capital Asset Activity

	<u>2015</u>	<u>Changes</u>	<u>2016</u>	<u>Changes</u>	<u>2017</u>
Capital Assets					
Land and Land Improvements	156,578	-	156,578	-	156,578
Construction in Progress	36,168	30,887	67,055	630,920	697,975
Water System	12,710,026	140,955	12,850,981	-	12,850,981
Sewer System	7,633,886	12,703	7,646,589	-	7,646,589
Building and Improvements	665,830	-	665,830	-	665,830
Office Furniture, Fixtures and Equipment	- 92,130	- -	- 92,130	- -	- 92,130
Information Management Systems	488,774	21,239	510,013	-	510,013
Total Capital Assets	<u>21,783,392</u>	<u>205,784</u>	<u>21,989,176</u>	<u>630,920</u>	<u>22,620,096</u>
Accumulated Depreciation	<u>(9,021,137)</u>	<u>(433,728)</u>	<u>(9,454,865)</u>	<u>(435,834)</u>	<u>(9,890,699)</u>
Total Capital Assets, Net	<u><u>12,762,255</u></u>	<u><u>(227,944)</u></u>	<u><u>12,534,311</u></u>	<u><u>195,086</u></u>	<u><u>12,729,397</u></u>

For more information about capital asset activity, please review Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position in Note 1 of the Notes to Financial Statements beginning on Pages 5-6.

2017 Capital Asset Analysis

The District's inventory of public water and sanitary sewer systems and its Master Plan are in effect for projecting the time and costs for replacement of its infrastructure. In 2017, \$630,920 was spent for capital improvements to the existing public water and sanitary sewer systems and appurtenances thereto.

The District has identified sewer mains to be rehabilitated due to significant inflow and infiltration within four areas of the Westgate area. The District contracted with C&L Water Solutions and Guildner Pipeline Maintenance to perform the work. The project began in June 2017 and will be completed in 2018. Capital expenses for the project are identified as Construction in Progress as of December 31, 2017.

Public water and sanitary sewer lines serving properties in the District are generally constructed by developers and contributed to the District. The District takes ownership upon acceptable completion of construction and inspection, followed by a warranty period. The District then assumes responsibility for maintenance, repair and replacement of those lines. No public water or sanitary sewer systems were constructed for contribution to the District in 2017.

Depreciation of Assets

The District depreciates capital assets, excluding land and land improvements, using the straight-line method over various estimated useful lives. Please refer to the Notes to Financial Statements–Summary of Significant Accounting Policies–Capital Assets (Note 1, Page 6).

Long Term Debt

The District has no long-term debt as of December 31, 2017.

Known Present and Future Effects on District’s Financial Condition

District Manager Sandra M. Boster retired on January 31, 2017 after thirty years of service to the District. Jan C. Walker became the District Manager on January 1, 2017.

Bear Creek Water and Sanitation District is a water distributor of Denver Water under a Read and Bill Service Agreement (see Note 5, Page 15). In the past, the District has received no income from water sales to contribute towards the Operations and Maintenance of the water lines owned by the District. A Rates Study was performed in 2017 by Raftelis Financial Consultants to design water and sewer rates that produce sufficient revenue and equitably recover sewage treatment, billing charges and the cost of operations and maintenance of the water and sanitary sewer systems. As a result of the Rates Study, the consultants recommended that the District add a water surcharge to the Denver Water billing in order to pay for capital improvement projects and the operations and maintenance of the water system which is owned by the District. On November 13, 2017, the Bear Creek Water and Sanitation District Board of Directors voted unanimously to add a \$6.00 per single family residential equivalent (SFRE) water surcharge to the Denver Water monthly billing beginning on January 1, 2018. This surcharge is budgeted to collect \$263,000 in 2018. An Intergovernmental Agreement (IGA) was signed with Denver Water to collect the surcharge on behalf of Bear Creek Water and Sanitation District. This IGA was approved on December 13, 2017 by the Denver Board of Water Commissioners.

Notification was received in 2017 that the annual sewage treatment charges to be billed by Metro Wastewater Reclamation District (MWRD) for 2018 were to be \$668,516 which represents a 57.58% decrease from the 2017 sewage treatment charges of \$1,576,128. As a result of the 2017 Rates Study, Raftelis Financial Consultants recommended that the District increase sewer billing by 15% per year in order to pay for capital improvement projects and the operations and maintenance of the water and sanitary sewer systems. At the November 13, 2017 Board of Directors meeting, the Board decided that an increase of 8% to the 2018 sewer billing would be sufficient to pay MWRD sewer treatment charges, cost of billing, capital improvement projects and operations and maintenance costs for 2018. The 8% increase includes paying back the remaining funds that were advanced from reserves in 2014 and 2015.

General Property taxes are subject to a 5.5 percent statutory limit under Colorado Revised Statutes §29-1-301, as well as revenue and mill levy rate limitations under Article X, Section 20 of the Colorado State Constitution, known as the Taxpayers’ Bill of Rights (TABOR) Amendment. The most restrictive of those three limitations is applicable to property tax and General Government spending.

TABOR also limits administrative expenses and the amount of local, state and federal grants received by enterprises.

Upon the passage of TABOR and under the enterprise provisions of TABOR and Colorado Revised Statutes §37-45.1 (aka, Senate Bill 93-130), the Board of Directors declared a Water and Wastewater Activity Enterprise as one of two classes of TABOR accounts in the District's single fund accounting system. The Water and Wastewater Enterprise class is generally exempt from TABOR.

An ad valorem property tax is levied on the assessed valuation of real and personal property within the District. Upon the 2017 assessed valuation of \$175,619,692, a total net mill levy rate of 3.860 mills was certified in 2017 to Jefferson County for collection of \$677,816 in 2018. This levy includes general property taxes, a temporary revenue reduction of **(\$98,081)** and an additional amount of \$361 for refunds and abatements. The most restrictive TABOR limit on 2018 property taxes was the statutory 5.5% limit which changes the rate and revenue based on a growth and consumer price index from the previous year. In order to protect the District's 4.416 mill levy rate, a revenue reduction in the amount of **(\$98,081)** has been certified for 2017, temporarily reducing the general mill levy rate to 3.860. Property tax revenue is classified under General Government for the purposes of TABOR compliance.

Property taxes have been affected by the 1982 Gallagher Amendment which limits the property tax burden to 45 percent for residential and 55 percent for commercial or industrial property. The District is comprised of mostly residential property. The residential assessment rate is adjusted during years of reappraisal to maintain a consistent ratio between the total statewide assessed values of residential and non-residential property. The Property Tax Administrator is responsible for performing the residential assessment rate study, § 39-1-104.2(4), C.R.S. The General Assembly adjusts the residential assessment rate based on the findings of the study conducted by the Property Tax Administrator.

The combination of the TABOR and Gallagher Amendments has affected a slow but steady spiraling down of the increases needed in general property taxes and has impacted the District's need to increase its fees and charges for the operations and maintenance of its water and sanitary sewer systems.

Request for Information

This financial report is designed to provide a general overview of the Bear Creek Water and Sanitation District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the attention of Jan C. Walker, District Manager, Bear Creek Water and Sanitation District at 2517 South Flower Street, Lakewood, CO 80227-2912 or by Email to bearcreekwater@bearcreekwater.org. General information about the District is available at the Bear Creek Water and Sanitation District Website <http://www.bearcreekwater.org/>.

**Prepared by: Jan C. Walker,
District Manager and Secretary, Board of Directors
Bear Creek Water and Sanitation District
2517 South Flower Street
Lakewood, CO 80227-2912
janwalker@bearcreekwater.org**

**OUR MISSION IS TO PROVIDE PUBLIC WATER AND SANITARY SEWER SERVICES TO THE TAXPAYERS AND RATEPAYERS
OF BEAR CREEK WATER AND SANITATION DISTRICT IN A SAFE, EFFICIENT, COST-EFFECTIVE AND SUSTAINABLE MANNER,
WHILE MEETING ALL STATUTORY AND REGULATORY REQUIREMENTS.**

BASIC FINANCIAL STATEMENTS

BEAR CREEK WATER AND SANITATION DISTRICT
Statements of Net Position
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,326,989	\$ 1,457,255
Accounts receivable	584,952	22,657
Property taxes receivable	677,816	586,745
Accrued interest receivable	28,070	29,270
Prepaid expenses	1,361	8,361
Deposits and investments	2,238,322	1,299,514
Total current assets	<u>5,857,510</u>	<u>3,403,802</u>
Noncurrent assets:		
Deposits and investments	8,863,183	11,366,655
Prepaid conduit participation fees	243,984	247,572
Capital assets:		
Capital assets, not being depreciated	854,553	223,633
Capital assets, being depreciated, net	11,874,844	12,310,678
Total capital assets	<u>12,729,397</u>	<u>12,534,311</u>
Total noncurrent assets	<u>21,836,564</u>	<u>24,148,538</u>
Total assets	<u>27,694,074</u>	<u>27,552,340</u>
Liabilities:		
Current liabilities:		
Accounts payable and accrued expenses	166,878	73,054
Noncurrent liabilities:		
Deposits held for future capital projects	83,418	81,674
Imprest and KEMO projects held	56,571	55,071
Total noncurrent liabilities	<u>139,989</u>	<u>136,745</u>
Total liabilities	<u>306,867</u>	<u>209,799</u>
Deferred Inflows of Resources:		
Deferred property taxes	677,816	582,824
Net position:		
Net investment in capital assets	12,729,397	12,534,311
Restricted	26,100	26,100
Unrestricted	13,953,894	14,199,306
Total net position	<u>\$ 26,709,391</u>	<u>\$ 26,759,717</u>

The accompanying notes are an integral part of these statements.

BEAR CREEK WATER AND SANITATION DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Service fees	\$ 2,071,183	\$ 991,929
Fees and permits	11,822	1,148
Reimbursements	67,858	3,255
Total operating revenues	2,150,863	996,332
Operating expenses:		
Sewage treatment	1,584,821	969,372
Repairs and maintenance - water and sewer systems	325,623	269,209
Repairs and maintenance - buildings and grounds	10,275	13,469
Salaries, wages and contract services	254,097	334,193
Payroll taxes and employee benefits	126,520	126,801
Engineering	98,211	83,810
Conferences, training, and public relations	14,070	17,382
Legal	26,499	12,280
Memberships, dues, and miscellaneous	8,552	9,729
Election	11,259	505
Bank service charges	8,115	17,879
Insurance	14,456	14,321
Telephone and utilities	15,135	15,374
Office supplies and expenses	21,593	24,558
Directors' fees	7,800	6,900
Audit expense	8,275	8,002
Billing expense	30,737	19,324
Reimbursable expenses	25,056	3,728
Total operating expenses	2,591,094	1,946,836
Operating loss before depreciation	(440,231)	(950,504)
Depreciation	435,834	433,729
Net loss from operations	(876,065)	(1,384,233)
Non-operating revenues (expenses):		
Property taxes and specific ownership taxes	636,356	641,019
Net investment income	160,580	104,119
County treasurer's fees	(8,793)	(8,939)
Loss on disposal of capital assets	-	-
Connection fees - MWRD/Lakehurst	21,100	4,220
Reimbursements - MWRD/Lakehurst	(16,880)	(4,220)
Total non-operating revenues (expenses)	792,363	736,199
Loss before capital contributions	(83,702)	(648,034)
Capital Contributions:		
Tap fees	33,376	5,025
Change in net position	(50,326)	(643,009)
Net position, beginning of year	26,759,717	27,402,726
Net position, end of year	\$ 26,709,391	\$ 26,759,717

The accompanying notes are an integral part of these statements.

BEAR CREEK WATER AND SANITATION DISTRICT
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from customers	\$ 1,588,568	\$ 992,643
Cash paid to suppliers of goods and services	(2,112,393)	(1,467,272)
Cash paid to employees	(377,877)	(458,472)
Net cash used in operating activities	<u>(901,702)</u>	<u>(933,101)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(630,920)	(205,784)
Prepaid conduit participation fees reimbursed	3,588	598
Acquisition of deposits held	1,500	-
Tap and participation fees collected	37,596	5,025
Net cash used in capital and related financing activities	<u>(588,236)</u>	<u>(200,161)</u>
Cash flows from non-capital financing activities:		
Property taxes and specific ownership taxes received	640,277	641,248
County treasurer's fees	(8,793)	(8,939)
Net cash provided by non-capital financing activities	<u>631,484</u>	<u>632,309</u>
Cash flows from investing activities:		
Purchases of investments	-	(6,832,072)
Maturity of investments	1,549,146	7,396,243
Interest received	179,042	195,067
Net cash provided by investing activities	<u>1,728,188</u>	<u>759,238</u>
Net increase in cash and cash equivalents	869,734	258,285
Cash and cash equivalents, beginning of year	1,457,255	1,198,970
Cash and cash equivalents, end of year	<u>\$ 2,326,989</u>	<u>\$ 1,457,255</u>
Reconciliation of operating loss to net cash used in operations		
Net loss from operations	<u>\$ (876,065)</u>	<u>\$ (1,384,233)</u>
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	435,834	433,729
(Increase) decrease in:		
Receivables	(562,295)	(3,689)
Prepaid expenses	7,000	(278)
(Decrease) increase in:		
Accounts payable and accrued expenses	93,824	21,370
Total adjustments	<u>(25,637)</u>	<u>451,132</u>
Net cash used in operating activities	<u>\$ (901,702)</u>	<u>\$ (933,101)</u>
Noncash investing activities:		
Fair value decrease in investments	<u>\$ (15,518)</u>	<u>\$ (95,176)</u>

The accompanying notes are an integral part of these statements.

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Bear Creek Water and Sanitation District, Jefferson County, Colorado, (the "District"), conform to accounting principles generally accepted in the United States of America (US GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies consistently applied in the preparation of the accompanying financial statements.

Reporting Entity

The District was created on August 2, 1962 as a quasi-municipal corporation and political subdivision of the State of Colorado and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado. The District's purpose is to provide public water and sanitary sewer services to the citizens of the District. The District's primary revenues are property taxes, investment income and sewage treatment service fees. The District is governed by an elected Board of Directors and managed by a full-time District Manager.

The District complies with GASB 61, "*The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*" and GASB Statement No. 39, "*Determining Whether Certain Organizations Are Component Units*". These statements establish standards for defining and reporting on the financial reporting entity. It defines component units as legally separate entities for which the officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

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

At December 31, 2017 and 2016, the District had no authorized but unissued debt.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. Enterprise funds are used by governments to report any activity for which a fee is charged to external users for goods or services.

1. **Summary of Significant Accounting Policies (continued)**

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The District distinguishes *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services in connection with an enterprise fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for the District include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions. Tap fees and contributed assets from developers are recorded as capital contributions when received.

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments

Investments are reported at fair value and are classified as current or non-current based on their maturity date.

Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The District categorizes its fair value 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 market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Receivables

Accounts receivable consists primarily of sewer user fees earned at December 31, 2017 and 2016. The District considers all receivables collectible at December 31, 2017 and 2016, and therefore no allowance has been recorded.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

1. **Summary of Significant Accounting Policies (continued)**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position
(continued)**

Capital Assets

Capital assets are defined by the District as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. Capital expenditures for projects are capitalized as constructed. 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. The District has recorded purchased capacity, which are water lines purchased or constructed by the District that are the property of the Denver Water Board, but in which the District has capacity.

Capital assets, excluding land and land improvements, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water system	50
Sewer system	50
Buildings and improvements	20-40
Office furniture, fixtures and equipment	5-10
Information management systems	10-50

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In 2017 and 2016, the District did not have any items in this reporting category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as inflow of resources (revenue) until that time frame. The District has only one type of item that qualifies for reporting in this category, *deferred property taxes*. This amount is deferred and recognized as an inflow of resources in the period the amount is collected.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires District management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position (continued)

Net Position

The District classifies net position into three components:

- Net position invested in capital assets – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position - consists of assets that are restricted by the District's creditors, by state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted net position – all remaining items of net position are reported in this category.

Tap Fees and Contributed Lines

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair market value when received.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is 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 Commissioner 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 July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District. No provision has been made for uncollected taxes, as all taxes are deemed collectible.

Property taxes are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. These amounts are recorded as revenue in the subsequent year when they are collected.

Reclassifications

Certain amounts have been reclassified in the prior year for comparative purposes.

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

2. Stewardship, Compliance and Accountability

Budgetary Information

The District's budget is adopted on a basis consistent with generally accepted accounting principles (US GAAP) with the following exceptions: depreciation expense is not budgeted, and capital outlays are treated as expenses for budget purposes. State law requires the District to adopt annual appropriated budgets for all funds.

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

Prior to October 15 of each year the District Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing the following January 1 to the Board of Directors (elected officials). The operating budget, for the fund, includes proposed expenses and the means of financing them.

After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopts the proposed budget and an appropriating resolution, which legally appropriates expenditures for the upcoming year.

After adoption of the budget resolution, the District may make the following changes: (a) it may transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) it may approve supplemental appropriations to the extent of revenues in excess of the estimated revenues in the budget; (c) it may approve emergency appropriations; and (d) it may approve the reduction of appropriations for which originally estimated revenues are insufficient. The budget is only amended in conformity with Colorado Revised Statutes which allows the District to amend the budget and adopt a supplementary appropriation if money for a specific purpose, other than ad valorem taxes, becomes available to meet a contingency.

3. Detailed Notes Concerning the Fund

Cash and Investments

Cash and investments are classified in the accompanying financial statements as follows at December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents	\$ 2,326,989	\$ 1,457,255
Current assets:		
Certificates of deposit	1,090,275	1,299,514
U.S. Government Obligations and GSEs	1,148,047	--
Total current	<u>2,238,322</u>	<u>1,299,514</u>
Noncurrent assets:		
Certificates of deposit	2,502,326	3,596,677
U.S. Government Obligations and GSEs	6,360,857	7,769,978
Total non-current	<u>8,863,183</u>	<u>11,366,655</u>
Total cash and investments	<u>\$ 13,428,494</u>	<u>\$ 14,123,424</u>

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

3. Detailed Notes Concerning the Fund (continued)

Cash and Investments (continued)

Cash and investments consist of the following at December 31, 2017 and 2016:

	2017	2016
Deposits with financial institutions	\$ 4,274,948	\$ 5,159,262
Investments	9,153,546	8,964,162
	<u>\$ 13,428,494</u>	<u>\$ 14,123,424</u>

Custodial Credit Risk: The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be 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 and reporting of the uninsured deposits and assets maintained in the collateral pools.

None of the District's deposits were exposed to custodial credit risk.

Credit Risk: The District has adopted a formal investment policy, which is more restrictive than the Colorado Revised Statutes, that specifies investment instruments meeting defined rating and risk criteria in which the District may invest. The allowed investment instruments may include:

- United States Obligations – Treasury notes, bills and bonds
- Government-Sponsored Agencies (GSEs) – Federal Farm Credit Bureau, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association
- Interest-bearing accounts
- Certificates of deposit in Colorado PDPA approved banks or savings banks (for financial reporting purposes these are included in deposits)
- Negotiable certificates of deposit (for financial reporting purposes these are included in investments)
- Colorado Local Government Liquid Asset Fund (COLOTRUST) Prime Account

At December 31, 2017 and 2016, the District's investments in GSEs and U.S. Obligations were rated AA+ by Standard and Poor's. The District's negotiable certificates of deposit were unrated. The investments in U.S. Obligations (U.S. Treasury Notes) are categorized as Level 1 investments and are valued using quoted market prices. The investments in GSEs and negotiable certificates of deposit are categorized as Level 2 investments and are valued using a matrix pricing technique.

3. **Detailed Notes Concerning the Fund (continued)**

Cash and Investments (continued)

At December 31, 2017 and 2016, the District had invested \$1,004,048 and \$0, respectively in the Colorado Local Government Liquid Asset Trust (COLOTRUST), a local government investment vehicle established for local governmental entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating COLOTRUST. Investments of COLOTRUST are limited to those allowed by State statutes. Purchases and redemptions are available daily at a net asset value (NAV) of \$1.00. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by participating governments. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method and therefore has been classified as cash and cash equivalents in the Statement of Net Position. There are no unfunded commitments and there is no redemption notice period. At December 31, 2017, COLOTRUST had a Standard and Poor's rating of AAAM.

Interest Rate Risk: The District's investment policy specifies that the maturity for any investment shall be consistent with the non-cash requirements of the District, except for liquid investments for which the average duration shall not exceed three years and the maximum duration shall not exceed five years. In addition to liquid investments, time deposit investments and obligations of the U.S. Government shall be laddered to ensure regular flow of maturing proceeds each month.

Concentration of Credit Risk: The District's policy regarding the concentration of credit risk limits the District from investing more than 40% of its portfolio in government-sponsored agencies or more than \$750,000 in high yield public fund interest bearing accounts. Investments in U.S. Treasury Obligations, certificates of deposit, and COLOTRUST are not limited. GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (GASB 40) requires the District to disclose investments in single issuers that exceed five percent (5%) of the District's entire investment portfolio.

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

3. Detailed Notes Concerning the Fund (continued)

Cash and Investments (continued)

The District had the following cash and investment portfolio at December 31, 2017 and 2016:

Cash or Investment Type	2017		2016	
	Fair Value	% of Total Portfolio Held	Fair Value	% of Total Portfolio Held
Deposits	\$ 1,322,941	9.9%	\$ 1,457,255	10.3%
COLOTRUST	1,004,048	7.5%	—	0.0%
Certificates of Deposit	2,952,007	22.0%	3,702,007	26.2%
Certificates of Deposit - negotiable	640,594	4.8%	1,194,184	8.5%
US Treasury Notes	2,528,735	18.8%	2,544,109	18.0%
GSEs:				
Federal Farm Credit Bank	737,652	5.5%	739,466	5.2%
Federal Home Loan Bank	734,481	5.4%	734,834	5.2%
Federal Natl Mortgage Association	3,266,389	24.4%	3,262,249	23.1%
Federal Home Loan Mortgage Corp	241,647	1.8%	489,320	3.5%
Total GSEs	4,980,169	37.1%	5,225,869	37.0%
Total portfolio	\$ 13,428,494	100.0%	\$ 14,123,424	100.0%

The District held the following investments and concentrations as defined by GASB 40 at December 31, 2017:

Investment Type	Maturities			Total Fair Value	% of Total Portfolio Held
	Less Than 1 Year	1-3 Years	3-5 Years		
Certificates of Deposit - negotiable	\$ 395,275	\$ 245,319	\$ —	\$ 640,594	7.0%
COLOTRUST	1,004,048	--	--	1,004,048	11.0%
US Treasury Notes	398,966	2,129,769	--	2,528,735	27.6%
Federal Farm Credit Bank	--	737,652	--	737,652	8.1%
Federal Home Loan Bank	249,648	484,833	--	734,481	8.0%
Federal Natl Mortgage Assoc	499,433	2,766,956	--	3,266,389	35.7%
Federal Home Loan Mortgage Corp	—	241,647	—	241,647	2.6%
	\$ 2,547,370	\$ 6,606,176	\$ —	\$ 9,153,546	100.0%

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

3. Detailed Notes Concerning the Fund (continued)

Cash and Investments (continued)

The District held the following investments and concentrations as defined by GASB 40 at December 31, 2016:

Investment Type	Maturities			Total Fair Value	% of Total Portfolio Held
	Less Than 1 Year	1-3 Years	3-5 Years		
Certificates of Deposit - negotiable	\$ 549,514	\$ 644,670	\$ --	\$ 1,194,184	13.3%
US Treasury Notes	--	2,098,642	445,467	2,544,109	28.4%
Federal Farm Credit Bank	--	248,536	490,930	739,466	8.2%
Federal Home Loan Bank	--	250,569	484,265	734,834	8.2%
Federal Natl Mortgage Assoc	--	1,233,518	2,028,731	3,262,249	36.4%
Federal Home Loan Mortgage Corp	--	247,723	241,597	489,320	5.5%
	<u>\$ 549,514</u>	<u>\$ 4,723,658</u>	<u>\$ 3,690,990</u>	<u>\$ 8,964,162</u>	<u>100.0%</u>

Capital Assets

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance, December 31, 2016	Additions	Deletions	Balance, December 31, 2017
Capital assets not being depreciated:				
Land and land improvements	\$ 156,578	\$ --	\$ --	\$ 156,578
Construction in progress	67,055	630,920	--	697,975
Total capital assets, not being depreciated	<u>223,633</u>	<u>630,920</u>	<u>--</u>	<u>854,553</u>
Capital assets being depreciated:				
Water system	12,850,981	--	--	12,850,981
Sewer system	7,646,590	--	--	7,646,590
Building and improvements	665,830	--	--	665,830
Office furniture, fixtures and equipment	92,130	--	--	92,130
Information management systems	510,013	--	--	510,013
	<u>21,765,544</u>	<u>--</u>	<u>--</u>	<u>21,765,544</u>
Less accumulated depreciation for:				
Water system	(5,679,301)	(254,497)	--	(5,933,798)
Sewer system	(3,320,843)	(149,768)	--	(3,470,611)
Building and improvements	(200,463)	(16,055)	--	(216,518)
Office furniture, fixtures and equipment	(55,639)	(8,366)	--	(64,005)
Information management systems	(198,620)	(7,148)	--	(205,768)
	<u>(9,454,866)</u>	<u>(435,834)</u>	<u>--</u>	<u>(9,890,700)</u>
Total capital assets being depreciated, net	<u>12,310,678</u>	<u>(435,834)</u>	<u>--</u>	<u>11,874,844</u>
Total capital assets, net	\$ <u>12,534,311</u>	\$ <u>195,086</u>	\$ <u>--</u>	\$ <u>12,729,397</u>

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

3. Detailed Notes Concerning the Fund (continued)

Capital Assets (continued)

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Balance, December 31, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, December 31, 2016</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 156,578	\$ --	\$ --	\$ 156,578
Construction in progress	36,168	30,887	--	67,055
Total capital assets, not being depreciated	<u>192,746</u>	<u>30,887</u>	<u>--</u>	<u>223,633</u>
Capital assets being depreciated:				
Water system	12,710,026	140,955	--	12,850,981
Sewer system	7,633,886	12,704	--	7,646,590
Building and improvements	665,830	--	--	665,830
Office furniture, fixtures and equipment	92,130	--	--	92,130
Information management systems	488,774	21,239	--	510,013
	<u>21,590,646</u>	<u>174,898</u>	<u>--</u>	<u>21,765,544</u>
Less accumulated depreciation for:				
Water system	(5,426,760)	(252,541)	--	(5,679,301)
Sewer system	(3,170,799)	(150,044)	--	(3,320,843)
Building and improvements	(184,408)	(16,055)	--	(200,463)
Office furniture, fixtures and equipment	(47,273)	(8,366)	--	(55,639)
Information management systems	(191,897)	(6,723)	--	(198,620)
	<u>(9,021,137)</u>	<u>(433,729)</u>	<u>--</u>	<u>(9,454,866)</u>
Total capital assets being depreciated, net	<u>12,569,509</u>	<u>(258,831)</u>	<u>--</u>	<u>12,310,678</u>
Total capital assets, net	\$ <u>12,762,255</u>	\$ <u>(227,944)</u>	\$ <u>--</u>	\$ <u>12,534,311</u>

Net Position

Restricted net position includes amounts 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 restricted net position of \$26,100 for each year at December 31, 2017 and 2016, as required by Article X, Section 20 of the Constitution of the State of Colorado (See Note 4).

4. Other Information

Retirement Plan

The District participates in the Colorado County Officials and Employees Retirement Association's (CCOERA) two retirement plans: a 401(a) defined contribution plan (401a plan) and a 457 deferred compensation plan (457 plan). For both plans, all employees are qualified unless the employee customarily works less than twenty hours a week or less than five months in any calendar year. Employees are eligible to participate upon date of hire.

401a plan

The 401a plan is a defined contribution money purchase pension plan which requires that each employee contribute 6% of compensation. The District is required to match that contribution each year. Employee contributions are 100% vested while the District's contributions for each employee (and earnings allocated to these contributions) are vested 20% for each twelve full months of participation in the plan. District contributions for, and earnings forfeited by, employees who leave employment prior to full vesting are used to reduce the District's subsequent contributions requirements.

Voluntary after-tax contributions by the employee are allowed up to a maximum of 100% of compensation, subject to the annual 401a limit. For 2017, employee-required and voluntary contributions cannot exceed the lesser of \$54,000 or 100% of gross compensation. During the years ended December 31, 2017 and 2016, the District contributed \$15,501 and \$19,800, respectively.

457 plan

The 457 plan is an employer-sponsored retirement plan that allows employees to defer receiving a portion of their current compensation until retirement or separation from service. Employees may defer up to 100% of their gross compensation, not to exceed a maximum annual dollar limit which was \$18,000 in 2017. The District currently matches employee contributions up to 3%. Employees are immediately vested in both the District's contributions as well as their own. At December 31, 2017 and 2016, the District had five and six employees, respectively, participating in the plan. During the years ended December 31, 2017 and 2016, the District contributed \$7,750 and \$9,897, respectively.

Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; and natural disasters for which the District carries commercial insurance.

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the "Pool") which is sponsored by the Special District Association of Colorado. The Pool is an organization created by an intergovernmental agreement to provide property, liability, public official's 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.

4. Other Information (continued)

Risk Management (continued)

The District pays annual premiums to the Pool for property, general liability, public official's liability coverage and workers compensation coverage. Members of the Pool may be required to make additional surplus contributions in the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool. 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. No distributions were made during the years ended December 31, 2017 and 2016.

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, and revenue and debt limitations which apply to the State of Colorado and all local governments. 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 increase with certain exceptions. Revenue in excess of the "fiscal year spending" limit must be refunded unless the voters approve retention of such revenue.

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 established a Water and Wastewater Activity Enterprise in 1993, which conducts the business of water and sanitary sewer operations and invests and reinvests the District's reserve funds.

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 emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR, based upon its interpretation of the Amendment's language. 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 review.

5. Commitments and Contingencies

Service Contract - Metro Wastewater Reclamation District (MWRD)

The District has an agreement with MWRD for final treatment and disposal of the District's sewage. The agreement provides for annual estimated charges that are assessed through the application of a predetermined formula. Adjustments to the estimated charge will be based on meter flows, content, and actual costs. The adjustments are billed or credited to the District during the two succeeding years. The District retains responsibility for the maintenance and future construction costs of all public sanitary sewer lines and retains title to all public sanitary sewer lines in the District.

The composition of the charges included in sewage treatment is as follows:

	2017	2016
Estimate for current year	\$ 1,114,114	\$ 981,567
Adjustments (positive) negative:		
Final second preceding year estimate to actual	220,526	(13,179)
Preliminary preceding year estimate to actual	241,488	(5,548)
Total annual charges	<u>\$ 1,576,128</u>	<u>\$ 962,840</u>

The 2018 sewage treatment estimate is \$1,017,552. The total net annual charge for 2018 is expected to be \$668,516 which includes a favorable 2016 final adjustment of \$238,828 and a favorable 2017 preliminary adjustment of \$110,208.

In addition, the District collects MWRD tap connection fees for new connections, which are remitted to MWRD quarterly. For the years ended, December 31, 2017 and 2016, the tap connection fees were \$21,100 and \$4,220, respectively.

Service Contract - Denver Board of Water Commissioners (DBWC)

The District has a water service agreement with DBWC. Under this agreement, DBWC provides water services to the District's citizens. Water services include meter reading, billing, and collections. These amounts are not reflected in the financial statements for the years ended December 31, 2017 and 2016.

The District retains title and responsibility for the maintenance and future construction costs of all public water distribution lines in the District. Also, the District has reserved capacity in lines owned by DBWC, either purchased from or constructed and contributed to DBWC by the District.

On November 13, 2017, the Bear Creek Water and Sanitation District Board of Directors voted unanimously to add a \$6.00 per single family residential equivalent (SFRE) water surcharge to the Denver Water monthly billing to pay for capital improvement projects and the operations and maintenance of the water system which is owned by the District. An Intergovernmental Agreement (IGA) was signed with Denver Water to collect the surcharge on behalf of Bear Creek Water and Sanitation District. This IGA was approved on December 13, 2017 by the Denver Board of Water Commissioners. The monthly surcharge will be collected on the Denver Water billing beginning January 1, 2018.

BEAR CREEK WATER AND SANITATION DISTRICT
Notes to Financial Statements
December 31, 2017 and 2016

5. Commitments and Contingencies (continued)

Prepaid Water Participation Fees

During 2001, the District paid \$418,600 to Denver Water for participation charges as provided by a Conduit Participation Agreement. Prepayment of the participation charges secured an additional 700 single family residential equivalent water tap capacity without having to participate in construction of additional facilities. During 2017 and 2016, \$3,588 and \$598, respectively, was collected which reduced the prepaid asset to \$243,984 and \$247,572, respectively.

Future Replacements and Resources

The District is accumulating funds to replace the public water and sanitary sewer lines and develop future water resources to preserve the future of the District. The Board projects that the District will need all unexpended reserves for these purposes. The funds are not restricted or set aside in any manner and are available for the general use of the District.

During the year ended December 31, 2017, MWRD costs did not exceed billings and the District was able to replenish a portion of the reserves, \$390,043. During the year ended December 31, 2016, the District used \$0 of these reserves to cover the significant increases in the MWRD contract that was not covered by customers' billings. The District will continue to monitor MWRD costs; in years when costs exceed billings, the District will continue to cover the costs with its reserves. However, in years when billings exceed costs, the District's intent is to replenish these reserves.

The cumulative amount of unrestricted reserves used to cover MWRD costs are as follows:

Amount used, 2014	\$	575,720
Amount used, 2015		250,872
Amount used, 2016		--
Amount replenished, 2017		<u>(390,043)</u>
Total unrestricted reserves used as of December 31, 2017	\$	<u>436,549</u>

OTHER SUPPLEMENTAL INFORMATION

BEAR CREEK WATER AND SANITATION DISTRICT
Schedule of Revenues, Expenditures and Changes in Funds Available - Budget
and Actual (Budgetary Basis)
For the Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:			
Service fees	\$ 1,973,095	\$ 2,071,183	\$ 98,088
Property taxes and specific ownership taxes	622,824	636,356	13,532
Net investment income	220,511	160,580	(59,931)
Fees and permits	5,040	11,822	6,782
KEMO construction and supplementary fees	561,800	-	(561,800)
Reimbursements	24,000	67,858	43,858
Connection fees - MWRD/Lakehurst	46,600	21,100	(25,500)
Tap fees	51,880	33,376	(18,504)
Developer contributions	216,000	-	(216,000)
Total Revenues	3,721,750	3,002,275	(719,475)
Expenditures:			
Sewage treatment	1,586,028	1,584,821	1,207
Repairs and maintenance - water and sewer systems	400,000	325,623	74,377
Repairs and maintenance - buildings and grounds	16,000	10,275	5,725
Salaries, wages and contract services	263,000	254,097	8,903
Payroll taxes and employee benefits	121,000	126,520	(5,520)
Engineering	189,700	98,211	91,489
Conferences, training, and public relations	33,000	14,070	18,930
Legal	15,050	26,499	(11,449)
Memberships, dues, and miscellaneous	11,400	8,552	2,848
Election expense	10,000	11,259	(1,259)
Bank service charges	15,040	8,115	6,925
Insurance	15,000	14,456	544
Telephone and utilities	15,180	15,135	45
Office supplies and expenses	27,000	21,593	5,407
Directors' fees	8,000	7,800	200
Audit expense	9,000	8,275	725
Billing expense	25,000	30,737	(5,737)
Reimbursable expenditures	24,000	25,056	(1,056)
County treasurer's fees	9,000	8,793	207
MWRD/Lakehurst tap fees paid	46,600	16,880	29,720
Capital outlay:			
Building and grounds improvements	5,000	-	5,000
Water capital improvements	221,330	-	221,330
Sewer capital improvements	202,380	-	202,380
Engineering and special studies	653,665	-	653,665
General water and sewer	2,391,650	630,920	1,760,730
KEMO capital and engineering	535,800	-	535,800
TABOR contingency	24,881	-	24,881
Total Expenditures	6,873,704	3,247,687	3,626,017
Revenues (under) expenditures	\$ (3,151,954)	\$ (245,412)	\$ 2,906,542
Funds Available, Beginning of Year	8,529,818	14,225,407	5,695,589
Funds Available, End of Year	\$ 5,377,864	\$ 13,979,995	\$ 8,602,131
Funds available is computed as follows:			
Current assets		\$ 5,857,510	
Noncurrent assets, excluding capital assets		9,107,168	
Current liabilities		(166,878)	
Noncurrent liabilities		(139,989)	
Deferred inflows of resources		(677,816)	
		\$ 13,979,995	

The accompanying notes are an integral part of these statements.

BEAR CREEK WATER AND SANITATION DISTRICT
Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes
in Net Position
For the Year Ended December 31, 2017

Revenue (budgetary basis)	\$ 3,002,275
Revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>3,002,275</u>
Expenditures (budgetary basis)	3,247,687
Depreciation	435,834
Loss on disposal of capital assets	-
Capital outlay	<u>(630,920)</u>
Expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>3,052,601</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$ (50,326)</u></u>

The accompanying notes are an integral part of these statements.