

**Cherry Creek Valley
Water and Sanitation District**

Annual Financial Report

December 31, 2017 and 2016



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Office of the State Auditor

June 27, 2018

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**Haynie &
Company**

Certified Public Accountants (a professional corporation)

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Independent Auditor's Report

Members of the Board of Directors
Cherry Creek Valley Water & Sanitation District
Arapahoe County, Colorado

We have audited the accompanying financial statements of the business-type activities of Cherry Creek Valley Water & Sanitation 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Cherry Creek Valley Water & Sanitation District, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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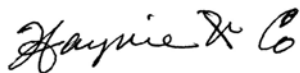
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 opinions on the financial statements that collectively comprise Cherry Creek Valley Water & Sanitation District's financial statements as a whole. The supplementary information sections are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information as listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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.



Littleton, Colorado
June 21, 2018

Cherry Creek Valley Water & Sanitation District Management's Discussion and Analysis

This discussion and analysis (MD&A) of Cherry Creek Valley Water and Sanitation District's financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2017 and 2016. The MD&A should be read in conjunction with the District's financial statements.

Management has adopted the provisions of the Governmental Accounting Standards Board Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and other related statements as required for the years ended December 31, 2017 and 2016.

Financial Highlights

The activities that had a major impact on the District are as follows:

- Service fee revenue decreased 2% during 2017 and increased 9% during 2016.
- Investment income increased by 319% during 2017 and decreased by 72% during 2016. Investments are recorded at fair market value and include unrealized gains and losses. Therefore investment income in any given year reflect both actual and unrealized gains and losses. The District normally holds all investments to maturity.

Overview of the Financial Statements

The financial statements of the District are presented as a special purpose government engaged only in business type activities – providing water and sewer services.

The **Statements of Net Position** present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Non-financial factors should also be considered to assess the overall position of the District.

The **Statements of Revenues, Expenses and Changes in Fund Net Position** report the changes that have occurred during the year to the District's net position. All changes in the 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 the statements for some items that will only result in cash flows in future fiscal periods.

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

Financial Summary and Analysis

These financial statements distinguish functions of the District that will be principally supported by service charges. The functions of the District include effective and economical operation of District systems within the jurisdictional boundaries of the District. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

December 31,	2017	2016
ASSETS		
Current assets	\$ 37,905,021	\$ 37,371,883
Capital assets	<u>13,778,305</u>	<u>13,495,272</u>
Total assets	<u>51,683,326</u>	<u>50,867,155</u>
LIABILITIES		
Current liabilities	491,814	137,715
Long-term liabilities	<u>94,141</u>	<u>82,772</u>
Total liabilities	<u>585,955</u>	<u>220,487</u>
NET POSITION		
Invested in capital assets, net of related debt	13,778,305	13,495,272
Unrestricted	<u>37,319,066</u>	<u>37,151,396</u>
	<u>\$ 51,097,371</u>	<u>\$ 50,646,668</u>

A large portion of the District's net position reflects its investment in capital assets. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Overall the District's total net position increased by \$450,703 during 2017 and by \$857,020 during 2016.

As of December 31, 2017, capital assets increased by \$283,033, primarily as a result of capital asset additions, partially offset by the depreciation of existing assets. As of December 31, 2016 capital assets increased by \$681,327, primarily as a result of capital asset additions, partially offset by the depreciation of existing assets.

Total money market and investment accounts, which reflect total account balances held at two separate investment banks, increased \$637,526 as a result of both realized and unrealized gains and losses.

An increase of \$354,099 in current liabilities as of December 31, 2017 and decrease of \$170,214 in current liabilities as of December 31, 2016 consisted of changes in accounts payable, retirement contributions payable and deposits during the respective years.

Long term liabilities consist of the accrual for compensated absences (accumulated sick leave) which increased during 2017 and 2016.

CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
REVENUES		
OPERATING REVENUE		
Water sales	\$ 3,760,560	\$ 3,884,883
Sewer sales	<u>2,430,390</u>	<u>2,415,245</u>
Total Operating Revenue	<u>6,190,950</u>	<u>6,300,128</u>
NONOPERATING REVENUES		
Net investment income (loss)	654,864	156,403
Other	<u>3,348</u>	<u>2,399</u>
Total Nonoperating Revenues	<u>658,212</u>	<u>158,802</u>
Total Revenue	<u>6,849,162</u>	<u>6,458,930</u>
EXPENSES		
OPERATING		
Water	4,320,552	4,287,647
Sewer	<u>1,769,097</u>	<u>1,868,342</u>
Total Operating Expenses	<u>6,089,649</u>	<u>6,155,989</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>617,007</u>	<u>573,002</u>
Total operating and general administrative expenses	<u>6,706,656</u>	<u>6,728,991</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	142,506	(270,061)
CAPITAL CONTRIBUTIONS	<u>308,197</u>	<u>1,127,081</u>
CHANGES IN NET POSITION	450,703	857,020
NET POSITION BEGINNING OF YEAR	<u>50,646,668</u>	<u>49,789,648</u>
NET POSITION END OF YEAR	<u>\$ 51,097,371</u>	<u>\$ 50,646,668</u>

Water and sanitation service fees decreased 2% for 2017, compared to an increase of 8% during 2016.

Operating expenses for water and sanitation operations experienced a decrease of \$66,340 during 2017 and an increase of \$541,444 during 2016. This was due primarily to the accrual of retirement contributions payable (see Note 7) in 2017, increased cost of water purchased in 2016, and decreased cost of sewer in 2017.

General and Administrative expenses increased in 2017 by \$44,005 due primarily to increased payroll and engineering expenses. General and Administrative expenses increased in 2016 by \$53,912 due primarily to increased payroll and various other expenses.

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay, in addition to operations and non-operating revenue and contributions. Capital contribution of facilities and depreciation are not reflected on the budget, as they do not affect "available funds". The District operates as an enterprise under TABOR and prepares its budget accordingly.

Revenues were lower than budgeted mainly due to investment earnings and contributed lines being lower than anticipated.

Capital expenditures were \$1,073,299 less than budget compared with \$1,779,657 less than budget in the prior year.

Capital Assets

	<u>2016</u>	<u>Changes</u>	<u>2017</u>
Capital assets			
Land and easements	\$ 1,946,850	\$ -	\$ 1,946,850
Buildings	2,172,244	-	2,172,244
Water rights	698,300	-	698,300
Construction in progress	865,179	455,301	1,320,480
Water lines	8,589,392	33,997	8,623,389
Purchased capacity — water	1,887,400	-	1,887,400
Water wells and pump station	782,910	65,498	848,408
Sewer lines	3,823,233	136,723	3,959,956
Office equipment	193,738	183	193,921
Trucks and equipment	389,674	-	389,674
Total Capital Assets	\$ 21,348,920	\$ 691,702	\$ 22,040,622
Accumulated depreciation	<u>(7,853,648)</u>	<u>(408,669)</u>	<u>(8,262,317)</u>
Total capital assets - Net	<u>\$ 13,495,272</u>	<u>\$ 283,033</u>	<u>\$ 13,778,305</u>

	<u>2015</u>	<u>Changes</u>	<u>2016</u>
Capital assets			
Land and easements	\$ 1,946,850	\$ -	\$ 1,946,850
Buildings	2,157,283	14,961	2,172,244
Water rights	698,300	-	698,300
Construction in progress	758,207	106,972	865,179
Water lines	8,061,706	527,686	8,589,392
Purchased capacity — water	1,887,400	-	1,887,400
Water wells and pump station	782,910	-	782,910
Sewer lines	3,399,438	423,795	3,823,233
Office equipment	196,273	(2,535)	193,738
Trucks and equipment	<u>391,416</u>	<u>(1,742)</u>	<u>389,674</u>
Total Capital Assets	\$ 20,279,783	\$ 1,069,137	\$ 21,348,920
Accumulated depreciation	<u>(7,465,838)</u>	<u>(387,810)</u>	<u>(7,853,648)</u>
Total capital assets - Net	<u>\$ 12,813,945</u>	<u>\$ 681,327</u>	<u>\$ 13,495,272</u>

Additional information on the District's capital assets can be found in the notes to financial statements.

Requests for Information

This financial report is designed to give its readers 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:

John R. Warford, Manager
Cherry Creek Valley Water & Sanitation District
2325 S. Wabash St.
Denver, CO 80231

Basic Financial Statements

Cherry Creek Valley Water & Sanitation District

Statements of Net Position December 31, 2017 and 2016

Assets	2017	2016
Current Assets:		
Operating and escrow accounts	\$ 1,040,696	\$ 1,175,823
Money market accounts	1,321,585	3,845,024
Investments	10,576,870	6,809,105
Investments - Designated	24,193,200	24,800,000
Accrued interest receivable	221,651	204,313
Accounts receivable - Service fees	475,850	467,763
Prepaid expenses	57,730	49,472
Inventory	17,439	20,383
Total Current Assets	<u>37,905,021</u>	<u>37,371,883</u>
Capital Assets		
Capital assests, not being depreciated	3,965,630	3,510,329
Capital assests, being depreciated (net of accumulated depreciation)	<u>9,812,675</u>	<u>9,984,943</u>
Total Capital Assets	<u>13,778,305</u>	<u>13,495,272</u>
Total Assets	<u>\$ 51,683,326</u>	<u>\$ 50,867,155</u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 251,436	\$ 64,958
Retirement plan contributions payable	182,303	-
Deposits for line construction	58,075	72,257
Tap fees payable	-	500
Total Current Liabilities	<u>491,814</u>	<u>137,715</u>
Long-Term Liabilities		
Compensated absences	<u>94,141</u>	<u>82,772</u>
Total Long-Term Liabilities	<u>94,141</u>	<u>82,772</u>
Total Liabilities	<u>585,955</u>	<u>220,487</u>
Net Position		
Net investment in capital assets	13,778,305	13,495,272
Unrestricted	<u>37,319,066</u>	<u>37,151,396</u>
Total Net Position	<u>51,097,371</u>	<u>50,646,668</u>
Total Liabilities and Net Position	<u>\$ 51,683,326</u>	<u>\$ 50,867,155</u>

The accompanying notes are an integral part of these statements.

Cherry Creek Valley Water & Sanitation District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2017 and 2016

	2017	2016
Water Operations		
Revenues		
Service fees	3,739,620	\$ 3,866,716
Penalties	8,143	7,721
Parts sales	12,797	10,446
	<u>3,760,560</u>	<u>3,884,883</u>
Direct water expenses		
Water purchased	3,467,901	3,554,834
Maintenance	140,537	139,278
Wages, payroll tax and fringe benefits	353,057	256,085
Utilities	44,396	31,123
Miscellaneous	41	41
Depreciation	314,620	306,286
	<u>4,320,552</u>	<u>4,287,647</u>
Gross (Loss) from Water Operations	<u>(559,992)</u>	<u>(402,764)</u>
Sewer Operations		
Revenues		
Service fees	2,423,790	2,408,645
Swimming pool fees	6,600	6,600
	<u>2,430,390</u>	<u>2,415,245</u>
Direct sewer expenses		
Sewage treatment fees	1,365,749	1,516,255
Maintenance	100,346	126,782
Wages, payroll tax and fringe benefits	228,175	159,210
Depreciation	74,827	66,095
	<u>1,769,097</u>	<u>1,868,342</u>
Gross Income from Sewer Operations	<u>661,293</u>	<u>546,903</u>
Gross Income From Operations	101,301	144,139
General and Administrative Expenses	617,007	573,002
Net (Loss) from Operations	<u>(515,706)</u>	<u>(428,863)</u>
Nonoperating Revenues		
Net investment earnings (loss)	654,864	156,403
Miscellaneous revenue	3,348	2,399
Total Nonoperating Revenues	<u>658,212</u>	<u>158,802</u>
Income (Loss) Before Capital Contributions	<u>142,506</u>	<u>(270,061)</u>
Capital Contributions		
Water		
Tap fees	210,000	190,000
Contributed lines	-	513,251
Sewer		
Tap fees	65,228	18,800
Contributed lines	32,969	405,030
Total Capital Contributions	<u>308,197</u>	<u>1,127,081</u>
Change in Net Position	450,703	857,020
Net Position—Beginning of Year	50,646,668	49,789,648
Net Position—End of Year	<u>\$ 51,097,371</u>	<u>\$ 50,646,668</u>

The accompanying notes are an integral part of these statements.

Cherry Creek Valley Water & 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	\$ 6,167,353	\$ 6,296,700
Cash payments to suppliers for goods and services	(5,441,700)	(6,045,026)
Cash payments to employees for services	(496,449)	(464,249)
Net Cash From Operating Activities	<u>229,204</u>	<u>(212,575)</u>
Cash Flows from Noncapital Financing Activities		
Miscellaneous revenue	6,923	61
Net Cash From Noncapital Financing Activities	<u>6,923</u>	<u>61</u>
Cash Flows from Capital and Related Financing Activities		
Metro Wastewater sewage tap received	142,636	16,880
Metro Wastewater sewage tap paid	(142,636)	(16,880)
Denver Water water tap received	703,743	387,871
Denver Water water tap paid	(703,743)	(387,871)
Contributed capital - Tap fees	275,228	208,800
Construction deposits received	39,503	-
Construction deposits received/(disbursed)	(36,810)	29,484
Acquisition of property, plant and equipment	(649,175)	(156,910)
Net Cash From Capital and Related Financing Activities	<u>(371,254)</u>	<u>81,374</u>
Cash Flows from Investing Activities:		
Net investment earnings	898,451	868,442
Investments matured/sold	3,732,698	16,096,693
Investments purchased	(7,154,588)	(14,043,575)
Net Cash From Investing Activities	<u>(2,523,439)</u>	<u>2,921,560</u>
Net Change in Cash and Cash Equivalents	<u>(2,658,566)</u>	<u>2,790,420</u>
Cash and cash equivalents—beginning of year	<u>5,020,847</u>	<u>2,230,427</u>
Cash and cash equivalents—end of year	<u>\$ 2,362,281</u>	<u>\$ 5,020,847</u>
Reconciliation of operating (loss) to net cash from operating activities		
(Loss) from operations	\$ (515,706)	\$ (428,863)
Adjustments to reconcile (loss) from operations to net cash provided (required) by operating activities		
Depreciation	408,669	393,765
Effects of changes in operating assets and liabilities:		
Receivables	(8,088)	9,755
Inventory	2,944	2,693
Prepaid expenses	(8,259)	563
Accrued liabilities	193,672	6,773
Accounts payable	155,972	(197,261)
Net cash from operating activities	<u>\$ 229,204</u>	<u>\$ (212,575)</u>
Noncash Capital and Investing Activities		
Contribution of water and sewer lines	32,969	918,281
Change in fair value of investments	(258,697)	(728,237)
	<u>\$ (225,728)</u>	<u>\$ 190,044</u>

The accompanying notes are an integral part of these statements.

Cherry Creek Valley Water & Sanitation District

Notes to Financial Statements

December 31, 2017 and 2016

1. Definition of Reporting Entity

Cherry Creek Valley Water & Sanitation District (the District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Arapahoe County, Colorado. The District was established to provide potable water and sewage treatment services to the properties within its service area.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes; but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

As of January 1, 2003, the District implemented the reporting requirements of the Governmental Accounting Standards Board GASB Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37 - *Basic Financial Statements - and Management's Discussions and Analysis -for State and Local Governments' Omnibus* and GASB Statement No. 38 - *Certain Financial Statement Disclosures*.

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.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

The District has elected to follow Governmental Accounting Standards Board pronouncements.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for capital assets are shown as increases in assets. Tap fees are recorded as capital contributions when received.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation, of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

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 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. The appropriation is at the total fund expenditures level and lapses at year end.

Cash and Cash Equivalents

The District considers cash deposits and highly liquid investments with an intended maturity of three months or less to be cash equivalents.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Designated Investments

As of December 31, 2017, the District has designated a portion of its investments to be used for future projects as follows:

	<u>2017</u>
Current water replacements	\$ 250,000
Current sewer replacements	349,000
Future water replacements	12,337,600
Future sewer replacements	10,619,200
Wabash storage & reservoir development	437,400
Self insurance	<u>200,000</u>
	<u>\$24,193,200</u>

As of December 31, 2016, the District had designated a portion of its investments to be used for future projects as follows:

	<u>2016</u>
Current water replacements	\$ 300,000
Current sewer replacements	300,000
Future water replacements	10,300,000
Future sewer replacements	9,700,000
Wabash storage & reservoir development	4,000,000
Self insurance	<u>200,000</u>
	<u>\$24,800,000</u>

Inventory

Inventory consists of parts and materials and is recorded at cost using the first-in, first-out method.

Capital Assets

Capital assets, which include water rights, land and easements, waterlines, purchased capacity, water wells and pump stations, sewer lines, office building, office equipment, and trucks and equipment are reported by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

depreciated over the remaining useful lives of the related fixed assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Water lines	40 years
Purchased capacity	40 years
Water wells and pump stations	10-50 years
Sewer lines	40-50 years
Office equipment	5-10 years
Trucks and equipment	4-50 years
Water rights, land and land contracts	not depreciated

Water Rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed. None were capitalized in 2017 or 2016.

Accrual for Compensated Absences

The District has a policy which allows employees to accumulate sick leave benefits, up to certain maximum hours. Compensated absences are accrued when incurred.

Tap Fees and Contributed Assets

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

Reclassification

Certain prior year balances have been reclassified for consistency with current year presentation. There was no change to prior year net position.

3. Cash, Cash Equivalents and Investments

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

3. Cash, Cash Equivalents and Investments (continued)

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 equal to the aggregate uninsured deposits.

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

At December 31, 2017 and 2016, the District's cash deposits had a bank balance and a carrying balance as follows:

	2017		2016	
	Carrying Balance	Bank Balance	Carrying Balance	Bank Balance
Cash on hand	\$ 200	\$ 200	\$ 200	\$ 200
Cash in checking	1,040,496	1,026,467	1,175,623	1,314,094
Cash held at broker	1,321,585	1,321,585	3,845,024	3,845,024
	<u>\$ 2,362,281</u>	<u>\$ 2,348,252</u>	<u>\$ 5,020,847</u>	<u>\$ 5,159,318</u>

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. Deposits that are exposed to custodial credit risk are collateralized with securities held by the pledging financial institution through PDPA.

The District's cash deposits are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes deposits not covered by depository insurance and uncollateralized. Category 2 includes deposits not covered by depository insurance and collateralized with securities held by the pledging financial institution. Category 3 includes deposits not covered by depository insurance and collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

	2017	2016
Insured deposits	\$ 250,000	\$ 250,000
Category 1	200	200
Category 2	<u>2,098,052</u>	<u>4,909,118</u>
Total cash and equivalents	<u>\$ 2,348,252</u>	<u>\$ 5,159,318</u>

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

3. Cash, Cash Equivalents and Investments (continued)

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- obligations of the United States and certain U.S. government agency securities,
- certain international agency securities,
- general obligation and revenue bonds of U.S. local government entities,
- bankers' acceptances of certain banks,
- commercial paper,
- written repurchase agreements collateralized by certain authorized securities,
- certain money market funds,
- guaranteed investment contracts, and
- local government investment pools.

The District's investments are recorded at fair value based on quoted market prices. District investments are securities that are held by the entity or its agent in the District's name, and are insured or registered by the District or its agent. The District's investment policy limits the maximum maturity of any investment to five years with the maximum extended to 10 years for U.S. Government-Backed Securities. The policy also states the intention of the District to diversify investments in the portfolio to reduce risk from excessive concentration in specific investments, individual banks and financial institutions, or maturities.

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

	<u>2017</u>	<u>2016</u>
Direct U.S. Treasury Obligations	\$ 23,444,490	\$ 20,800,281
Bonds	10,516,733	10,005,748
Mutual Funds	<u>808,847</u>	<u>803,076</u>
Total investments	<u>\$ 34,770,070</u>	<u>\$ 31,609,105</u>

The mutual fund is held by the broker where the U.S. Treasury obligations were purchased. The broker is insured by SIPC and supplemental private insurance. All investments are rated AAAM by Standard and Poors.

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the maximum maturity of any investment in its portfolio to five years or less (ten for U.S Government-Backed Securities).

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

3. Cash, Cash Equivalents and Investments (continued)

Credit Risk –The District’s investment policy limits its investments to those authorized by law, as stated above. The District’s corporate bonds at December 31, 2017, are rated AAAm by Standard & Poor’s

Concentration of Credit Risk –The District’s investment policy indicates an intention to diversify investments in the portfolio to reduce risk from excessive concentration in specific investments, individual banks and financial institutions or maturities. State statutes do not limit the amount the District may invest in one issuer. At December 31, 2017, 67% of the District’s investments are in U.S. Treasury obligations.

Cash deposits and investments are reflected on the December 31, 2017 and 2016 statements of net position as follows:

	<u>2017</u>	<u>2016</u>
Operating and escrow accounts	\$ 1,040,696	\$ 1,175,823
Money market accounts	1,321,585	3,845,024
Investments	10,576,870	6,809,105
Investments - Designated	<u>24,193,200</u>	<u>24,800,000</u>
Total cash and investments	<u>\$ 37,132,351</u>	<u>\$ 36,629,952</u>

The District has designated \$24,193,200 in investments for future capital needs. Designated investments can be released at the board’s discretion.

The District has the ability and has customarily held its investments until maturity; therefore, there is usually no gain or loss recorded on the disposition of those investments.

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

4. Capital Assets

An analysis of the changes in net capital asset for the years ended December 31, 2017 and 2016 follows:

	Balance December 31, 2016	Additions	Retirements	Balance December 31, 2017
Capital assets, not being depreciated:				
Land and easements	\$ 1,946,850	\$ -	\$ -	\$ 1,946,850
Water rights	698,300	-	-	698,300
Construction in progress	<u>865,179</u>	<u>474,528</u>	<u>(19,227)</u>	<u>1,320,480</u>
Total capital assets, not being depreciated	<u>3,510,329</u>	<u>474,528</u>	<u>(19,227)</u>	<u>3,965,630</u>
Capital assets, being depreciated:				
Water lines	8,589,392	33,997	-	8,623,389
Purchased capacity - Water	1,887,400	-	-	1,887,400
Water wells and pump station	782,910	65,498	-	848,408
Sewer lines	3,823,233	136,723	-	3,959,956
Office equipment	193,738	183	-	193,921
Building	2,172,244	-	-	2,172,244
Trucks and equipment	<u>389,674</u>	<u>-</u>	<u>-</u>	<u>389,674</u>
Total capital assets, being depreciated	<u>17,838,591</u>	<u>236,401</u>	<u>-</u>	<u>18,074,992</u>
Less accumulated depreciation for:				
Water lines	(4,030,427)	(201,319)	-	(4,231,746)
Purchased capacity - water	(766,756)	(47,185)	-	(813,941)
Water wells and pump station	(515,193)	(13,633)	-	(528,826)
Sewer lines	(1,618,539)	(74,826)	-	(1,693,365)
Office equipment	(152,283)	(19,222)	-	(171,505)
Building	(415,850)	(40,130)	-	(455,980)
Trucks and equipment	<u>(354,600)</u>	<u>(12,354)</u>	<u>-</u>	<u>(366,954)</u>
Total accumulated depreciation	<u>(7,853,648)</u>	<u>(408,669)</u>	<u>-</u>	<u>(8,262,317)</u>
Total capital assets, being depreciated, net	<u>9,984,943</u>	<u>(172,268)</u>	<u>-</u>	<u>9,812,675</u>
Capital assets, net	<u>\$ 13,495,272</u>	<u>\$ 302,260</u>	<u>\$ (19,227)</u>	<u>\$ 13,778,305</u>

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

4. Capital Assets (continued)

	Balance December 31, 2015	Additions	Retirements	Balance December 31, 2016
Capital assets, not being depreciated:				
Land and easements	\$ 1,946,850	\$ -	\$ -	\$ 1,946,850
Water rights	698,300	-	-	698,300
Construction in progress	<u>758,207</u>	<u>106,972</u>	<u>-</u>	<u>865,179</u>
Total capital assets, not being depreciated	<u>3,403,357</u>	<u>106,972</u>	<u>-</u>	<u>3,510,329</u>
Capital assets, being depreciated:				
Water lines	8,061,706	527,686	-	8,589,392
Purchased capacity - Water	1,887,400	-	-	1,887,400
Water wells and pump station	782,910	-	-	782,910
Sewer lines	3,399,438	423,795	-	3,823,233
Office equipment	196,273	1,021	(3,556)	193,738
Building	2,157,283	15,141	(180)	2,172,244
Trucks and equipment	<u>391,416</u>	<u>576</u>	<u>(2,318)</u>	<u>389,674</u>
Total capital assets, being depreciated	<u>16,876,426</u>	<u>968,219</u>	<u>(6,054)</u>	<u>17,838,591</u>
Less accumulated depreciation for:				
Water lines	(3,837,681)	(192,746)	-	(4,030,427)
Purchased capacity - water	(719,571)	(47,185)	-	(766,756)
Water wells and pump station	(503,781)	(11,412)	-	(515,193)
Sewer lines	(1,552,444)	(66,095)	-	(1,618,539)
Office equipment	(134,455)	(21,384)	3,556	(152,283)
Building	(376,117)	(39,814)	81	(415,850)
Trucks and equipment	<u>(341,789)</u>	<u>(15,129)</u>	<u>2,318</u>	<u>(354,600)</u>
Total accumulated depreciation	<u>(7,465,838)</u>	<u>(393,765)</u>	<u>5,955</u>	<u>(7,853,648)</u>
Total capital assets, being depreciated, net	<u>9,410,588</u>	<u>574,454</u>	<u>(99)</u>	<u>9,984,943</u>
Capital assets, net	<u>\$ 12,813,945</u>	<u>\$ 681,426</u>	<u>\$ (99)</u>	<u>\$ 13,495,272</u>

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

4. Capital Assets (continued)

Depreciation expense for the years ended December 31, 2017 and 2016 was charged to the following operations:

	<u>2017</u>	<u>2016</u>
Water operations	\$ 314,620	\$ 306,286
Sewer operations	74,827	66,095
General and administration	19,222	21,384
	<u>\$ 408,669</u>	<u>\$ 393,765</u>

5. Long-Term Liabilities

Changes in the District's accrued compensated absences for the years ended December 31, 2017 and 2016 follows:

	<u>2016</u>	<u>Incurred</u>	<u>Retired</u>	<u>2017</u>
Compensated absences	\$ 82,772	\$ 38,072	\$ (26,703)	\$ 94,141

	<u>Balance December 31, 2015</u>	<u>Incurred</u>	<u>Retired</u>	<u>Balance December 31, 2016</u>
Compensated absences	\$ 75,999	\$ 39,844	\$ (33,071)	\$ 82,772

6. Intergovernmental Agreements

Water Service Contract

The District is provided water under a distributor's contract with the Board of Water Commissioners of the City and County of Denver (Denver Water Board) through a master meter. Under the terms of the contract, the District is also entitled to a 1.81% participation in certain water supply projects that are offered in the future by the Denver Water Board for subscriber participation.

Participation Agreement

During 1998, the District entered into a participation agreement to purchase capacity in the Denver Water Board's conduit 89 (the portion lying to the west of Yosemite Street) for

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

6. Intergovernmental Agreements (continued)

\$1,887,400. The portion of conduit 89 lying to the west of Yosemite Street will continue to be owned and maintained by the Denver Water Board. The capacity is being amortized over 40 years using the straight-line method.

Sewage Treatment Contract

The District is a "special connector" by agreement with Metro Wastewater Reclamation District (Metro) which provides the treatment of sewage collected within the District. The standard service agreement with Metro provides for annual charges to be assessed by formula against the District on an estimated basis. Corrections to the estimated charge for metered flows and actual costs are billed and payable or credited during the two succeeding years. Metro assesses tap fees against the District for connections to the system.

The composition of the charges for 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Estimate for current year	\$ 1,479,859	\$ 1,497,495
Adjustment of second preceeding year estimate to actual finding	(49,566)	4,420
Preliminary adjustment of preceding year estimate	<u>(66,180)</u>	<u>12,740</u>
Total annual charges	<u>\$ 1,364,113</u>	<u>\$ 1,514,655</u>

The 2017 sewer treatment estimate is \$1,364,113.

7. Simplified Employee Pension Plan

All employees of the District participate in a simplified employee pension plan administered by MorganStanley SmithBarney after three years of employment. In a simplified employee pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the plan by the District are not mandatory and are made at the discretion of the District. Contributions made under the plan are fully vested immediately.

District contributions for employees who leave employment before they are fully vested are used to reduce the District's benefit obligations or pay plan related expenses. The District's contributions are shown net of forfeitures (if any).

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

7. Simplified Employee Pension Plan (continued)

The District made a \$87,001 contribution to the plan during 2017 which was 20% - 25% of the covered payroll of \$395,229. The District's contribution in 2016 was \$92,856 which was 20% - 25% of the covered payroll of \$425,663.

During 2017, the District discovered contributions were not being made to the plan using a required uniform contribution rate. In order to correct this operational issue related to the plan, additional contributions are required for several employees. The additional estimated contributions total \$182,303 and are reflected on the Statement of Net Position at December 31, 2017 as Retirement plan contributions payable. These contributions also include estimated earnings.

All employees of the District are also covered under Social Security (FICA).

8. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

9. Commitments and Contingencies

Water License and Easement Agreement

On July 31, 2000, the District sold approximately 32 acres of land to Los Verdes III, L.L.C. (Los Verdes). As part of the land sale, the District gave Los Verdes a license to use up to 225

Cherry Creek Valley Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2017 and 2016

9. Commitments and Contingencies (continued)

acre feet of water per year to irrigate a golf course now known as Cherry Creek Country Club. The water can be used at no charge whenever Los Verde's own water supply is not adequate, provided that Los Verdes pays all of the cost and develops the water in accordance with the terms of the licensing agreement. Water used in excess of 225 acre feet up to 250 acre feet per year will be charged for using a market rate. The license to use District water will terminate if and when the running average annual use first exceeds 250 acre feet per year or if the Los Verdes property is no longer used as a golf course.

As an additional part of the sale, the District received a permanent easement for the installation of water and/or sewer facilities, wells, storage ponds and any and all related facilities and appurtenances. In return for this easement, the sales price of the land was reduced and the easement was capitalized in the amount of \$700,000.

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 its operations qualify for this exclusion under current case law at the date of this audit.

However, TABOR is complex and subject to interpretation. Many of the provisions, including the qualification as an Enterprise will require further judicial interpretation.

Supplementary Information

Cherry Creek Valley Water & Sanitation District
Schedules of General and Administrative Expenses
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Wages, payroll tax and fringe benefits	282,842	\$ 237,008
Director's fees	6,400	5,900
Legal	44,187	83,321
Accounting and Audit	9,100	8,900
Engineering	69,946	46,994
Consultant	21,003	8,334
Telephone and postage	27,658	27,315
Office expense	8,158	9,125
Truck and equipment expense	28,876	29,130
Insurance	50,015	44,965
Miscellaneous	49,600	50,626
Depreciation	19,222	21,384
	<u>\$ 617,007</u>	<u>\$ 573,002</u>

Cherry Creek Valley Water & Sanitation District
Schedule of Revenue, Expenditures and Changes in Funds
Available — Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2017

	<u>Budget Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenue			
Water service fees	\$ 3,803,900	\$ 3,739,620	\$ (64,280)
Sewer service fees	2,400,000	2,423,790	23,790
Swimming pool permits	6,600	6,600	-
Net investment earnings	1,084,300	654,864	(429,436)
Penalties	8,000	8,143	143
Parts sales	9,200	12,797	3,597
Miscellaneous	2,800	3,348	548
Water tap fees	166,000	210,000	44,000
Sewer tap fees	15,200	65,228	50,028
Contributed lines	640,000	32,969	(607,031)
Denver Water tap surcharge	432,500	703,743	271,243
Metro Wastewater sewage tap surcharge	114,800	142,636	27,836
Total revenue	<u>8,683,300</u>	<u>8,003,738</u>	<u>(679,562)</u>
Expenditures (Page 20)	<u>10,441,540</u>	<u>7,836,067</u>	<u>2,605,473</u>
Excess of Revenue Over (Under) Expenditures	(1,758,240)	167,671	1,925,911
Funds Available — Beginning of Year	<u>37,915,946</u>	<u>37,151,395</u>	<u>(764,551)</u>
Funds Available — End of Year	<u><u>\$ 36,157,706</u></u>	<u><u>\$ 37,319,066</u></u>	<u><u>\$ 1,161,360</u></u>

Funds available at December 31, 2017 is computed as follows:

Current assets	\$ 37,905,021
Current liabilities	(491,814)
Accrued compensated absences	(94,141)
	<u><u>\$ 37,319,066</u></u>

Though the District considers itself exempt from TABOR as an "enterprise" as defined in Article X, Section 20 of the Colorado Constitution, it is noted that the District considers the entire balance of funds available as of December 31, 2017, to be reserved.

Cherry Creek Valley Water & Sanitation District
Schedule of Expenditures — Budget and Actual
(Budgetary Basis)
For the Year Ended December 31, 2017

	<u>Budget Amounts Original and Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Operating			
Water			
Water purchased	\$ 3,532,000	\$ 3,467,901	\$ 64,099
Maintenance	258,700	140,537	118,163
Wages, payroll tax and fringe benefits	316,505	353,057	(36,552)
Utilities	27,500	44,396	(16,896)
Miscellaneous	40	41	(1)
Sewer			
Sewage treatment fees	1,365,700	1,365,749	(49)
Maintenance	84,000	100,346	(16,346)
Wages, payroll tax and fringe benefits	193,995	228,175	(34,180)
Total operating	<u>5,778,440</u>	<u>5,700,202</u>	<u>78,238</u>

(Continued)

Cherry Creek Valley Water & Sanitation District
Schedule of Expenditures — Budget and Actual
(Budgetary Basis)
For the Year Ended December 31, 2017
(continued)

	Budget Amounts		Variance with Final Budget - Positive (Negative)
	Original and Final	Actual Amounts	
General and Administrative			
Wages, payroll tax and fringe benefits	\$ 222,900	\$ 282,842	\$ (59,942)
Director's fees	6,000	6,400	(400)
Legal	91,400	44,187	47,213
Accounting and Audit	9,200	9,100	100
Engineering	46,600	69,946	(23,346)
Consultant	4,000	21,003	(17,003)
Telephone and postage	30,100	27,658	2,442
Office expense	9,900	8,158	1,742
Truck and equipment expense	28,100	28,876	(776)
Insurance	54,100	50,015	4,085
Miscellaneous	348,500	49,600	298,900
	<u>850,800</u>	<u>597,785</u>	<u>253,015</u>
Capital Outlay			
Metro Wastewater sewage tap surcharge	114,800	142,636	(27,836)
Denver Water tap surcharge	432,500	703,743	(271,243)
Wabash water storage facility	1,500,000	-	1,500,000
Miscellaneous	-	-	-
Property and equipment	1,765,000	691,701	1,073,299
Total capital outlay	<u>3,812,300</u>	<u>1,538,080</u>	<u>2,274,220</u>
Total Expenditures (page 18)	<u>\$ 10,441,540</u>	<u>\$ 7,836,067</u>	<u>\$ 2,605,473</u>

Cherry Creek Valley Water & Sanitation District
Reconciliation of Budgetary Basis (Actual)
to Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

Revenue (budgetary basis)	\$ 8,003,738
Denver Water tap surcharge	(703,743)
Metro Wastewater sewage tap surcharge	<u>(142,636)</u>
Total revenue per statement of revenues, expenses and changes in net position	<u>7,157,359</u>
Expenditures (budgetary basis)	7,836,067
Depreciation	408,669
Capital outlay	<u>(1,538,080)</u>
Total expenses per statement of revenues, expenses and changes in net position	<u>6,706,656</u>
Net income per statement of revenues, expenses and changes in net position	<u><u>\$ 450,703</u></u>