

UPPER CHERRY CREEK
WATER ASSOCIATION

FINANCIAL STATEMENTS

December 31, 2019



Logan and Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Cherry Creek Water Association
Adams, Arapahoe and Douglas Counties, Colorado

We have audited the accompanying financial statements of the Upper Cherry Creek Water Association (the "Association") as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Association'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 the 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 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 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 Association'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 Association'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 Upper Cherry Creek Water Association as of December 31, 2019, and the changes in financial position and its cash flows for the year then ended in conformity 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 a 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. Management has omitted the management's discussion and analysis. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements and related notes to financial statements that collectively comprise the Upper Cherry Creek Water Association's basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Logan and Associates, LLC

Aurora, Colorado
August 25, 2020

BASIC FINANCIAL STATEMENTS

UPPER CHERRY CREEK WATER ASSOCIATION

STATEMENT OF NET POSITION

December 31, 2019

ASSETS

Current Assets

Cash	\$	196,037
Cash - Restricted		91,268
Capital Assets, Not Being Depreciated		<u>251,888</u>

TOTAL ASSETS 539,193

LIABILITIES

Current Liabilities

Accounts Payable		20,103
Aquifer Study Deposits		<u>91,268</u>

TOTAL LIABILITIES 111,371

NET POSITION

Net Investment in Capital Assets		251,888
Unrestricted		<u>175,934</u>

TOTAL NET POSITION \$ 427,822

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

UPPER CHERRY CREEK WATER ASSOCIATION

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2019

OPERATING REVENUES	
Membership Dues	40,000
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TOTAL OPERATING REVENUES	40,000
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OPERATING EXPENSES	
Consulting	14,804
Rueter-Hess Water Storage Pumping	13,369
ACWWA Operation and Maintenance of Gaging Station	1,489
Office Supplies	24
Insurance	1,353
Management Fees	6,065
Legal	10,287
Miscellaneous	830
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TOTAL OPERATING EXPENSES	48,221
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OPERATING INCOME (LOSS)	(8,221)
	<hr/>
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	632
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CHANGE IN NET POSITION	(7,589)
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NET POSITION, Beginning	435,411
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NET POSITION, Ending	\$ 427,822
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The accompanying notes are an integral part of the financial statements.

UPPER CHERRY CREEK WATER ASSOCIATION

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents
Years Ended December 31, 2019 and 2018

	2019
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Members	\$ 40,000
Cash Payments to Suppliers	(31,982)
Net Cash Provided by Operating Activities	8,018
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Acquifer Study Costs	(34,653)
Net Cash Used by Noncapital Financing Activities	(34,653)
CASH FLOWS FROM INVESTING ACTIVITIES	
Net Investment Activity	632
Net Cash Provided (Used) by Investing Activities	632
Decrease in Cash	(26,003)
CASH, Beginning	313,308
CASH, Ending	\$ 287,305
SUMMARY OF CASH AND CASH EQUIVALENTS	
Cash and Cash Equivalents	\$ 196,037
Restricted Cash and Cash Equivalents	91,268
Total Cash and Cash Equivalents	\$ 287,305
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (8,221)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Changes in Assets and Liabilities	
Accounts Payable	16,239
Net Cash Provided by Operating Activities	\$ 8,018

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

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Upper Cherry Creek Water Association (the "Association"), was created by an Establishing Contract, pursuant to Section 18(2)(a) and 2(b) of Article XIV, Constitution of the State of Colorado, and to section 29-1-203 and sections 7-30-101 through 119 Colorado Revised Statutes, by and among the parties: City of Aurora (Aurora), Arapahoe County Water and Wastewater Authority (ACWWA), Cottonwood Water and Sanitation District (Cottonwood), Colorado Division of Parks & Outdoor Recreation (Parks), and East Cherry Creek Valley Water and Sanitation District (ECCV) collectively the "Members".

The Association was created to affect the development and promote the cost effective joint operation of collective water resources, systems and facilities and return flow credits pertaining to the individual members' wastewater treatment and disposal systems and facilities in whole or in part for the benefit of the Members and their inhabitants, and others. The joint interest of the Members is to operate their collective water rights impacting each Member's Cherry Creek water rights in a manner that optimizes each Members water rights while protecting others from injury. The Association has no employees and is governed by an elected five member Board of Directors.

Funding for the Association activities is provided through member contributions that are determined each year through the annual budget process.

The accounting policies of the Association conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The definition of the reporting entity is based primarily on financial accountability. The Association is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if Association officials appoint a voting majority of the organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the Association. The Association may also be financially accountable for organizations that are fiscally dependent upon it. Based on the application of the criteria, the Association does not include additional organizations in its reporting entity.

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The Association uses a proprietary fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Association uses a proprietary fund-type, an enterprise fund, to account for its activities of providing consulting and operations to Association members. The enterprise fund uses the economic resources measurement focus and the accrual basis of accounting for reporting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

The activities of the fund are accounted for with a separate set of self-balancing accounts that comprise the Association's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues and expenses. The fund distinguishes operating revenues and expenses from non-operating revenues and expenses, and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses include the cost 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.

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

Assets, Liabilities and Net Position

Cash Equivalents and Investments - Cash equivalents include cash deposits and highly liquid investments with original maturities of three months or less when purchased. Investments are reported at fair value.

Capital Assets - Capital assets include water flows monitoring software, which the Association will begin annual depreciation upon the completion of the software.

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

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Position (Continued)

- Net Investment in Capital Assets – The investment in capital assets consists of capital assets, net of accumulated depreciation and related debt.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This classification includes the residual net position that does not meet the classification of “net investment in capital assets” or “restricted.”

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Association has evaluated events subsequent to the year ended December 31, 2019 through August 25, 2020, the date these financial statements were issued, and has incorporated any required recognition into these financial statements.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Association is located. It is unknown how long these conditions will last and what the complete financial effect will be to the Association.

Risk Management

The Association is exposed to various risk of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; and natural disasters. The Association maintains general liability and public officials’ liability insurance through a commercial carrier for these risks of loss. The Members, individually, maintain property and workers’ compensation coverages. Therefore, the Association has no exposure for these risks of loss.

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Association follows these procedures in establishing the budgetary data reflected in the financial statements:

- The budget is legally adopted by the Association. The budget is adopted on a non-GAAP budgetary basis. Capital outlay is budgeted as expenditures, and depreciation are not budgeted.
- The Association appropriates expenditures for the enterprise/operations fund and capital expenditures.
- Prior to October 15, management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1.
- The operating budget includes proposed expenditures and the means of financing them.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- All appropriations lapse at year end. Colorado governments may not exceed budgeted appropriations at the fund level.

NOTE 3: CASH

A summary of cash at December 31, 2019 follows:

Cash Deposits	\$ 196,037
Cash Deposits – Restricted	<u>91,268</u>
Total	<u>\$ 287,305</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of Federal Deposit Insurance Corporation (FDIC) levels must be collateralized by eligible collateral as determined by the PDPA. The FDIC insures depositors up to \$250,000 for each financial institution. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2019, the Association had bank deposits totaling \$287,305 of which all were insured by FDIC.

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 3: CASH (Continued)

Investments

The Association has not adopted a formal investment policy; however, the Association follows State statutes regarding investments. The Association generally limits its concentration of investments to Local Government Investment Pools, obligation of the United States and certain U.S. government agency securities, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk. Additionally, the Association is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

State statutes specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest which include the following.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The Association has no investments at December 31, 2019.

Restricted Cash

Restricted cash at December 31, 2019 of \$91,268 consists of amounts for future costs of the Aquifer Study (See NOTE 5).

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 4: CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2019, is summarized below:

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2019</u>
Capital Assets, not Being Depreciated Software Model	<u>\$ 251,888</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 251,888</u>

NOTE 5: INTERGOVERNMENTAL AGREEMENTS

Study of the Upper Cherry Creek Alluvial Aquifer (Aquifer Study)

On January 19, 2016, Association entered into an intergovernmental agreement (IGA) with Arapahoe County Water and Wastewater Authority (ACWWA), Cherry Creek Project Water Authority (CCPWA), Cottonwood Water and Sanitation District (Cottonwood) and Parker Water and Sanitation District (Parker), collectively the "Parties", to develop a better understanding of the Aquifer and the physical and legal interactions of the water supplies of the Parties. The Parties hope that this IGA will lead to further cooperative water supply efforts among the Parties in the future. The IGA was effective from September 1, 2015 through September 1, 2018. The IGA was extended from September 1, 2018 through the later of: (a) the date on which the Division of Water Resources' (DWR) first approval period for the Parker SWSP expires; or (b) May 31, 2020. The Parties agreed that the costs for the Aquifer Study would not exceed \$300,000, unless excess costs are approved by the Parties. The Parties are required to deposit annual amounts with the Association, in a custodial capacity, to pay the Aquifer Study costs each year. For the year ended December 31, 2019, the Aquifer Study costs were \$31,945. At December 31, 2019, the Association had restricted cash of \$91,268 for future Aquifer Study costs.

Upper Cherry Creek Basin Modeling Project (CCAMP)

On August 15, 2007, the Association and its Members entered into an IGA with Members of the Cherry Creek Project Water Authority (CCPWA), the Parker Water and Sanitation District (PWSD), collectively the "Original Parties"; and adding Stonegate Metropolitan District (Stonegate) and the Town of Castle Rock (Castle Rock) via the Amended Agreement, dated August 26, 2014, to jointly create and operate computer models of the surface and groundwater hydrology of a portion of the Cherry Creek Basin. During 2018, the agreement was amended and added the South Metro Water Supply Authority in order to administer and manage of the project named CCAMP 2.1. The Association is required to pay 20% of the project costs. There were no project costs paid by the Association for the year ended December 31, 2019.

UPPER CHERRY CREEK WATER ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019

NOTE 6: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR), which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

Enterprises, defined as government-owned business 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 Association establishes a budget for its enterprise activity. The Association has made certain interpretations of the Amendment's language in order to determine compliance.

The Association's management believes all of its operations qualifies for the "enterprise" exclusion allowed by the Amendment. The Association believes it is in compliance with the requirements of the Amendment.

SUPPLEMENTARY INFORMATION

UPPER CHERRY CREEK WATER ASSOCIATION

BUDGETARY COMPARISON SCHEDULE - (Non-GAAP BASIS)

Year Ended December 31, 2019

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Membership Dues	50,000	40,000	(10,000)
Net Investment Income	200	632	432
TOTAL REVENUES	<u>50,200</u>	<u>40,632</u>	<u>(9,568)</u>
EXPENSES			
Consulting	12,000	14,804	(2,804)
Rueter-Hess Water Storage Pumping	-	13,369	(13,369)
ACWWA Operation and Maintenance of Gaging Station	6,000	1,489	4,511
Cherry Creek Modeling (CCAMP 2.1)	10,000	-	10,000
Weather Station - CCSP	8,000	-	8,000
Water Rights Account (Aurora)	10,000	-	10,000
Office Supplies	-	24	(24)
Insurance	1,600	1,353	247
Management Fees	6,000	6,065	(65)
Audit exemption	500	-	500
Legal	12,000	10,287	1,713
Miscellaneous	50	830	(780)
Contingency	10,000	-	10,000
TOTAL EXPENSES	<u>76,150</u>	<u>48,221</u>	<u>27,929</u>
NET CHANGE IN FUNDS AVAILABLE	(25,950)	(7,589)	18,361
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>208,093</u>	<u>435,411</u>	<u>227,318</u>
FUNDS AVAILABLE - END OF YEAR	<u><u>182,143</u></u>	<u><u>427,822</u></u>	<u><u>245,679</u></u>

See the accompanying Independent Auditor's Report.