

WATER INFRASTRUCTURE AND SUPPLY EFFICIENCY PROJECT

Loan Feasibility Study

Supplemental Information

COTTONWOOD WATER AND SANITATION DISTRICT

PREPARED FOR

**Colorado Water Conservation Board on Behalf
of the WISE Authority**

11 MARCH 2014

FEASIBILITY STUDY APPROVAL
Pursuant to Colorado Revised Statutes 37-60-121 & 122, and
in accordance with policies adopted by the Board, the
CWCB staff has determined this Feasibility Study meets all
applicable requirements for approval.

Deirdre 3/1/14
Signed Date

Cottonwood Water and Sanitation District
WISE Authority-CWCB Loan Feasibility Study
Supplemental Information

1. **ENTERPRISE: DATE ESTABLISHED:** In 1981, the Cottonwood Water and Sanitation District (“Cottonwood” or “District”) was formed pursuant to Article 1 of Title 32 C.R.S. to provide water supply and treatment systems for the customers within the described service area. On November 19, 1996, the then acting Board of Directors passed a Resolution establishing a Water Activity Enterprise. Please see the attached Resolution and Agreement, Exhibit 1.

2. **COST BREAKDOWN:** This information is provided in the “Water Infrastructure and Supply Efficiency Project, Loan Feasibility Study, Supplemental Information”, prepared by Black & Veatch, as attached, Exhibit 2.

3. **DESCRIPTION OF SERVICE AREA AND EXISTING WATER FACILITIES AND WATER RIGHTS:** The Cottonwood Water and Sanitation District contains approximately 1,300 acres, located along the northern border of Douglas County on either side of Parker Road. The majority of the District land area is developed as single family and multi-family residential although there is substantial commercial development in isolated areas including the Parker Adventist Hospital and Medical Office Buildings, Costco, a number of restaurants and 2 hotels. Most of the residential development is located between Parker Road west to Chambers Road, and most of the commercial development is in the Crown Point development east of Parker Road. Approximately 2/3 of the District is within the Town of Parker and the remainder is in unincorporated Douglas County. The largest water customers include the Parker Adventist Hospital, Lifetime Fitness and multi-family residential developments. Please see the attached Exhibit 3 which shows the District service area.

The District’s water supply is provided through tributary water rights from Cherry Creek, and non-tributary water from the Denver Basin. Both of these water sources are reusable by right and the District reuses much of its water supply through an augmentation plan. While the District has its own augmentation plan, for many years it has been operating through the joint augmentation plan of the Upper Cherry Creek Water Association. This water management entity, which includes Cottonwood, the Arapahoe County Water and Wastewater Authority (“ACWWA”), Aurora Water, the Colorado Division of Parks and Wildlife, and the East Cherry Creek Valley Water and Sanitation District (“ECCV”) works together and shares return flow credits and storage to help maximize the development of water rights on Cherry Creek.

A summary of the District's water rights is shown in Exhibit 4, attached. The District has 1,690 acre-feet of non-tributary ground water rights, and 766 acre-feet of Cherry Creek tributary water rights. The District currently has wells only in the Arapahoe Aquifer that has an entitlement of 1,003 acre-feet. The District's 766 acre-feet of tributary water varies from year to year. All water rights are reusable and the District is able to effectively reuse its water rights through decreed augmentation plans on Cherry Creek.

Water from the District's 5 non-tributary Arapahoe Aquifer wells is disinfected and pumped directly into the distribution system. Water from tributary (alluvial) wells is pumped to the Joint Water Purification Plant ("JWPP"), a facility owned by Cottonwood and ACWWA. Cottonwood estimates that through the importation of additional renewable water through the WISE Project, most of its water supply in average and wet years will come through its renewable water supplies (Cherry Creek tributary water rights, WISE deliveries, and reuse). In these years, Cottonwood will store excess WISE water in the non-tributary aquifers (Aquifer Storage and Recovery "ASR") or in Rueter Hess Reservoir. In dry years when WISE deliveries are curtailed and/or when alluvial supplies on Cherry Creek are diminished, the District will rely more heavily on non-tributary ground water pumping and deliveries of WISE water from storage.

The District delivers its water supply through a distribution system that includes two pressure zones. Daily domestic water storage and fire flows are met through a 2.1 million gallon concrete storage tank. The District has a sewer collection system that delivers wastewater to ACWWA for treatment at ACWWA's Lone Tree Creek Water Reuse Facility.

4. **CURRENT WATER DEMANDS:** In 2013, the Cottonwood District supplied a total of 789 acre-feet of water to its customers. This equates to approximately 2.2 acre-feet, or 705,000 gallons per day as an average. The highest daily usage recorded for 2013 was 4.3 acre-feet, or 1.4 million gallons.
5. **CURRENT NUMBER OF TAPS:** Currently, the District supplies water to a total of 2,300 single family equivalent ("SFE") taps, which serve approximately 1,536 single family residences, 1,436 condominium/apartment units and 70 commercial customers.
6. **AVERAGE MONTHLY WATER BILL:** The average monthly water bill is \$54 per single family equivalent.

7. **EXPECTED PROJECT YIELD:** The WISE Project yield is discussed in the “Water Infrastructure and Supply Efficiency Project, Loan Feasibility Study, Supplemental Information” which is attached, Exhibit 2. Cottonwood has subscribed to 400 acre-feet of water on an average annual basis through the WISE Project. The District expects that in average and wet years when WISE is delivering an average yield, close to 100% of the District’s water supply will come from renewable sources. In dry years, the loss in water deliveries from renewable sources will be made up through pumping additional non-tributary ground water or water from storage in the aquifers or from Rueter Hess Reservoir.

In addition, Cottonwood has purchased alluvial and non-tributary ground water rights from upper Cherry Creek as part of the Cherry Creek Project Authority. The District is currently evaluating development of these water rights and expects to use them as additional drought year supply if necessary.

Exhibit 1

COTTONWOOD WATER AND SANITATION DISTRICT

RESOLUTION AND AGREEMENT

A RESOLUTION CONTINUING THE OPERATION OF A WATER ACTIVITY
ENTERPRISE OF THE COTTONWOOD WATER AND SANITATION DISTRICT

WHEREAS, the Cottonwood Water and Sanitation District (the "District"), in the County of Douglas and State of Colorado, is a quasi-municipal corporation duly organized and existing under the Constitution and the laws of the State of Colorado, being duly organized as a water and sanitation district, pursuant to the Special District Act, Section 32-1-101 et seq., Colorado Revised Statutes (the "Act"); and

WHEREAS, the District has been organized to provide water and sanitation facilities and services within its service area and has historically operated its facilities as a government-owned business; and

WHEREAS, the District declares and determines that its provision of water and sanitation services and facilities has constituted a water enterprise activity pursuant to §§ 37-45.1-101, et seq., Colorado Revised Statutes (the "Enterprise Act"); and

WHEREAS, the Board has determined and hereby determines that it is in the best interest of the District and its customers to continue its operation of a water activity enterprise (the "Enterprise") within the meaning of Article X, Section 20, of the Colorado Constitution (the "Amendment"); and

WHEREAS, the Board has determined that the continued operation of the Enterprise will be in the best interests of its customers and promote the health, safety, prosperity, security and general welfare of those customers,

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE COTTONWOOD WATER AND SANITATION DISTRICT IN THE COUNTY OF DOUGLAS AND STATE OF COLORADO:

Section 1. Definitions. All terms used herein shall have the meanings in the Enterprise Act unless otherwise defined herein.

Section 2. Enterprise Declaration. The Board hereby finds and determines that it has historically provided and will continue to provide water and sanitation services by means of the Enterprise in conformity with all applicable Colorado laws. The Board further (i) recognizes and confirms that the Enterprise

continues to be an "enterprise" within the meaning of the Amendment and the Enterprise Act, and (ii) declares its intent that the Enterprise be operated and maintained so as to exclude its activities from the application of the Amendment.

Section 3. Governing Board. The Board of Directors of the District shall constitute the governing board of the Enterprise (the "Governing Board"). All official business of the Enterprise shall be conducted at regularly scheduled or special meetings of the Board of Directors of the District. The record of the proceedings of the Governing Board may be incorporated in the minutes of the District and shall not be required to be recorded separately. No additional oath of office, qualification or procedure shall apply with respect to service as a member of the Governing Board. All business and actions of the Governing Board shall be governed by and made subject to all requirements, privileges, immunities, protections, limitations, and other provisions of law.

Section 4. Enterprise Powers. The Enterprise shall exercise such powers as are set forth in the Enterprise Act as it shall be amended from time to time, including, without limitation, the power to issue or reissue bonds, notes, or other obligations, payable from the revenues derived or to be derived from its provision of services. The Enterprise shall also be entitled to exercise such powers as are set forth in the Act and any other applicable Colorado law, including the power to set rates, fees and charges for services provided by the Enterprise; provided, however, in no event shall the Enterprise have the authority to levy or collect taxes.

Section 5. Assets. All assets to be operated and maintained by the Enterprise shall remain in the ownership of the District. The District hereby assigns the use and management of such assets, whether real or personal, to the Enterprise for operation and provision of service as described herein.

Section 6. Enterprise Fund. An Enterprise Fund shall be established to separately account for all revenues and expenditures incurred by the Enterprise. The Enterprise shall prepare an annual budget which may be included in the budget prepared for the District. All budgets, reports, audits, and financial operations of the Enterprise shall conform to and be prepared in accordance with generally accepted accounting principles applicable to governmental units and other requirements of law.

Section 7. Limitation on Obligations of the Enterprise. The District has previously incurred certain general obligation indebtedness pursuant to its powers under the Act. Such

indebtedness may be paid from Enterprise revenues; however, in no event shall the Enterprise be required or authorized to levy any tax for repayment of such debt, and such obligation to tax shall be that solely of the District. All operations of the District, excluding the Enterprise, shall remain subject to the terms of the Amendment to the extent required by law.

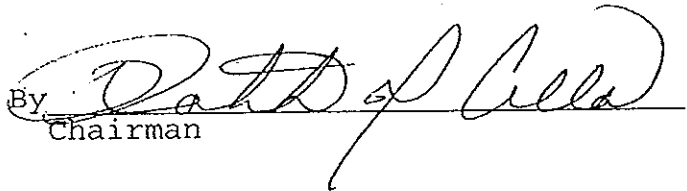
Section 8. Enterprise Activities. The District and the Enterprise hereby agree that the Enterprise shall operate the District's water and wastewater facilities so as to provide water and sanitation services to customers within the District's boundaries. Any public funds paid or advanced to the Enterprise by the District in exchange for the provision of these water and sewer services or other activities of the Enterprise shall not constitute a grant.

Section 9. Repealer. All acts, orders, ordinances, or resolutions, or parts thereof, on conflict herewith are hereby repealed to the extent of such conflict.

Section 10. Severability. Should any one or more sections or provisions of the Resolution and Agreement be judicially determined invalid or unenforceable, such determination shall not affect, impair, or invalidate the remaining provisions hereof, the intention being that the various provisions hereof are severable.

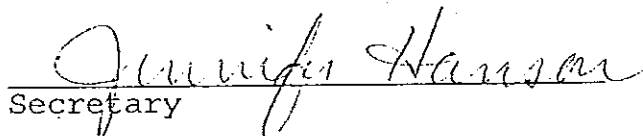
ADOPTED and AGREED on this 19th day of November, 1996.

COTTONWOOD WATER AND SANITATION
DISTRICT

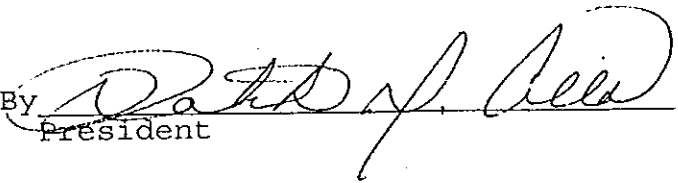
By 
Chairman

[SEAL]

ATTEST:

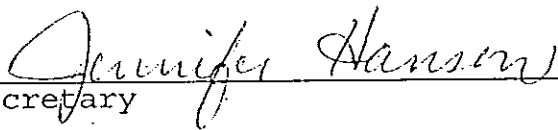

Secretary

COTTONWOOD WATER ENTERPRISE

By 
President

[SEAL]

ATTEST:


Secretary

STATE OF COLORADO

COUNTY OF DOUGLAS

)
) ss.
)

I, the Secretary of the Cottonwood Water and Sanitation District, do hereby certify (i) that the foregoing pages are a true, perfect and complete copy of the resolution and agreement adopted by the Board of Directors, constituting the governing board of the Cottonwood Water and Sanitation District, had and taken at an open, regular meeting of the Board held at the offices of Cottonwood Water and Sanitation District, in Parker, Colorado, on this 19th day of November, 1996, including the adoption of a resolution, a copy thereof being therein set forth, convening at the hour of 6:00 p.m. as recorded in the regular book of official records of the proceedings of said Cottonwood Water and Sanitation District kept in my office, (ii) that the resolution was adopted upon the following vote:

Those Voting Yes: 4

Those Voting No: 0

Those Abstaining: 0

and (iii) that there are no rules or regulations of the Board which might prohibit the immediate adoption of said resolution. I further certify that notice of the meeting of the Cottonwood Water and Sanitation District was posted at three public places within the Cottonwood Water and Sanitation District, and at the office of the County Clerk and Recorder of Douglas County, Colorado, in accordance with law.

WITNESS my hand and the seal of said District affixed this 19th day of November, 1996.

Annika Hansen
Secretary, Cottonwood Water and
Sanitation District

[SEAL]

Exhibit 2

WATER INFRASTRUCTURE AND SUPPLY EFFICIENCY PROJECT

Loan Feasibility Study

Supplemental Information

B&V PROJECT NO. 176888

PREPARED FOR

**Colorado Water Conservation Board on Behalf
of the WISE Authority**

25 FEBRUARY 2014



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Expected Project Yield

The Water Delivery Agreement (WDA) with Denver Water and Aurora Water allows for variable deliveries every year based on hydrology conditions. However, the WDA also guarantees that each participant will receive a minimum amount of water over any 10-year period. This guaranteed delivery amount is listed in Supplement Table 1, along with the corresponding average annual average yield (1/10th of the 10-year guaranteed delivery).

Supplement Table 1. Expected WISE Project Yield

WISE Authority Member	10-Year Guaranteed Delivery (AF)	Average Annual Delivery (AFY)
Castle Rock	10,000	1,000
Centennial	10,000	1,000
Cottonwood	4,000	400
Dominion	13,250	1,325
Inverness	5,000	500
Meridian	3,000	300
Parker	12,000	1,200
Pinery	5,000	500
Rangeview	5,000	500
Stonegate	5,000	500
Total	72,250	7,225

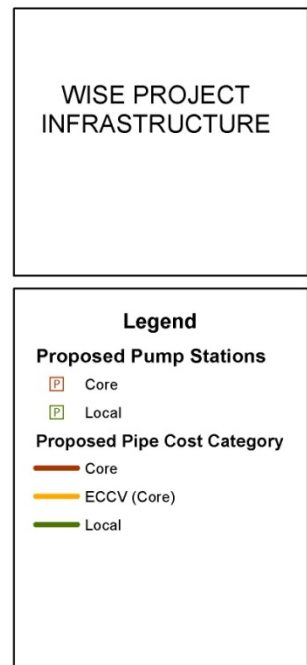
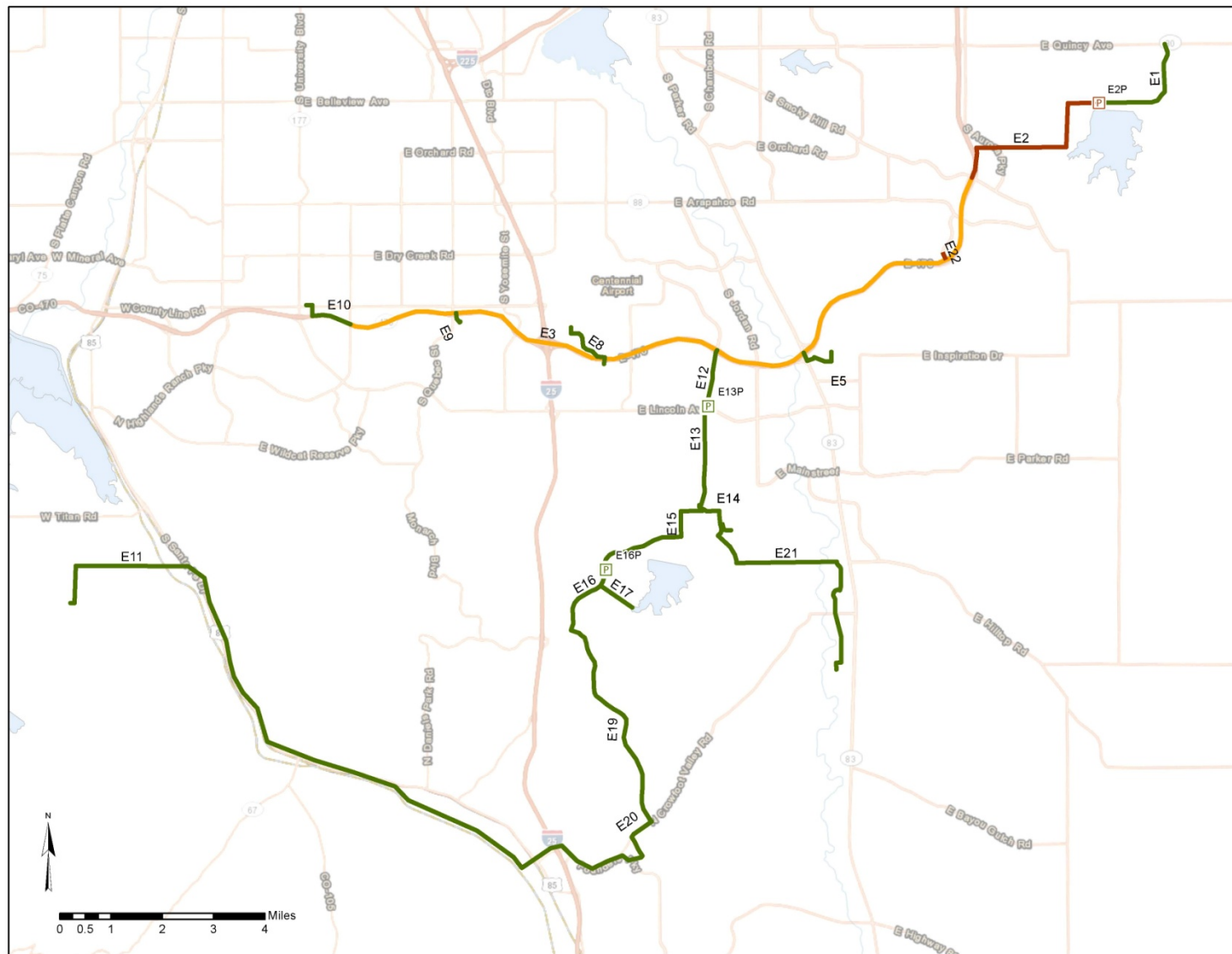
Detailed Project Cost Breakdown by Participant

The estimated amount that each WISE Authority member is required to pay for each project component is shown in Supplement Table 2 and is based on:

- The amount of water each WISE Authority member has committed to taking.
- The amount of local infrastructure that must be constructed to deliver each member's WISE water.

Supplemental Table 2 – WISE Project Capital Cost Opinion by Participant (\$Millions)

Component ID	Castle Rock	Centennial	Cottonwood	Dominion	Inverness	Meridian	Parker	Pinery	Rangeview	Stonegate
E22	0.05	0.05	0.02	0.06	0.02	0.01	0.06	0.02	0.02	0.02
E3	0.32	0.32	0.13	0.43	0.16	0.10	0.39	0.16	0.16	0.16
E5	0.00	0.00	0.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E7	0.00	0.00	0.00	0.00	0.00	0.12	0.00	0.00	0.00	0.00
E8	0.00	0.00	0.00	0.00	0.73	0.00	0.00	0.00	0.00	0.00
E9	0.00	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E13P	1.11	0.00	0.00	1.47	0.00	0.00	0.00	0.55	0.00	0.55
E15	1.77	0.00	0.00	2.35	0.00	0.00	0.00	0.00	0.00	0.00
E16P	8.16	0.00	0.00	2.06	0.00	0.00	0.00	0.00	0.00	0.00
E16, E19, E20	8.56	0.00	0.00	2.16	0.00	0.00	0.00	0.00	0.00	0.00
E12	0.66	0.00	0.00	0.87	0.00	0.00	0.79	0.33	0.00	0.33
E13	1.05	0.00	0.00	1.39	0.00	0.00	1.26	0.52	0.00	0.52
E17	0.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E2P	1.04	1.04	0.41	1.37	0.52	0.31	1.24	0.52	0.52	0.52
E2	1.16	1.16	0.46	1.53	0.58	0.35	1.39	0.58	0.58	0.58
E1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.28	0.00
E14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.33	0.00	0.33
E21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.86	0.00	0.00
E11	0.00	0.00	0.00	12.19	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	24.43	24.43	2.83	1.55	25.88	2.01	0.89	5.13	5.87	2.56
Engineering/Design (8%)	1.95	1.95	0.23	0.12	2.07	0.16	0.07	0.41	0.47	0.20
Permitting/Easements (2%)	0.49	0.49	0.06	0.03	0.52	0.04	0.02	0.10	0.12	0.05
Subtotal	26.87	26.87	3.11	1.71	28.47	2.21	0.98	5.64	6.46	2.82
Contingency (30%)	8.06	8.06	0.93	0.51	8.54	0.66	0.29	1.69	1.94	0.84
Total Construction Cost	34.93	34.93	4.05	2.22	37.01	2.87	1.27	7.34	8.39	3.66
ECCV pipeline acquisition (WISE Authority portion)	4.06	4.06	1.62	5.37	2.03	1.22	4.87	2.03	2.03	2.03
DIA Connection Fee	1.00	1.00	0.40	1.33	0.50	0.30	1.21	0.50	0.50	0.50
Total Capital Cost Opinion	40.0	9.1	4.2	43.7	5.4	2.8	13.4	10.9	6.2	6.8



Source: Black & Veatch

WISE Authority



CWCB Loan Feasibility Study

WISE Project Infrastructure

**Figure
6**

Exhibit 3

COTTONWOOD WATER & SANITATION DISTRICT



Exhibit 4
(Details of water rights provided in following Tables)

Water Supply Source	Water Rights (AFY)	Comments
Nontributary Groundwater		
• Dawson	258	None drilled as yet
• Denver	118	None drilled as yet
• Arapahoe	1003	Existing Wells: D1, D2, D3, D4-A, D11
• Laramie-Fox Hills	311	None drilled as yet
Total	1,690	
Cherry Creek Alluvial Supply		
• Senior Rights	161	DD1, DD2, DD4, DD7
• Junior Rights	605	DD1, DD2, DD4, DD7
Total	766	
Grand Total	2,456	

Note: All water is fully reusable and is currently reused through an augmentation plan on Cherry Creek and through District non-potable irrigation.

Table 1
Tributary Water Rights
Cottonwood Water and Sanitation District

		(1)	(2)					
Structure Name	Diversion Rate (cfs)	Annual Limit (af/yr)	Permit Number	Structure I.D. Number	Original Case Number	Decree Date	Appropriation Date	Change Case Numbers
Senior Tributary Direct Flow Water Rights								
Fifty-Nine No. 1 Ditch	3.64	57		1381	1883 Adjud	12/10/1883	5/1/1862	81CW142
Boss Ditch	2.36	42		1380	1883 Adjud	12/10/1883	7/30/1869	81CW142
Gillman Ditch	4.95	42		1379	1883 Adjud	12/10/1883	2/28/1880	81CW142
Boss Ditch	0.57	10.1		1380	1883 Adjud	12/10/1883	7/30/1869	84CW155
Gillman Ditch	1.21	10.2		1379	1883 Adjud	12/10/1883	2/28/1880	84CW155
Total	12.73	161.3						
Junior Tributary Ground Water Rights								
Feedlot Well No. 2	1.00	43.5	26689-R-F	5004	W-2853	8/1/1973	6/30/1952	81CW142
Bruce Domestic Well		2	20053-R-F	5490	81CW142	3/21/1986	7/30/1954	81CW142, 82CW138
Diamond over D Well No. 1	10.00 Combined	541 Combined	18954-R-R	8162	CA 3746	11/10/1969	8/3/1982	81CW142
Diamond over D Well No. 2			3975-F-R	5850	CA 3746	11/10/1969	8/3/1982	81CW142
Diamond over D Well No. 3			3R-20553-RF	5853	CA 3746	11/10/1969	8/3/1982	81CW142
Diamond over D Well No. 4			30741-F	5854	CA 3746	11/10/1969	8/3/1982	81CW142, 82CW138
Diamond over D Well No. 5			20053-V	5855	CA 3746	11/10/1969	8/3/1982	81CW142
Diamond over D Well No. 6			13322-R	5856	CA 3746	11/10/1969	8/3/1982	81CW142
Diamond over D Well No. 7			13323-R-F	5857	CA 3746	11/10/1969	8/3/1982	81CW142
Cottonwood Pine Lane Well No. 1	2.00				08CW28	Pending	12/18/2007	
CCC Well No. 1	14.00 Combined				08CW28	Pending	12/18/2007	
CCC Well No. 2					08CW28	Pending	12/18/2007	
CCC Well No. 3					08CW28	Pending	12/18/2007	
CCC Well No. 4			69655-F		08CW28	Pending	12/18/2007	
CCC Well No. 5					08CW28	Pending	12/18/2007	
CCC Well No. 6					08CW28	Pending	12/18/2007	
CCC Well No. 7					08CW28	Pending	12/18/2007	
Loyd Well No. 1-18788	1.78	19.7	18788-R	6783	W-2640	5/14/1973	12/31/1941	W-2688, 84CW155
Loyd Well No. 2-14736	0.89	Combined	14736-R	6786	W-2640	5/14/1973	12/31/1941	W-2688, 84CW155
Total	29.67	606.2						
Grand Total	42.40	767.5						

(1) These wells are also alternate points of diversion for the senior tributary direct flow rights listed above.

(2) The Bruce Domestic Well no longer exists and its appropriation was transferred to Well DD-4.

Table 2
Denver Basin Ground Water Rights
Cottonwood Water and Sanitation District

Structure Name		Pumping Rate (cfs)	Annual Amount (af/yr)	Permit Number	Structure I.D. Number	Original Case Number	Decree Date	Comments and Change Case Numbers
Dawson Aquifer Nontributary Water Rights								
(1)	Artesian No. 1	0.03	19	20053-V	5320	80CW416	9/25/1981	Changed to Well 9 in 81CW368
(1)	Artesian No. 2	0.07	1	20053-S	5321	80CW416	9/25/1981	Changed to Well 6 in 81CW368
(1)	Bruce Artesian Well	0.01	6.5	25803-F	5489	80CW416	9/25/1981	Changed to Well 9 in 81CW368
(2)	Deep Well No. 6	0.56	97	23623-F	5884	80CW416	9/25/1981	81CW368
(3)	Deep Well No. 9	0.56	74	32169-F	5724	81CW368	5/15/1984	83CW173, 84CW206
	Deep Well No. 5	0.33	60	18820-F	5883	W-7824-74	8/4/1977	81CW246, 81CW142, 85CW190
	Total	1.56	257.5					
Denver Aquifer Nontributary Water Rights								
	Deep Well No. 7	0.33	70	23624-F	5885	80CW416	9/25/1981	80CW416
	Deep Well No. 10	0.22	48	32171	5722	81CW368	5/15/1984	83CW173, 81CW368
	Total	0.55	118					
Arapahoe Aquifer Nontributary Water Rights								
	Deep Well No. 1	1.78	200	16767-F/RF 35046-F	5879	W-7824-74	8/4/1977	81CW246, 83CW173, 86CW207A, 81CW142
	Deep Well No. 2	0.89	150	17129-F 48214-F	5880	W-7824-74	8/4/1977	81CW246, 85CW190
	Deep Well No. 3	1.78	200	17128-F/RF 34632-F	5881	W-7824-74	8/4/1977	81CW246, 81CW368, 85CW190, 86CW270A
(4)	Cottonwood Well D-4A	1.78	200	55267-F 58414-F	11578	86CW055	8/30/1988	01CW52
	Deep Well No. 11	1.78	174	34320-F 58414-F	5725	81CW368	5/15/1984	86CW270A
	Cottonwood Well A-1	1.11	73	30414-F	8960	85CW167	8/31/1989	01CW52
	Lloyd Well A-1	0.45	6.7		8645	86CW361	1/14/1988	01CW52
	Total	9.57	1,003.7					
Laramie-Fox Hills Aquifer Nontributary Water Rights								
(5)	Deep Well No. 8	0.36	155	23425-F	5886	80CW416	9/25/1981	81CW368, 83CW173, 84CW206
	Deep Well No. 12	0.67	27		5723	81CW368	5/15/1984	80CW416, 84CW206
	Lloyd Well LFH-1	0.45	26		8643	86CW361	1/14/1988	
	Crown Pointe Well LFH-1	0.67	103	30415-F	8959	85CW167	8/31/1989	88CW110
	Total	2.15	311					
	Total Nontributary	13.83	1,690.2					

**Table 2 (continued....)
Denver Basin Ground Water Rights
Cottonwood Water and Sanitation District**

Structure Name	Pumping Rate (cfs)	Annual Amount (af/yr)	Permit Number	Structure ID	Original Case Number	Decree Date	Change Case(s) Number
Lower Dawson Aquifer Not Nontributary Water Rights							
Crown Pointe Well DA-1	0.58	70.5	31981-F	8957	85CW167	8/31/1989	88CW110
Loyd DA-1	0.45	20.1		8644	86CW360	1/14/1988	
Total	1.03	90.6					
Denver Aquifer Not Nontributary Water Rights							
Crown Pointe Well D-1	0.34	107	30413-F	8958	85CW167	8/31/1989	88CW110
Loyd Den-1	0.45	37.2		8646	86CW362	1/14/1988	
Total	0.79	144.2					
Total Not Nontributary	1.82	238.3					

NOTES:

- (1) Wells have been plugged and abandoned per Case No. 81CW368.
- (2) Alternate point of diversion for Artesian No. 2. The well's total appropriation is 98 af/yr.
- (3) Alternate point of diversion for Artesian No. 1 and Bruce Artesian Well. The well's total appropriation is 99.5 af/yr.
- (4) Well D-4A is an alternate point of diversion for Cottonwood Well A-1 and Loyd Well A-1..
- (5) Deep Well No. 8 is an alternate point of diversion for Deep Well No. 12, annual combined pumping is 182 af/y.

WATER INFRASTRUCTURE AND SUPPLY EFFICIENCY PROJECT

Loan Feasibility Study

B&V PROJECT NO. 176888

PREPARED FOR

**Colorado Water Conservation Board on Behalf
of the WISE Authority**

23 OCTOBER 2013



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1.0 Introduction

1.1 Background

Water providers in the South Metro area rely primarily on bedrock groundwater to supply the area's municipal and industrial water needs. Although there is a substantial amount of groundwater in the bedrock aquifers underlying the Denver area, these supplies do not have a natural source of replenishment and are thus considered to be non-renewable. Groundwater levels and well production data indicate that groundwater levels are declining in many areas as a result of groundwater pumping and South Metro water providers recognize the need to transition to a more renewable water supply portfolio.

In 2004, South Metro water providers formed the regional South Metro Water Supply Authority (SMWSA). SMWSA stemmed from the Douglas County Water Resource Authority (DCWRA), which started in 1992, and the South Metro Water Supply Study Board formed in January 2000. Currently there are fourteen members of SMWSA and those interested in participating in the Water Infrastructure and Supply Efficiency (WISE) partnership (described in Section 1.2) formed the WISE Authority in 2013. Members of the WISE Authority include:

- Town of Castle Rock (Castle Rock)
- Centennial Water and Sanitation District (Centennial)
- Cottonwood Water and Sanitation District (Cottonwood)
- Dominion Water and Sanitation District (Dominion)
- Inverness Water and Sanitation District (Inverness)
- Meridian Metropolitan District (Meridian)
- Parker Water and Sanitation District (Parker)
- Pinery Water and Wastewater District (Pinery)
- Rangeview Metropolitan District (Rangeview)
- Stonegate Village Metropolitan District (Stonegate)

Of the 10 WISE Authority member entities, six have indicated a desire to obtain funding support through the Colorado Water Conservation Board (CWCB) loan program in Fiscal Year 2013-2014. Those entities are: Cottonwood, Inverness, Parker, Pinery, Rangeview, and Stonegate. Detailed information regarding each entity including the year and statute under which the entity was formed, the number of customers/taps served, current water usage, future growth plans, the identification of revenue sources, and a description of existing water supply facilities was provided by each applicant with their loan application.

1.2 Project Overview

Aurora Water and Denver Water import raw water from the Colorado River and Arkansas River basins. This water, along with reusable South Platte supplies, is stored, treated, and delivered to customers in South Platte River basin as potable water. Under Colorado water law, water users have the right to reuse water originating from a non-tributary supply source, as well as in-basin water rights that are decreed for reuse. Aurora Water's and Denver Water's municipal return flows

ultimately end up in the Middle South Platte River. These reusable return flows can be used to provide additional water to the south Denver metropolitan region.

The Aurora Water Prairie Waters Project (PWP) provides a drought-resistant water supply and involves:

- Diversion of water from the Middle South Platte River via alluvial wells and river bank filtration.
- Aquifer recharge and recovery (ARR).
- Conveyance of pre-treated water through pumping facilities and pipelines.
- Advanced water treatment at the Binney Water Purification Facility (Binney WPF).

After treatment, this water is blended with treated mountain water to produce potable water with a total dissolved solids (TDS) concentration of between 300 and 500 milligrams per liter (mg/L). PWP was designed to meet the current and future drinking water demands of Aurora during drought years. However, during off-peak or non-drought periods when Aurora is not utilizing the full PWP capacity, these facilities can be utilized by WISE Authority members through the WISE partnership. This partnership involves three entities: Aurora Water, Denver Water and the WISE Authority.

In drought years, Denver Water can benefit from having access to its unused reusable return flows or other potentially available water in the Middle South Platte River through the use of the PWP system. Under this scenario, raw mountain water will be conveyed through the Rampart system to the Binney WPF for treatment and blending. In non-drought years, Denver Water can make its available reusable return flows accessible to WISE Authority members. During wet years, Aurora Water and/or Denver Water may have available mountain water that could be made be available to WISE Authority members in addition to unused reusable return flows. Primary benefits of mountain water are that it can be delivered by gravity (instead of pumping), it is relatively cost-effective to treat due to its high quality, and it can be used to blend with other higher TDS water sources.

Water deliveries from the WISE partnership will be variable and at times intermittent. The potable water can be directly used in participants' distribution systems when demands for the water coincide with the availability of supplies. To the degree that deliveries exceed demand for the water (in any given month or day), that excess water can be put into storage for later withdrawal. Storage sites that may be utilized include Rueter-Hess Reservoir (RHR) and aquifer storage and recovery (ASR).

The WISE project involves four major infrastructure components in addition to Aurora Water's existing PWP system:

- A connection from Denver Water's distribution system near Denver International Airport to Aurora's PWP.
- A pump station and pipeline from the Binney WPF to connect to the existing ECCV pipeline.
- Acquisition of the existing ECCV pipeline.

- Local infrastructure to deliver WISE water from the ECCV pipeline turnout to each WISE Authority member.

The estimated total project cost is \$142.5M. The amount that each WISE Authority member is required to pay depends on:

- The amount of water each WISE Authority member has committed to taking.
- The amount of local infrastructure that must be constructed to deliver each member's WISE water.

As a result, the amount of loan funding being requested by each applicant varies as shown in Table 1 below.

Table 1. CWCB Loan Request Amounts

WISE Authority Member	WISE Project Cost Share (\$M)	CWCB Loan Request (\$M)
Cottonwood	\$4.2	\$4.0
Inverness	\$5.4	\$5.0
Parker	\$13.4	\$12.0
Pinery	\$10.9	\$10.0
Rangeview	\$6.2	\$6.0
Stonegate	\$6.8	\$6.0
Total*	\$90.6	\$44.0
*This total does not include costs for participants not seeking a loan from the Colorado Water Conservation Board (CWCB). The total capital project cost is estimated to be \$142.5M.		

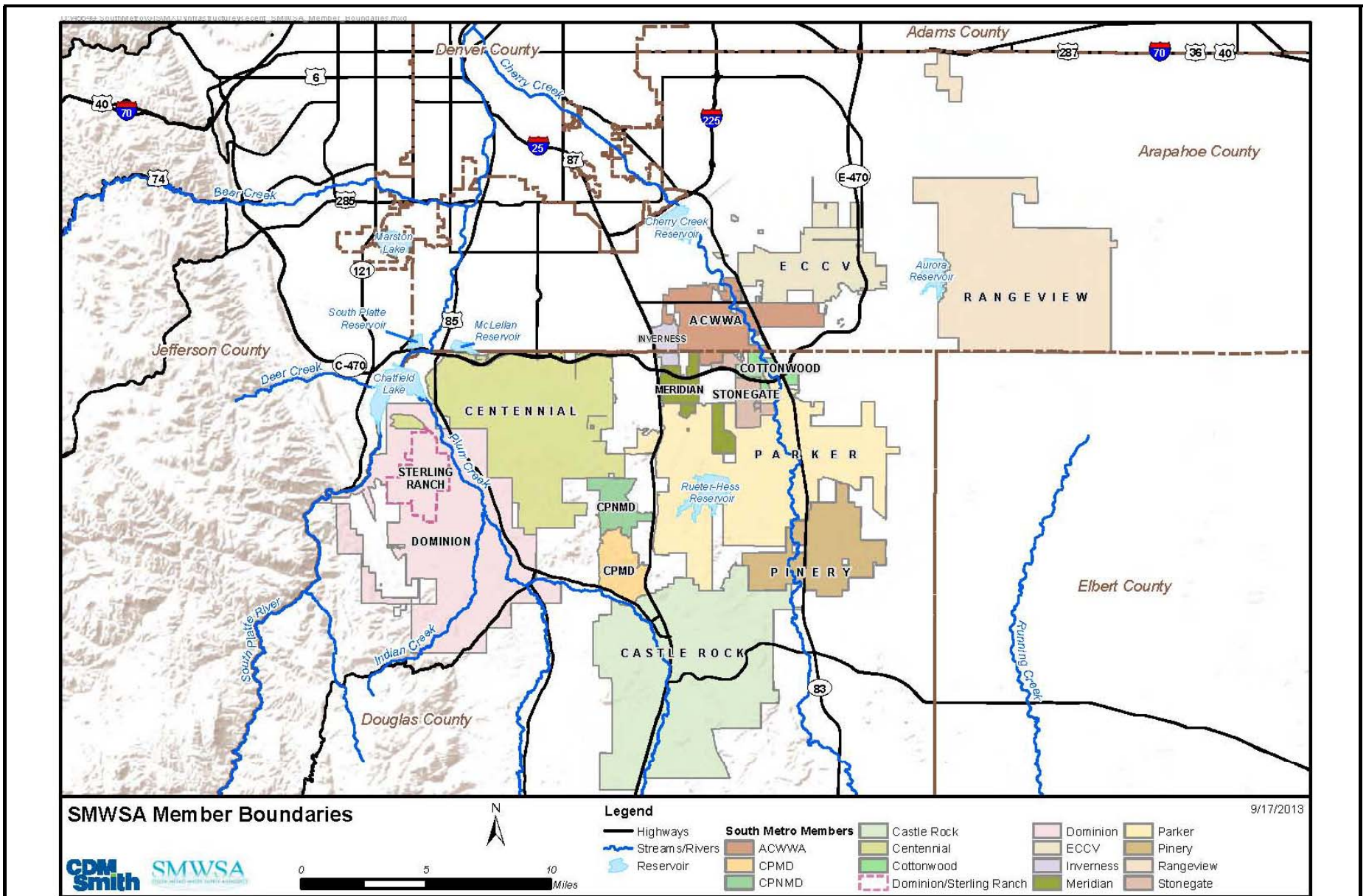
1.3 Study Area Description

SMWSA's members include 14 water providers that work together to plan, source and develop water for Douglas and Arapahoe Counties. Collectively the members serve about 80 percent of Douglas County and 10 percent of Arapahoe County. Figure 1 shows the location and relative size of the SMWSA members' existing service areas. The future service areas are anticipated to cover over 200 square miles at buildout, primarily within Douglas County.

Douglas County

Douglas County, Colorado lies close to the center of the state along the I-25 Corridor between the major urban activity centers of Denver and Colorado Springs. It encompasses over 540,000 acres and elevations range from roughly 5,400 to 9,800 feet.

Douglas County is one of the fastest growing counties in Colorado. By the year 2030, the population is expected to surpass 444,000 people, as shown on Figure 2 from the Douglas County 2030 Comprehensive Master Plan, 2008.



Source: South Metro Water Supply Authority

WISE Authority

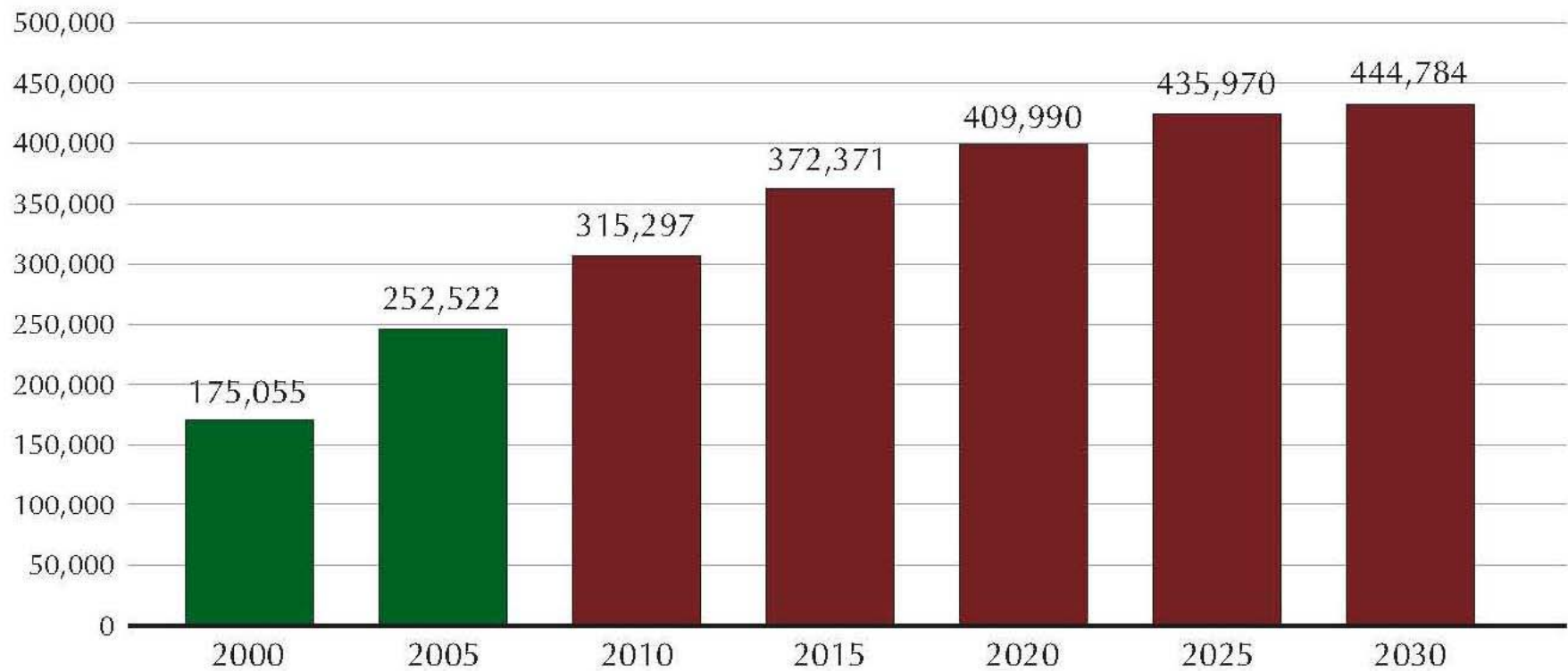
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SMWSA Service Area

Figure

1



Source: Douglas County 2030 Comprehensive Master Plan, 2008

WISE Authority



CWCB Loan Feasibility Study

Douglas County Population Projections (2000 – 2030)

**Figure
2**

Douglas County has experienced significant job growth since the year 2000. From 2000 to 2006, the labor force grew by 30,700, averaging nearly 6,140 new jobs per year. While jobs in the County are still mostly in the service industry; professional, technical, and health care employment opportunities are growing rapidly. By 2030 total County employment could reach almost 262,000 jobs, as shown on Figure 3 from the Douglas County 2030 Comprehensive Master Plan, 2008.

Land use in Douglas County includes both urban and rural communities, as well as significant amounts of forest land and open space, as shown on the attached Map 1.1 of the Douglas County 2030 Comprehensive Master Plan.

Arapahoe County

Arapahoe County, Colorado is also located close to the center of the state, primarily east of I-25. It encompasses over 515,000 acres at an average elevation of 5,400 feet.

According to the 2001 Arapahoe County Comprehensive Master Plan, agriculture is the predominant land use in the County, mostly in the eastern two-thirds of the County. Institutional uses, including schools, public facilities and churches, account for roughly 6 percent of the land use in the County. Non-residential uses, including retail, commercial, industrial and utilities, account for roughly 2 percent of the County's land area, residential land uses account for over 8 percent, and vacant land accounts for the remaining 2 percent.

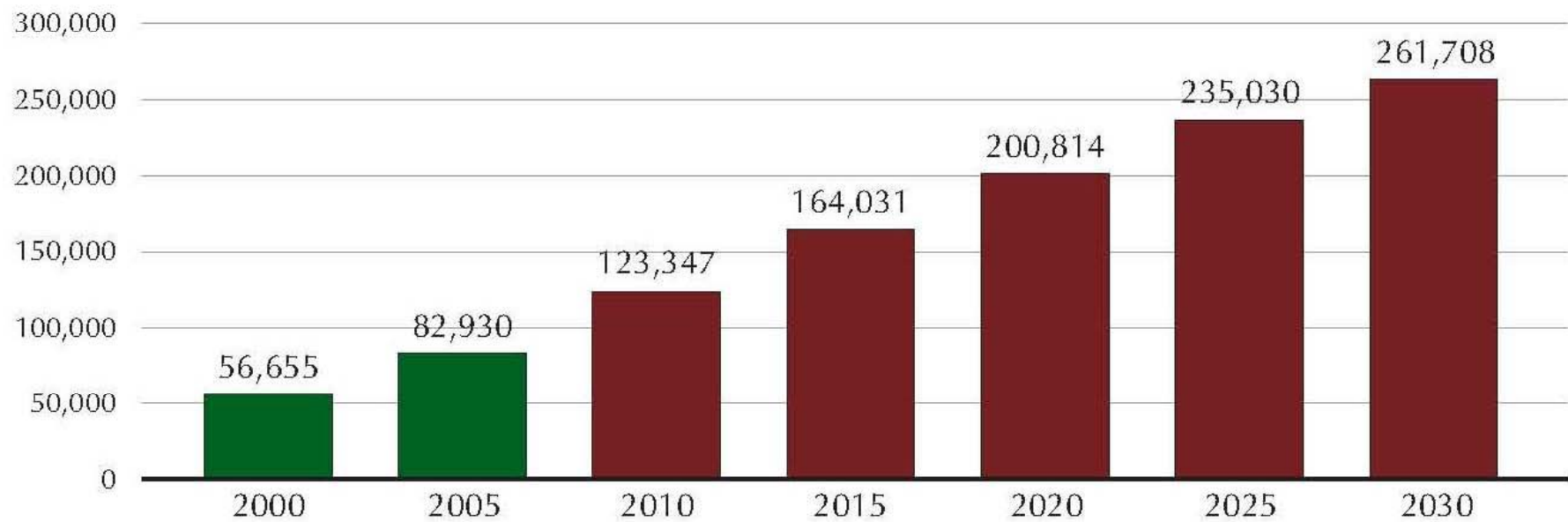
Arapahoe County, like the rest of Colorado, saw a tremendous amount of population growth and new development during the 1990s. In 1990, the population of Arapahoe County was 391,511. The Colorado State Demography Office estimated the population of Arapahoe County to be roughly 575,000 in 2010 and projects the County's population to increase to roughly 762,000 by 2030.

The areas of most plant and animal species significance include the prairie grasslands, which make up a significant portion of eastern Arapahoe County, and the forest dominated riparian areas, which are located along several of the major drainageways.

1.4 Previous Studies

SMWSA initiated its renewable supply planning in the early 2000s. Since that time, planning efforts have helped define near- and long-term renewable supply sources and infrastructure as summarized below.

- 2004 South Metro Water Supply Study.** This study was a joint effort between SMWSA, Denver Water, and the Colorado River Water Conservation District to investigate alternatives for meeting the water supply needs of the South Denver metropolitan area through the year 2050. Alternatives included the continued use of Denver Basin groundwater, better management of existing resources, and importation of additional renewable water supplies through the "conjunctive use" of surface water and ground water supplies.



Source: Douglas County 2030 Comprehensive Master Plan, 2008

WISE Authority



CWCB Loan Feasibility Study

Douglas County Employment Projections (2000 – 2030)

**Figure
3**

- **2007 Regional Water Master Plan.** The 2007 Regional Water Master Plan identified a phased approach to implementing renewable water supplies and related infrastructure that included:
 - **Near-Term.** Introduction of new surface water through interconnections between water providers and employing others' unused renewable supplies on a temporary basis, without major new infrastructure.
 - **Mid-Term (2025).** Additional renewable water through the acquisition of new supplies, while reducing the need for major new transmission pipelines.
 - **Long-Term.** Acquisition of additional water rights to meet the remaining renewable goals for buildout conditions, possibly through partnering with others on a major transmission pipeline investment.
- **2008 Mid-Term Water Delivery Project Plan.** In 2008, SMWSA developed a draft Mid-Term Water Delivery Project Plan that focused on the infrastructure and actions needed to bring mid-term renewable water supplies to SMWSA project participants through the East Cherry Creek Valley (ECCV) Northern Transmission System.
- **Draft 2010 Regional Water Supply Master Plan Update.** This report built upon SMWSA's previous master planning efforts and focused on near- and mid-term efforts to implement renewable supplies through regional partnerships, specifically the WISE partnership.
- **2013 Douglas County Rural Water Supply System Feasibility Study.** This study reviewed recent Denver Basin groundwater studies and water level data to assess the sustainability of current and future use of Denver Basin groundwater by rural residents and water districts. The study also evaluated the potential opportunity to convey renewable water from Aurora Water's PWP system through WISE Authority member infrastructure to the northwest and northeast areas of Douglas County, which could potentially serve over 5,000 rural homes currently using individual wells.

2.0 Water Supply and Demand

2.1 Existing Water Supply Sources

WISE Authority members currently use a combination of non-tributary groundwater, alluvial wells, surface water, and return flows to meet water demands.

Colorado water law for non-tributary ground water ties water ownership to the ownership of the land below which the aquifer lies. Water providers acquire non-tributary groundwater rights by requiring dedication of such rights to the water provider for service. Therefore, the non-tributary water rights available to each water provider are generally those water rights associated with the property within their service area boundaries. The non-tributary groundwater available to the water providers in the South Metro area is from the Denver Basin. The Denver Basin is comprised of the Dawson, Denver, Arapahoe, and Laramie-Fox Hills aquifers. These aquifers are deep sedimentary rock formations that are characterized by very low recharge rates and are considered to be a non-renewable water resource.

In Douglas County, the USGS estimates that 49 million acre-feet of water are theoretically recoverable although practical development levels have not been established. The actual availability of groundwater for municipal purposes is restrained by legal and physical factors. In general, these aquifers consist of very dense sandstones, which are relatively slow draining, and the production levels in gallons per minute are somewhat limited. The best producing aquifer is the Arapahoe aquifer, where wells generally produce 300 up to 1,500 gallons per minute. The production rates of wells in the Dawson and Denver Formations generally range from between 50 and 200 gallons per minute and between 100 and 300 gallons per minute for the Laramie-Fox Hills Formation. However, low water quality plus high costs for development limit the current use of the Laramie-Fox Hills Aquifer.

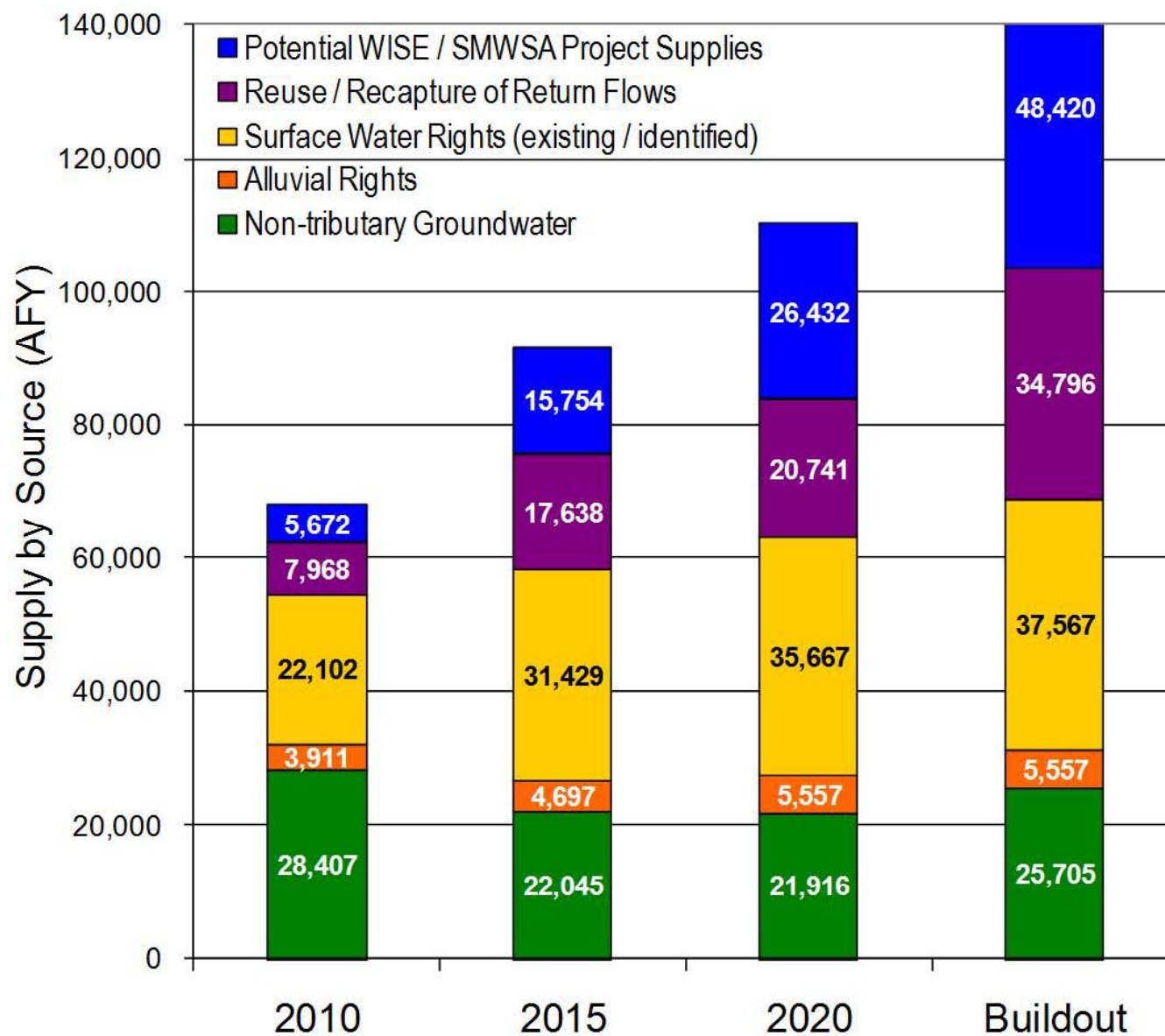
The majority of the South Metro municipal water delivery systems are designed for a maximum day demand, with peak hour demands met through storage. While SMWSA members' aggregate non-tributary groundwater rights of about 111,000 acre-feet per year (AFY) could nearly meet the projected buildout demands of 122,000 AFY, the members intend to substantially transition away from groundwater, using less than 20,000 AFY of non-tributary groundwater at buildout. Figure 4 from the draft 2010 Regional Water Supply Master Plan Update shows the SMWSA members' aggregated supplies by source category for each planning phase.

2.2 Existing and Future Water Demands

Figure 5 from the draft 2010 Regional Water Supply Master Plan Update shows the SMWSA members' projected total water demands (potable and non-potable), after conservation savings.

2.3 Adequacy of Water Rights/Existing Yields

As discussed previously, SMWSA members intend to substantially transition away from groundwater. In order to meet projected water demands, alternative renewable water supplies are needed.



Source: Draft 2010 Regional Water Supply Master Plan Update

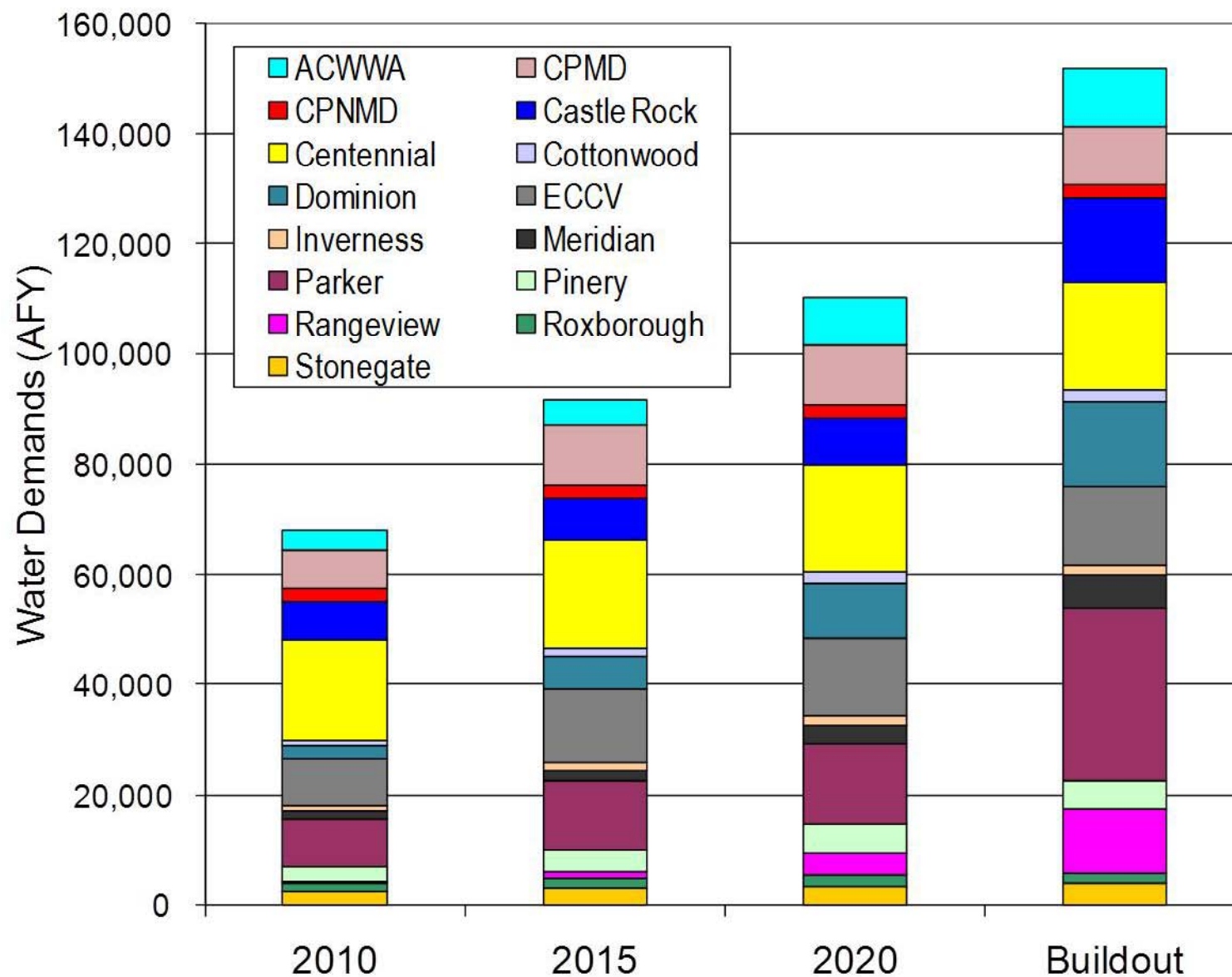
WISE Authority



CWCB Loan Feasibility Study

SMWSA Members' Projected Aggregated Supplies by Source

**Figure
4**



Source: Draft 2010 Regional Water Supply Master Plan Update

WISE Authority



CWCB Loan Feasibility Study

SMWSA Members' Projected Aggregated Demands

**Figure
5**

3.0 Alternatives Development and Analysis

The following section describes three alternatives that were considered in the development of this study.

3.1 Alternative 1 – No Action

Under this alternative, South Metro water providers would continue to primarily use groundwater to serve their customers. As discussed previously, these supplies do not have a natural source of replenishment and are considered non-renewable. Data indicate that groundwater levels are declining in many areas as a result of groundwater pumping. Therefore, the amount of energy required to extract the groundwater is higher, increasing the costs to deliver this supply. Based on these reasons, this alternative is considered irresponsible and was not evaluated further.

3.2 Alternative 2 – East Cherry Creek Valley Water and Sanitation District Northern Transmission System

The East Cherry Creek Valley (ECCV) Northern Transmission System consists of approximately 32 miles of 48-inch diameter steel pipeline capable of conveying 47 million gallons per day (mgd) of water from the Barr Lake area to the ECCV storage tanks at Smoky Hill Road and Highway E-470. The ECCV Northern Water Treatment Plant (WTP) is located at the northern end of the transmission system and will be ultimately be capable of treating 47 mgd at buildout.

ECCV indicated that approximately 8.0 mgd of firm capacity (available year round) could potentially be available to SMWSA members. ECCV also indicated that up to 29.0 mgd of variable capacity (not available year round) could potentially be available to SMWSA members.

Under this alternative, water from the Middle South Platte River, primarily consisting of transferred agricultural water, would be treated for SMWSA members at the ECCV Northern WTP. Treated water would then be conveyed to the ECCV storage tanks at Smoky Hill, and subsequently conveyed to SMWSA delivery locations through local infrastructure. Three local delivery infrastructure scenarios were developed for this alternative (Scenarios A, B, and C).

Table 2 shows the estimated capital and operation and maintenance (O&M) costs associated with this alternative (in 2008 dollars). The cost opinions that were developed did not include the following items: water rights, pipeline from water source to ECCV Northern WTP, local storage (if necessary), local retreatment (treating stored water for peak demands), or local distribution costs beyond the indicated storage/delivery points. These costs either carry significant uncertainties or are based on provider specific systems and decisions.

Table 2. Capital and O&M Cost Opinions for the ECCV Northern Transmission System Alternative

Scenario	Capital Cost Opinion (\$M)	Annual O&M Cost Opinion (\$M/year)
Scenario A	\$479	\$13.8
Scenario B	\$472	\$13.8
Scenario C	\$460	\$13.7

Since the ECCV northern pipeline is already in place, there will not be additional impacts to the man-made and natural environment. Furthermore, purchasing existing capacity will not require the myriad of permits needed for construction of a new pipeline, with the exception of the local delivery infrastructure. However, this alternative would require several water rights change cases for the transfer South Platte River agricultural supplies, which could take several years and may or may not be successful.

3.3 Alternative 3 – WISE Project

Under this alternative, Aurora Water would provide treated water to WISE participants during off-peak or non-drought periods when Aurora is not utilizing the full PWP capacity. In drought years, Denver Water will utilize the PWP system to access reusable return flows or other potentially available water in the Middle South Platte River. Water deliveries from the WISE partnership will be variable and at times intermittent. The potable water can be directly used in participants' distribution systems when demands for the water coincide with the availability of supplies. To the degree that deliveries exceed demand for the water (in any given month or day), that excess water can be put into storage for later withdrawal. Storage sites that may be utilized include RHR and ASR.

Water deliveries will be made to participants based on the amount defined in the Water Delivery Agreement. This defined volume is referred to as the subscription level, and is based on average annual water deliveries over a 10-year block of time in acre-feet per year. Table 3 lists the amount of water each WISE Authority member has committed to as part of the Water Delivery Agreement between Aurora Water, Denver Water and the WISE Authority.

The amount of renewable water each WISE Authority member seeks to obtain through the WISE project is a function of the member's own individual water supply planning, incorporating a broad set of influencing factors such as overall renewable supply goals, current or anticipated availability of other supply sources, anticipated growth in demand, and economic drivers.

Table 3. WISE Subscription Levels

WISE Authority Member	WISE Subscription Level (AFY)
Castle Rock	1,000
Centennial	1,000
Cottonwood	400
Dominion	1,325
Inverness	500
Meridian	300
Parker	1,200
Pinery	500
Rangeview	500
Stonegate	500
Total	7,225

Facilities associated with this alternative include a new pump station located at the BWPF. Water would be pumped generally west to a high point located near the intersection of Smoky Hill Road and Highway E-470. From this location, water would flow by gravity south and then west along the Highway E-470/C-470 corridor through an existing pipeline currently owned and operated by ECCV known as the ECCV Western Pipeline. Several turnouts would be constructed to deliver water directly to WISE participants with systems adjacent to this pipeline. A turnout and pump station would also be constructed near the intersection of Chambers Road and E-470 to deliver water to participants located south of the ECCV western pipeline. A pipeline would be constructed from the pump station south along the eastern side of Rueter-Hess Reservoir. A third booster pump station would be constructed to convey water to Participants and Partners located south of Rueter-Hess Reservoir. In total, this option includes three new pump stations, 45 miles of new pipelines varying between 8- and 42- inches in diameter, and 15 miles of existing pipe to be acquired from ECCV.

The pump station and pipeline from the Binney WPF to connect to the existing ECCV pipeline, as well as the existing ECCV Western Pipeline are considered core facilities. Core facilities are those downstream of the Binney WPF clearwell that are necessary for service to all or most of the participants. Core infrastructure costs are shared by all participants based on the participant's subscription level. Local facilities are those that are necessary for one or more participants to receive water from the ECCV pipeline turnout to each WISE Authority member. Local infrastructure costs are shared only by the participants that utilize the infrastructure, based on the participant's percent of the design flow used to size the infrastructure.

The estimated amount that each WISE Authority member is required to pay is shown in Table 4 and is based on:

- The amount of water each WISE Authority member has committed to taking.
- The amount of local infrastructure that must be constructed to deliver each member's WISE water.
- O&M costs include both fixed and variable (electricity) costs, as well a water rate charge of \$5.50 per 1,000 gallons.

Table 4. WISE Authority Participant Project Cost Share

WISE Authority Member	Capital Cost Share (\$M)	O&M Cost Share (\$/year)
Castle Rock	\$40.0	\$2,310,000
Centennial	\$9.1	\$1,872,000
Cottonwood	\$4.2	\$750,000
Dominion	\$43.7	\$2,755,000
Inverness	\$5.4	\$938,000
Meridian	\$2.8	\$562,000
Parker	\$13.4	\$2,252,000
Pinery	\$10.9	\$977,000
Rangeview	\$6.2	\$939,000
Stonegate	\$6.8	\$969,000
Total	\$142.5	\$14,324,000

Since the ECCV Western Pipeline is already in place there will not be additional impacts to the man-made and natural environment. Furthermore, purchasing existing capacity will not require the myriad of permits needed for construction of a new pipeline, with the exception of the local delivery infrastructure. Additionally, this alternative utilizes existing water rights and no court actions are required to allow the water to be used by the WISE Authority participants.

4.0 Selected Alternative

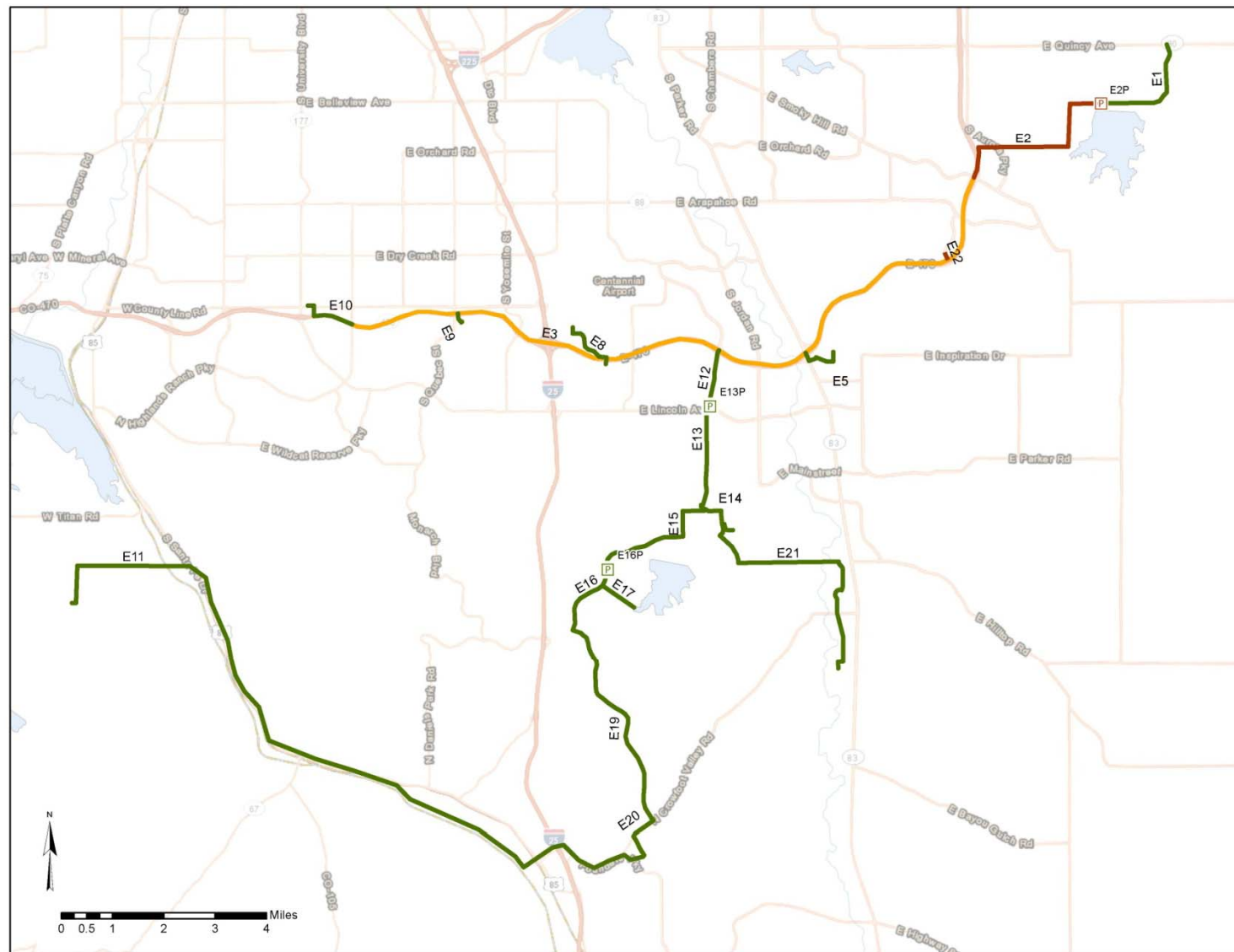
4.1 Detailed Project Description

The WISE project was selected as the preferred alternative. A map showing the proposed pipeline alignment and the delineation of core versus local infrastructure is shown on Figure 6. A description of each component is provided in Table 5.

Table 5. WISE Project Components

Component ID	Type	Description
E22	Core	Temporary connection to Aurora Water
E3	Core	ECCV pipeline, pump station modifications, groundwater treatment plant, and storage tank (WISE Authority portion)
E5	Local	ECCV to Cottonwood
E7	Local	ECCV to Meridian pipeline
E8	Local	ECCV to Inverness pipeline
E9	Local	ECCV to Centennial
E13P	Local	Pump station at Parker Water Treatment Plant (WTP)
E15	Local	Pipeline from Parker WTP pump station to Newlin Gulch pump station
E16P	Local	Newlin Gulch pump station
E16, E19, E20	Local	Pipeline from Newlin Gulch to Castle Rock
E12	Local	ECCV to Lincoln pipeline
E13	Local	Pipeline from Lincoln to Parker WTP pump station
E17	Local	Pipeline from Newlin Gulch to RHR
E2P	Core	Pump station at Binney WPF
E2	Core	Pipeline from Binney WPF to Smoky Hill pump station
E1	Local	Pipeline from Binney WPF to Rangeview
E14	Local	Pipeline from Parker WTP to Stonegate
E21	Local	Pipeline from Stonegate to Pinery
E11	Local	Pipeline to Dominion from ECCV or Crowfoot Valley
	Core	DIA Connection

All pipelines for this project have been sized to not exceed a velocity of five feet per second during the maximum flow condition. All pump stations have been sized to produce a minimum pressure of at least 10 pounds per square inch (psi) at the highest point downstream of the pump station. Pipelines, pump stations and connection facilities are predominately located within multi-use public rights-of-way. Detailed design of the facilities has not yet been completed, but typical pipeline trench cross sections are anticipated for the pipeline and standard horizontal or vertical centrifugal pumps are anticipated for the pump station.



Source: Black & Veatch

4.2 Detailed Cost Estimate

Table 6 details the capital cost opinion for each component of the WISE project for the WISE Authority.

Table 6. WISE Project Capital Cost Opinion

ID	Component	Cost Opinion
E22	Temporary connection to Aurora Water	\$0.4
E3	ECCV pump station modifications, groundwater treatment plant, and storage tank (WISE Authority portion)	\$2.3
E5	ECCV to Cottonwood	\$0.6
E7	ECCV to Meridian pipeline	\$0.1
E8	ECCV to Inverness pipeline	\$0.7
E9	ECCV to Centennial	\$0.3
E13P	Pump station at Parker Water Treatment Plant (WTP)	\$3.7
E15	Pipeline from Parker WTP pump station to Newlin Gulch pump station	\$4.1
E16P	Newlin Gulch pump station	\$10.2
E16, E19, E20	Pipeline from Newlin Gulch to Castle Rock	\$10.7
E12	ECCV to Lincoln pipeline	\$2.9
E13	Pipeline from Lincoln to Parker WTP pump station	\$4.8
E17	Pipeline from Newlin Gulch to RHR	\$0.6
E2P	Pump station at Binney WPF	\$7.5
E2	Pipeline from Binney WPF to Smoky Hill pump station	\$8.3
E1	Pipeline from Binney WPF to Rangeview	\$1.3
E14	Pipeline from Parker WTP to Stonegate	\$0.6
E21	Pipeline from Stonegate to Pinery	\$2.9
E11	Pipeline to Dominion from ECCV or Crowfoot Valley	\$12.2
Subtotal		\$74.1
Engineering/Design (8%)		\$5.9
Permitting/Easements (2%)		\$1.5
Subtotal		\$81.5
Contingency (30%)		\$24.4
Total Construction Cost Opinion		\$105.9
ECCV pipeline acquisition (WISE Authority portion)		\$29.3
DIA Connection Fee		\$7.3
Total Capital Cost Opinion		\$142.5

4.3 Implementation Schedule

Figure 7 shows the anticipated implementation schedule. All facilities are scheduled to be constructed by mid-2020. Major milestones to note include:

- All agreements will be finalized by the end of 2013.
- Design of the infrastructure required to make initial connections to all of the WISE Authority participants will begin in 2014. Construction of these components will begin in 2015 and will be completed mid-2016.
- Design of the Chambers reach infrastructure will begin in 2016. These components will be constructed in 2017.
- Design of the permanent infrastructure to bypass Aurora Water's distribution system as well as the long-term connections will begin in 2018. Construction of these components will begin in 2019 and will be completed mid-2020.

4.4 Institutional Considerations

There are four agreements that play an important role in enabling the WISE partnership, as described below:

- **Aurora Water – Denver Water Operational Agreement.** This agreement outlines the terms under which Aurora Water and Denver Water will cooperate in delivering water to the WISE Authority and the terms under which Denver Water can take deliveries.
- **WISE Water Delivery Agreement (WDA).** This is the overarching agreement that defines the terms under which deliveries of potable water to WISE Authority members are made by Aurora Water and Denver Water using available capacity in Aurora Water's PWP system. The signatories to this agreement are Aurora Water, Denver Water, and the WISE Authority.
- **WISE Authority Intergovernmental Agreement (IGA).** Individual entities of the WISE Authority are not signatories to the WISE Water Delivery Agreement. Therefore, the WISE Authority IGA binds them to the terms of the WDA, creates the WISE Authority, and defines each participant's responsibilities to the WISE Authority and other participants.
- **Colorado River Cooperative Agreement (CRCA).** The CRCA is the product of years of negotiations that involved parties stretching from Grand Junction to the Denver metro area. The agreement outlines a path of cooperation and collaboration in managing the state's water resources and became effective on September 26, 2013.

4.5 Impact Mitigation

The following is a description of potential environmental impacts that have been considered during the development of the WISE project. These impacts are negligible and therefore, no mitigation is proposed.

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		2013				2014				2015				2016				2017				2018				2019				2020			
	CIP	Description	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Resolve WDA/IGA Contingencies		Approval by all S.M. Participants																															
		Approval by governing Boards of Denver/Aurora																															
		Execution of the Western Pipeline Agreement																															
		Agree on Price and Modification Cost Split		May																													
		Draft Terms of the Agreement			July																												
		Conclude due diligence and complete Agreement			Sept																												
		Begin RFP Process (see below)				Oct																											
		RHR Cond 52 Permit Amendment																															
	Complete Execution of CRCA																																
Make ECCV Pipe Operational & Make All Initial Connections		Finalize ECCV Agreement																															
	E3	ECCV Groundwater Treatment Plant																															
	E3	Elevated Tank at Smoky Hill																															
	E22	Temporary Connection to AW																															
	E5	ECCV to Cottonwood (with WQ Conversion)																															
	E7	ECCV to Meridian (with WQ Conversion)																															
	E8	ECCV to Inverness (with WQ Conversion)																															
	E9	ECCV to Centennial																															
	E13P	PS at Parker WTP																															
	E15	PS at Parker WTP to PS Near Newlin Gulch																															
	E16P	PS near Newlin Gulch																															
	E16	PS near Newline Gulch to CPNMD/CR Wye																															
	E19	CPNMD/CR Wye to Crowfoot Valley Rd																															
E20	Crowfoot Valley Rd to Castle Rock																																
Chambers Reach		E12 ECCV to Lincoln																															
		E13 Lincoln to PS at Parker WTP																															
		E17 PS near Newline Gulch to RHR Discharge Structure																															
By-Pass AW System		E2P Pump Station at Binney																															
		E2 Binney to Smoky Hill Pump Station																															
		E1 BWPF to Rangeview																															
		Transition from Temporary Connection																												2020			
Long-Term Connections		E14 Parker WTP to Stonegate(Upper Zone)																															
		E21 Stonegate TO to Pinery																															
		E11 ECCV Pipe or Crowfoot Valley Rd Pipe to DWSD																															
		Terminate Bridge / Wheeling Contracts																												2020			
		Contingencies																															
		RFP/Process																															
		Design/Permit																															
		Construct																															

Source: Black & Veatch

- **Water quality.** WISE water will first be treated by Aurora Water’s Binney WPF and will not degrade the water quality in existing storage reservoirs or ASR facilities.
- **South Platte River stream flows.** The reusable water supplies that Aurora Water and Denver Water will provide to WISE are either foreign to the South Platte River basin (imported from another basin) or can be fully consumed (i.e. non-tributary groundwater and the fully consumable component of transferred agricultural water rights). These supplies will continue to increase as the Denver metropolitan area population grows. Therefore, the changes in flows in the reach of interest for the South Platte River associated with WISE water are estimated to have no effect to temporary minor effects on the aquatic environment.
- **Waters of the U.S.** The primary concern is conveyance infrastructure that will need to be constructed from Aurora Water’s Binney WPF system each of the participant’s systems. Pipeline crossings of waters of the U.S. and wetlands subject to the Corps’ jurisdiction will be identified during design, and the discharge of dredge and fill material into jurisdictional waters and wetlands will be avoided by rerouting pipelines, boring, or tunneling under the jurisdictional drainage or wetland.
- **Endangered species.** The proposed conveyance for WISE would cross drainages in Douglas County that have been mapped by Douglas County, with concurrence from the U.S. Fish and Wildlife Service, as habitat for the federally-threatened Preble’s meadow jumping mouse (Preble’s). Some of this habitat has also been designated by the Service as critical habitat. The WISE participants will avoid adverse impacts to Preble’s habitat by tunneling or boring under all mapped Preble’s habitat. Tunneling under drainages, wetlands and Preble’s habitat will also avoid adversely affecting two federally-threatened plant species that may occur in Douglas County, the Colorado butterfly plant and Ute ladies’-tresses orchid.

The WISE participants are currently coordinating with the U.S. Army Corps of Engineers (Corps) and the Service on Endangered Species Act (ESA) compliance for WISE water that will be stored in RHR. The Corps is consulting with the Service on depletions to the Platte River and associated effects on federally-listed species and their designated critical habitat in Nebraska. The Corps will conduct a biological assessment and the Service will issue a biological opinion.

4.6 Financial Plan

A financial plan for each entity is provided as an attachment and includes the following information:

- Funding sources
- Financial impacts
- Revenue and expenditure projections
- TABOR issues
- Collateral
- Sponsor creditworthiness

Land Use

Map 1.1

Comprehensive Master Plan 2030

May 12th, 2008

COMPREHENSIVE MASTER PLAN AREAS

- CHATFIELD URBAN AREA
- PRIMARY URBAN AREA (PUA)
- RURAL COMMUNITIES
- SEPARATED URBAN AREA (SUA)
- NON-DOUGLAS COUNTY BASED MUNICIPALITIES
- NON-URBAN AREA

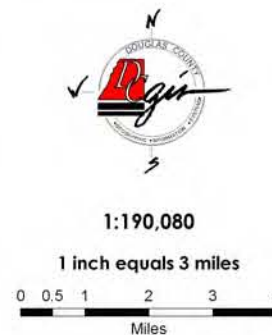
MUNICIPAL PLANNING AREAS

- MUNICIPAL PLANNING AREA (INCORPORATED)
- MUNICIPAL PLANNING AREA (UNINCORPORATED)
- CASTLE ROCK IGA BOUNDARY & BUFFER AREA
- PARKER IGA BOUNDARY & BUFFER AREA
- MUNICIPAL PLANNING AREA INCLUSIVE OF COUNTY PUA

SIGNIFICANT OPEN SPACE & PARKS

- OPEN SPACE
- COUNTY OPEN SPACE WITHIN INCORPORATED AREAS
- PIKE NATIONAL FOREST
- PARKS

- Townships
- Sections
- County Boundary
- Lakes
- Streams
- Interstate
- US Highways
- State Highways
- Major Roads

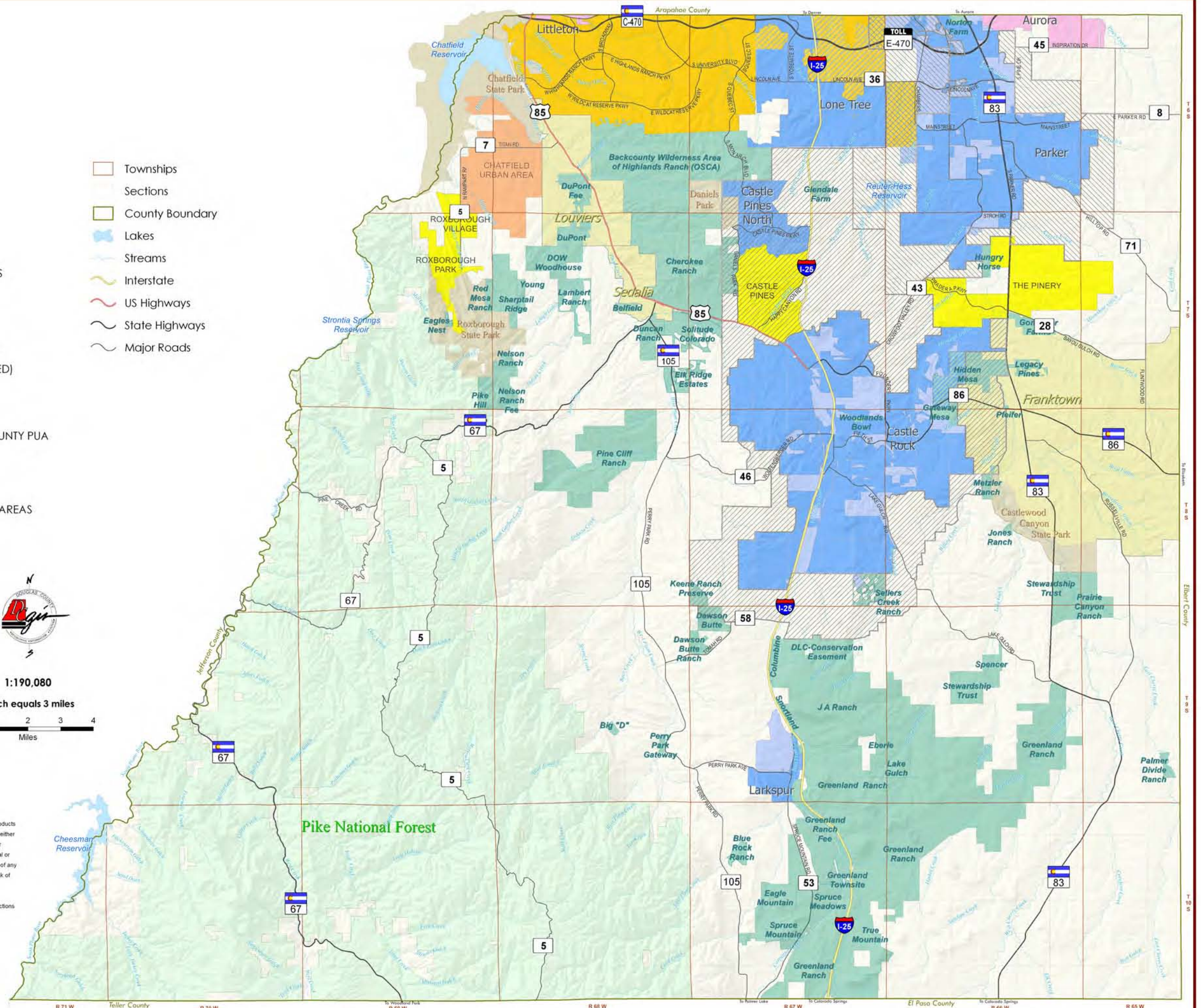


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Douglas County GIS Division
Philip S. Miller Bldg., 100 Third St.
Castle Rock, Colorado 80104



Financial Plan for Cottonwood Water and Sanitation District

Funding Sources

Total project costs in the amount of \$4.2M are based on the purchase of 400 acre-feet of water supply. Sources of funds for the project include \$0.2M of future service and tap fee revenue. Estimated debt payments are calculated at \$211,000 per year based on at 30 year, 3.25% loan. A summary of estimated project costs and source of funds is presented in Table 1 below.

Table 1
Summary of Project Costs and Funding

Total Project Costs	\$4,200,000
<i>Source of Funds</i>	
Future Tap & Service Fees	\$200,000
Funds Requested	<u>\$4,000,000</u>
Terms Requested	30-Years 3.25% Interest
Annual Payment	\$211,000

Funds for loan repayment would be generated from user charges. Based on an annual debt service of \$211,000 and 2,300 SFEs (single family equivalents), the estimated monthly cost for debt service is \$7.65 per SFE.

Financial Impacts

The annual estimated Debt Service of \$211,000 (\$7.65 per SFE per month) would require the District to increase its water service fees by a maximum of approximately 12%. Based on the estimated projected cash flows, this increase could be implemented at 2% per year for 6 years.

Revenue and Expenditure Projections

Appendix A includes the District's adopted 2013 Budget as well as the District's 2014 Draft Budget and revenue and expenditure projections. The 2014 Draft Budget was used as the baseline for the projections. Revenues and expenses were inflated throughout the 30 year projection period. Revenues include the required \$7.65 per SFE for debt service.

TABOR Issues

Entering into a loan to finance the project will not result in any TABOR issues for the District. As authorized by TABOR, the District has established a water activity enterprise, as defined in Section 37-45. 1-102(3), C.R.S., by resolution of the District Board of Directors dated November 19, 1996. The District provides water service acting by and through its water activity enterprise, and the revenues pledged to repay the loan will be water use charges and fees collected by the enterprise. As such, pursuant to TABOR, the loan will be an enterprise borrowing and will not constitute a multiple fiscal year obligation of the District for which prior voter authorization is required pursuant to TABOR.

Collateral

The loan will be secured as to repayment by a pledge of system revenues from the District, acting by and through its water activity enterprise. The revenue stream will consist of fees and user charges imposed by the District, acting by and through its water activity enterprise, for the provision of potable water supply within the District's geographic boundaries. It is anticipated that the District, through its water activity enterprise, will covenant to set its water fees and user charges at a level adequate to meet annual principal and interest payments to the loan.

Creditworthiness

Financial audits for the last three years, 2010, 2011, and 2012, have been included in **Appendix B**. In addition, the District's unaudited financial statement, dated July 31, 2013, is included as **Appendix C**.

Appendix A

Cottonwood Water & Sanitation District

APPROVED

2013 Budget

	2011 ACTUAL	2012			ORIGINAL BUDGET	2013 BUDGET
		JAN-OCT ACTUAL	NOV-DEC PROJECTED	TOTAL PROJECTED		
OPERATIONS FUND						
Service Fees						
Water Service	1,662,582	1,586,514	220,000	1,806,514	1,626,000	1,734,000
Sewer Service	1,437,725	1,281,962	270,000	1,551,962	1,565,000	1,640,000
Parker Stormwater Mgmt	3,818	3,292	650	3,942	4,000	4,000
Miscellaneous	8,503	5,506	500	6,006	5,000	7,000
Total Service Fees	3,112,628	2,877,274	491,150	3,368,424	3,200,000	3,385,000
Operating Expenses						
Management Fees	87,761	99,245	20,000	119,245	100,000	120,000
Director's Fees	5,812	6,300	1,000	7,300	7,000	7,500
Accounting/Billing/Collections	80,223	74,518	15,000	89,518	85,000	90,000
Finance Plan/COS Study	4,000			-	20,000	-
Audit	9,850	6,134		6,134	7,000	7,500
Bank Fees	14,413	9,663	1,000	10,663	10,000	6,000
Legal - General	55,300	47,136	2,864	50,000	50,000	50,000
Legal - ACWWA		235,678	47,136	282,814		650,000
Legal-Water Rights	22,903	19,592	2,000	21,592	30,000	60,000
Prof & Engineering Fees	62,723	49,087	7,000	56,087	35,000	60,000
Insurance Expense	32,367	29,255		29,255	34,000	32,000
Wastewater Treatment	1,331,592	1,080,843	200,000	1,280,843	1,300,000	1,365,000
Water Treatment	1,025,416	437,207	75,000	512,207	1,000,000	250,000
System Operating Costs	99,840	83,200	16,640	99,840	100,000	100,000
UCCWA	10,000	10,000		10,000	15,000	15,000
Repairs & Maintenance	68,701	79,158	5,000	84,158	80,000	90,000
Utilities	233,255	298,918	40,000	338,918	175,000	425,000
Water Conservation Rebates	2,538	3,649	500	4,149	5,000	6,000
Postage & Misc	40,610	39,159	5,000	44,159	40,000	45,000
Lease Financing						-
Contingency	-			-	20,000	20,000
Total Operating Expenses	3,187,304	2,608,742	438,140	3,046,882	3,113,000	3,399,000
Net Service Fee Revenue	(74,676)	268,532	53,010	321,542	87,000	(14,000)
Other Revenues & (Expenses)						
Financing Proceeds	-			-	1,000,000	-
Financing Costs	-			-	(50,000)	-
Tap Fees	349,393			-	250,000	120,000
Tap Fees - ACWWA	(133,742)			-	-	(24,000)
CCPWA Operations	(37,444)	(38,760)		(38,760)	(25,000)	(40,000)
Capital Recovery Fee	9,577		8,668	8,668	10,000	9,000
Interest Income	4,200		8,000	8,000	10,000	10,000
Capital Expenses	(272,865)	(143,045)	(75,000)	(218,045)	(880,000)	(645,000)
	(80,881)	(181,805)	(58,332)	(240,137)	315,000	(570,000)
Net Operating Fund Income	(155,557)	86,727	(5,322)	81,405	402,000	(584,000)
Operating Reserve - Beg of Year	1,965,023	1,809,466	1,896,193	1,809,466	1,518,453	1,890,871

Cottonwood Water & Sanitation District
2013 Budget

APPROVED

	2012					2013
	2011	JAN-OCT	NOV-DEC	TOTAL	ORIGINAL	
	ACTUAL	ACTUAL	PROJECTED	PROJECTED	BUDGET	
Operating Reserve - End of Year	1,809,466	1,896,193	1,890,871	1,890,871	1,920,453	1,306,871

Cottonwood Water & Sanitation District

APPROVED

2013 Budget

2012

	2011 ACTUAL	JAN-OCT ACTUAL	NOV-DEC PROJECTED	TOTAL PROJECTED	ORIGINAL BUDGET	2013 BUDGET
BOND FUND						
Revenues						
Property Taxes	2,154,138	2,028,045	25,000	2,053,045	2,091,674	2,066,619
Specific Ownership Tax	152,701	135,263	25,000	160,263	140,000	155,000
Interest Earnings	(4,047)	2,756	500	3,256	3,000	3,000
Total Bond Fund Revenues	2,302,792	2,166,064	50,500	2,216,564	2,234,674	2,224,619
Expenses						
County Collection Fees	32,241	30,460		30,460	31,375	30,999
Paying Agent Fees	400		1,000	1,000	1,000	1,000
Debt Service - DWRF (2006B)	765,602	741,038		741,038	741,038	737,274
Debt Service - 2006A	850,650	165,450	730,450	895,900	895,900	943,300
Debt Service - 2008A	543,648	141,011	406,012	547,023	547,023	544,700
Contingency	-			-		
Total Bond Fund Expenses	2,192,541	1,077,959	1,137,462	2,215,421	2,216,336	2,257,273
Excess (Deficit) of Revenues Over Total Expenditures	110,251	1,088,105	(1,086,962)	1,143	18,338	(32,654)
Debt Reserve - Beg of Year	567,451	677,702	1,765,807	677,702	930,804	678,845
Debt Reserve - End of Year	677,702	1,765,807	678,845	678,845	949,142	646,191
Total Net Income (Loss)	(45,306)	1,174,832	(1,092,284)	82,548	420,338	(616,654)

PROPERTY TAX SUMMARY:

	2011	2012	2013
Assessed Valuation	84,916,570	77,469,400	76,541,460
Mill Levy	27.00	27.00	27.00

TOTAL FUNDS AVAILABLE SUMMARY

	12/31/11 Actual	12/31/12 Projected	12/31/13 Budget
Operations/Capital	1,809,466	1,890,871	1,306,871
Debt Service	677,702	678,845	646,191
TOTAL	2,487,168	2,569,716	1,953,062

2013 Expenditure Appropriation:

Operating Expenses	3,399,000
Capital & Other Expenditures	709,000
Total Enterprise Appropriation	4,108,000

Cottonwood Water & Sanitation District
2013 Budget

APPROVED

	2012				2013
	2011 ACTUAL	JAN-OCT ACTUAL	NOV-DEC PROJECTED	TOTAL PROJECTED	ORIGINAL BUDGET
Debt Service (General) Appropriation		2,257,273			

Cottonwood Water & Sanitation District
2013 Budget

APPROVED

	2011 ACTUAL	2012			ORIGINAL BUDGET	2013 BUDGET
		JAN-OCT ACTUAL	NOV-DEC PROJECTED	TOTAL PROJECTED		
Detail of Capital Projects:						
Crown Point Booster Pump	11,942	31,011		31,011	-	80,000
Well DD-4 Rehab	-	53,346		53,346	60,000	-
WTP Pipelines	4,012			-	-	-
Meter Reading Equipment	17,169			-	-	-
Water Treatment Plant	51,801	28,879	75,000	103,879	400,000	100,000
Augumentation Plan	23,529	8,570		8,570	-	5,000
Effluent Extension	2,910			-	-	-
SMWSA - General	53,655	21,239		21,239	30,000	15,000
SMWSA - WISE	-			-	80,000	325,000
SMWSA - Subscription						30,000
WISE Connect Design	-			-	60,000	20,000
Sewer Jetting and Repair	73,366			-	80,000	-
CCPWA Capital (reservoirs)	-			-	100,000	-
SCADA/Operations Equipment	34,481			-	20,000	20,000
Contingency	-			-	50,000	50,000
Total Capital Outlay	272,865	143,045	75,000	218,045	880,000	645,000

**Cottonwood Water & Sanitation District
2014 Budget Summary**

DRAFT

	2012 Actual	2013 Projected	2013 Budget	2014 Budget
Operations:				
Total Service Fees	3,334,133	3,364,084	3,385,000	3,526,000
Total Operating Expenses	(3,062,164)	(3,045,461)	(3,399,000)	(3,519,500)
Net Operating Income (Expense)	271,969	318,623	(14,000)	6,500
Capital Projects:				
Tap Fees (net)	-	57,372	96,000	2,675,000
Asset Sales	-	-	-	750,000
Interest & Other Income	18,126	15,421	19,000	17,000
Capital Expenses	(164,856)	(291,161)	(635,000)	(1,565,000)
Contingency			(50,000)	(2,900,000)
Net Capital Project Income (Expense)	(146,730)	(218,368)	(570,000)	(1,023,000)
Combined Operating and Capital Income (Expense)	125,239	100,255	(584,000)	(1,016,500)
Debt Service:				
Property Taxes	2,027,554	2,036,086	2,066,619	2,052,972
Other Debt Service Income	163,383	169,780	158,000	158,000
Total Debt Service Expenses	(2,214,852)	(2,256,292)	(2,257,273)	(2,314,969)
Net Debt Service Income (Expense)	(23,915)	(50,426)	(32,654)	(103,997)
Ending Reserve Funds:				
Operations and Capital	1,934,708	2,034,963	1,306,871	1,018,463
Debt Service	653,785	603,359	646,191	499,362
	2,588,493	2,638,322	1,953,062	1,517,825
Assessed Value	77,469,400	76,541,460	76,541,460	76,036,002
Mill Levy	27.00	27.00	27.00	27.00

Inverness Water & Sanitation District
30 Year Cash flow Projections

	Growth	Inflation	Service Fee Increase	Service Fees	Tap Fees	WISE Loan Proceeds	Operating Expenses	WISE Operating	WISE Debt Service (1)	WISE Capital	Other Capital	Net Cash Flow	End of Year Reserves
2014				2,636,836	1,500,000	2,075,642	(2,600,000)	(36,836)		(2,075,642)	(2,500,000)	(1,000,000)	8,500,000
2015	2.0%	2.0%	1.9%	2,738,602	1,500,000	133,685	(2,704,000)	(34,602)		(133,685)	(1,000,000)	500,000	9,000,000
2016	2.0%	2.0%	5.3%	2,939,767	1,500,000	149,639	(2,812,160)	(127,607)		(149,639)	(1,000,000)	500,000	9,500,000
2017	2.0%	2.0%	7.1%	3,207,262	500,000	171,858	(2,924,646)	(282,616)		(171,858)	(500,000)	-	9,500,000
2018	2.0%	2.0%	5.5%	3,448,255	500,000	1,737,776	(3,041,632)	(406,623)		(1,737,776)	(500,000)	0	9,500,000
2019	2.0%	2.0%	6.0%	3,724,929	500,000	171,858	(3,163,298)	(561,631)		(171,858)	(500,000)	-	9,500,000
2020	1.0%	2.0%	7.7%	4,050,791	250,000	189,331	(3,258,196)	(792,594)		(189,331)	(500,000)	(250,000)	9,250,000
2021	1.0%	2.0%	4.8%	4,286,494	250,000	124,898	(3,355,942)	(930,552)		(124,898)	(500,000)	(250,000)	9,000,000
2022	1.0%	2.0%	1.3%	4,387,173	250,000	124,898	(3,456,621)	(930,552)		(124,898)	(500,000)	(250,000)	8,750,000
2023	1.0%	2.0%	1.4%	4,490,871	250,000	1,195,010	(3,560,319)	(930,552)		(1,195,010)	(500,000)	(250,000)	8,500,000
2024	1.0%	2.0%	1.4%	4,597,681	250,000	41,616	(3,667,129)	(930,552)		(41,616)	(500,000)	(250,000)	8,250,000
2025		2.0%	1.6%	4,671,023		-	(3,740,471)	(930,552)			(500,000)	(500,000)	7,750,000
2026		2.0%	1.6%	4,745,833		-	(3,815,281)	(930,552)			(500,000)	(500,000)	7,250,000
2027		2.0%	1.6%	4,822,139		-	(3,891,586)	(930,552)			(500,000)	(500,000)	6,750,000
2028		2.0%	1.6%	4,899,970		-	(3,969,418)	(930,552)			(500,000)	(500,000)	6,250,000
2029		2.0%	1.6%	4,979,359		-	(4,048,807)	(930,552)			(500,000)	(500,000)	5,750,000
2030		2.0%	1.6%	5,060,335		-	(4,129,783)	(930,552)			(500,000)	(500,000)	5,250,000
2031		2.0%	1.6%	5,142,930		-	(4,212,378)	(930,552)			(500,000)	(500,000)	4,750,000
2032		2.0%	1.6%	5,227,178		-	(4,296,626)	(930,552)			(500,000)	(500,000)	4,250,000
2033		2.0%	1.6%	5,313,110		-	(4,382,558)	(930,552)			(500,000)	(500,000)	3,750,000
2034		2.0%	1.6%	5,400,762		-	(4,470,210)	(930,552)			(500,000)	(500,000)	3,250,000
2035		2.0%	1.7%	5,490,166		-	(4,559,614)	(930,552)			(250,000)	(250,000)	3,000,000
2036		2.0%	1.7%	5,581,358		-	(4,650,806)	(930,552)			(250,000)	(250,000)	2,750,000
2037		2.0%	1.7%	5,674,374		-	(4,743,822)	(930,552)			(250,000)	(250,000)	2,500,000
2038		2.0%	1.7%	5,769,251		-	(4,838,699)	(930,552)			(250,000)	(250,000)	2,250,000
2039		2.0%	1.7%	5,866,025		-	(4,935,473)	(930,552)			(250,000)	(250,000)	2,000,000
2040		2.0%	1.7%	5,964,734		-	(5,034,182)	(930,552)			(250,000)	(250,000)	1,750,000
2041		2.0%	1.7%	6,065,418		-	(5,134,866)	(930,552)			(250,000)	(250,000)	1,500,000
2042		2.0%	1.7%	6,168,115		-	(5,237,563)	(930,552)			(250,000)	(250,000)	1,250,000
2043		2.0%	1.7%	6,272,866		-	(5,342,314)	(930,552)			(250,000)	(250,000)	1,000,000
				143,623,608	7,250,000	6,116,211	(119,978,400)	(23,645,207)	-	(6,116,211)	(15,750,000)	(8,500,000)	

Appendix B

APPENDIX B

Cottonwood Water and Sanitation District

Annual Financial Report

December 31, 2010 and 2009

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Certified Public Accountants (a professional corporation)

1221 West Mineral Ave, Ste. 202 Littleton, Colorado 80120-4544 (303) 734-4800 Fax (303) 795-3356

Report of Independent Certified Public Accountants

Members of the Board of Directors
Cottonwood Water and Sanitation District
Douglas County, Colorado

We have audited the accompanying financial statements of the business-type activities of Cottonwood Water and Sanitation District (the "District"), as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District declined to present a Management's Discussion and Analysis for the year ended December 31, 2010. Presentation of such items is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Cottonwood Water and Sanitation District as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued a report dated July 21, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; budget-to-actual schedules; and debt service requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Haynie & Co.

Littleton, Colorado
July 21, 2011

Basic Financial Statements

Cottonwood Water and Sanitation District

**Statements of Net Assets
December 31, 2010 and 2009**

Cottonwood Water and Sanitation District

Statements of Net Assets December 31, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and equivalents	\$ 1,691,897	\$ 1,121,604
Investments	251,050	750,000
Receivables		
Utility billings	262,279	269,531
Miscellaneous	56,425	41,699
Due from other governments	1,418	53,224
Deposits	<u>5,287</u>	<u>5,261</u>
Total current assets	<u>2,268,356</u>	<u>2,241,319</u>
Restricted Assets		
Cash and equivalents—held by trustee		
Debt service	529,164	326,390
Investments—construction	-	1,534,700
Receivable from county treasurer	11,513	11,120
Property taxes receivable	<u>2,292,747</u>	<u>2,166,261</u>
Total restricted assets	<u>2,833,424</u>	<u>4,038,471</u>
Capital Assets		
Water system	22,252,100	9,431,982
Sewer system	6,098,322	6,098,322
Office and general equipment	<u>129,786</u>	<u>129,786</u>
	28,480,208	15,660,090
Less: accumulated depreciation	<u>(9,834,667)</u>	<u>(9,116,450)</u>
	<u>18,645,541</u>	<u>6,543,640</u>
Construction in progress	432,676	11,969,830
Land	198,583	198,584
Investment in Cherry Creek Project Water Authority	1,175,660	1,139,945
Water rights	<u>6,441,166</u>	<u>6,441,166</u>
Net capital assets	<u>26,893,626</u>	<u>26,293,165</u>
Other Assets		
Sewer rights, less accumulated amortization of \$220,218 and \$208,525	13,642	25,335
Bond issue costs, less accumulated amortization of \$261,339 and \$188,425	929,899	1,002,813
Deferred bond interest - long-term	<u>259,337</u>	<u>498,440</u>
	<u>1,202,878</u>	<u>1,526,588</u>
Total Assets	<u><u>\$ 33,198,284</u></u>	<u><u>\$ 34,099,543</u></u>

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 537,613	\$ 990,902
Current portion of long-term debt		
2006 "A" Bonds	495,000	430,000
2006 "B" Bonds	434,131	423,140
2008 "A" Bonds	250,000	240,000
Current liabilities	<u>1,716,744</u>	<u>2,084,042</u>
Long-term liabilities payable from restricted assets		
Deferred property tax revenue	2,292,747	2,166,261
Accrued interest payable		
2006 "A" Bonds	29,638	31,429
2006 "B" Bonds	93,741	130,728
2008 "A" Bonds	24,471	25,401
Bond issue premium, less accumulated amortization of \$131,176 and \$98,859	377,750	410,067
2006 "A" Bonds	7,960,000	8,455,000
2006 "B" Bonds	8,688,117	9,122,248
2008 "A" Bonds	6,065,000	6,315,000
Total long-term liabilities	<u>25,531,464</u>	<u>26,656,134</u>
Total liabilities	<u>27,248,208</u>	<u>28,740,176</u>
Net Assets		
Contributed capital		
Invested in capital assets, net of related debt	3,665,014	2,211,405
Restricted	540,677	1,135,154
Unrestricted	1,744,385	2,012,808
Total Net Assets	<u>\$ 5,950,076</u>	<u>\$ 5,359,367</u>

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

Cottonwood Water and Sanitation District

Statements of Revenues, Expenses, and Changes in Net Assets Years Ended December 31, 2010 and 2009

	2010	2009
Operating Revenues		
Water revenue	\$ 1,424,757	\$ 1,217,708
Sewer revenue	1,284,020	1,239,849
Miscellaneous	10,415	10,070
Total operating revenues	<u>2,719,192</u>	<u>2,467,627</u>
Operating Expenses		
Accounting and auditing	86,013	88,010
Insurance expense	30,112	28,293
Legal	64,040	35,935
Management fees	93,208	93,864
Miscellaneous	70,761	55,059
Water treatment	391,341	-
Wastewater treatment	1,360,644	1,498,146
Operations staffing	113,086	150,887
Professional services	25,627	29,169
Repairs and maintenance	78,605	99,930
Utilities	336,569	237,323
Depreciation	718,217	503,898
Total operating expenses	<u>3,368,223</u>	<u>2,820,514</u>
Operating (loss)	<u>(649,031)</u>	<u>(352,887)</u>
Nonoperating Revenues (Expenses)		
Interest income—unrestricted	20,260	19,826
Interest income—restricted	3,484	18,784
Property taxes	2,164,298	1,913,741
Specific ownership taxes	147,963	144,225
Capital recovery fee	41,555	33,800
Tap fee receipts	210,966	429,580
Tap fee payments	-	(99,616)
Authority participation	(28,750)	(25,000)
Interest expense	(1,281,707)	(1,105,826)
Amortization of bond premium	32,317	32,317
Paying agent fees	(400)	(150)
County collection fees	(32,586)	(28,890)
Legal—water rights	(37,660)	(21,930)
Total nonoperating revenues (expenses)	<u>1,239,740</u>	<u>1,310,861</u>
Change in net assets	<u>590,709</u>	<u>957,974</u>
Net assets—beginning of year	<u>5,359,367</u>	<u>4,401,393</u>
Net assets—end of year	<u><u>\$ 5,950,076</u></u>	<u><u>\$ 5,359,367</u></u>

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

Cottonwood Water and Sanitation District
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,763,524	\$ 2,611,615
Cash paid to vendors	<u>(2,354,572)</u>	<u>(2,228,766)</u>
Net cash provided by operating activities	<u>408,952</u>	<u>382,849</u>
Cash Flows from Noncapital Financing Activities		
Property taxes	2,163,905	1,914,374
Specific ownership and other taxes	147,963	144,225
County collection fees	(32,586)	(28,890)
Capital recovery fees	41,555	33,800
Tap fee receipts	210,966	429,580
Tap fee payments	-	(99,616)
Non-capitalized outlays	(28,750)	(25,000)
Reduction of restricted investments	1,331,926	5,653,424
Interest income—restricted	<u>3,484</u>	<u>26,515</u>
Net cash provided by noncapital financing activities	<u>3,838,463</u>	<u>8,048,412</u>
Cash Flows from Capital and Related Financing Activities		
Bond principal paid	(1,093,140)	(621,439)
Current interest paid	(821,840)	(870,795)
Accrued interest paid	(187,558)	(246,922)
Purchase of property, plant, and equipment	(2,055,734)	(6,946,355)
Paying agent fees	(400)	(150)
Water rights—legal expense	<u>(37,660)</u>	<u>(21,930)</u>
Net cash flows (used in) capital and related financing activities	<u>(4,196,332)</u>	<u>(8,707,591)</u>
Cash Flows from Investing Activities		
Purchase of investments	(951,616)	(750,000)
Interest income—unrestricted	<u>20,260</u>	<u>19,826</u>
Net cash (used) by investing activities	<u>(931,356)</u>	<u>(730,174)</u>
Net (decrease) in cash	(880,273)	(1,006,504)
Cash and cash equivalents at beginning of year	<u>1,121,604</u>	<u>2,128,108</u>
Cash and cash equivalents at end of year	<u><u>\$ 241,331</u></u>	<u><u>\$ 1,121,604</u></u>

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

Cottonwood Water and Sanitation District
Statements of Cash Flows (continued)
Years Ended December 31, 2010 and 2009

	2010	2009
Reconciliation of Operating Loss to Net Cash		
Used for Operating Activities		
Operating income	\$ (649,031)	\$ (352,887)
Adjustments to reconcile operating income to net cash provided from operating activities		
Depreciation and amortization	729,910	515,591
Changes in assets and liabilities		
Accounts receivable	44,332	118,984
Deposits	(26)	(28)
Accounts payable	283,767	101,189
	<u>1,057,983</u>	<u>735,736</u>
Net cash provided by operating activities	<u>\$ 408,952</u>	<u>\$ 382,849</u>
Bond issuance cost amortization	72,914	72,914
Bond premium amortization	<u>(32,317)</u>	<u>(32,317)</u>
Non-cash capital and financing activities	<u>40,597</u>	<u>40,597</u>

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

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 1. Definition of Reporting Entity

The District, a quasi-municipal corporation, is organized pursuant to provisions of the Colorado Special District Act. The District's service area is located in Douglas County, Colorado. The District was established to construct, operate and maintain water and sewer facilities for the benefit of the residents and commercial businesses within the District.

The District is a quasi-municipal organization governed by an elected board. As required by generally accepted accounting principles, these financial statements present the financial position of the District (the primary government) and it has no component units; the District has a water and sewer enterprise, but the accounting for such enterprise is not separately reported.

Note 2. Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles 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 entities operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

a) **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 recorded as an operating expense, expenditures for property, plant and equipment are shown as increases in assets, and redemption of bonds is recorded as a reduction in liabilities. Contributed capital is recognized as non-operating revenue.

The District has elected, under the Governmental Accounting Standards Board (GASB) Statement Number 20, not to apply statements issued by the Financial Accounting Standards Board after November 30, 1989. New GASB pronouncements on accounting and financial reporting for proprietary activities are followed.

b) **Cash Equivalents**

The District considers all highly liquid investments (excluding restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 2. Summary of Significant Accounting Policies (continued)

Considering the restricted nature of cash and cash equivalents held by the trustee, the District excluded \$529,164 and \$326,390 for 2010 and 2009, respectively, of the balance of cash and investments from the statements of cash flows.

c) Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without publication. The overall appropriation can only be modified upon completion of publication requirements.

Encumbrance accounting (open purchase orders, contracts in process and other commitments for the expenditures of funds in future periods) is not used by the District for budget or financial reporting purposes.

For budget purposes, funds available are defined as current assets plus restricted assets less accounts payable and deferred revenues.

d) Property, Plant and Equipment

Property, plant and equipment are recorded at cost except for those assets contributed which are stated at estimated fair market value at the date of contribution or at developer's cost. The District capitalizes interest, when material, on all constructed assets. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives. Depreciable capital assets are depreciated over the following useful lives:

Water system	5 – 30 years
Sewer system	5 – 50 years
Engineering studies	10 years
Building and improvements	10 – 30 years

The cost of water rights includes acquisition costs, together with legal and engineering costs related to the development and augmentation of those rights. Since the water rights have a perpetual life, they are not amortized. Costs incurred for the protection of those rights are expensed.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 2. Summary of Significant Accounting Policies (continued)

e) **Property Taxes**

Property taxes are levied by the District 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 set by December 15 by certification to the County Commissioners, to establish the tax on the individual properties for the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or, if in equal installments, at the taxpayer's election in February and June. Delinquent taxpayers are notified in August, and generally tax sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenue is recorded as revenue in the year it is available or collected. The property taxes receivable generated from a restricted debt service mill levy has been reflected as a restricted asset (see Note 5).

f) **Contributed Capital—Water and Sewer Lines**

The District accounts for necessary trunk and lateral water and sewer lines that have been constructed by developers, once such lines have been deeded by the developers and accepted by the District. Such lines are recorded as non-operating revenue at the developers' cost of construction. Costs of oversizing certain of these lines, done at the request of the District, are reimbursed to the developer.

g) **Tap Fees, Inclusion Fees and Contributed Capital**

Tap fees are recorded as nonoperating revenue when received.

Inclusion fees less inclusion costs are recorded as nonoperating revenue when the inclusion is processed by the District through the Courts. Contributed cash for specified capital projects is recorded as nonoperating revenue.

h) **Reclassifications**

Certain prior year balances have been reclassified in order to conform with the current-year presentation.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 3. Cash Deposits and Investments

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires deposits of all units of local government to be made in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as 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 102% of the uninsured deposits.

At December 31, 2010, the District's cash deposits had a bank balance and a carrying balance as follows:

	Bank Balance	Carrying Balance
Deposits with financial institutions	<u>\$ 240,086</u>	<u>\$ 241,331</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. As of December 31, 2010, the District's bank balance was not exposed to custodial credit risk. Deposits that are exposed to custodial credit risk are collateralized with securities held by the pledging financial institution through PDPA.

Investments

The District has not adopted a formal investment policy, however, the District follows state statutes regarding investments. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- obligations of the United States and certain U.S. government agency securities,
- 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.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 3. Cash and Investments (continued)

At December 31, 2010, the District had the following investments stated at fair value.

COLOTRUST PRIME	\$ 1,450,566
Certificates of Deposit	<u>251,050</u>
	<u>\$ 1,701,616</u>

COLOTRUST

The District has invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST Prime and COLOTRUST Plus+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST Plus+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST investment pools are rated AAAM by Standard & Poors.

Note 4. Bonded Debt

The following schedule provides an analysis of long-term debt principal for the year ended December 31, 2010.

	2009	Additions	Payments	2010
2006A General Obligation				
Refunding Bonds	\$ 8,885,000	\$ -	\$ (430,000)	\$ 8,455,000
2006B Authority Bonds	9,545,388	-	(423,140)	9,122,248
2008A General Obligation				
Refunding Bonds	<u>6,555,000</u>	<u>-</u>	<u>(240,000)</u>	<u>6,315,000</u>
Total	<u>\$ 24,985,388</u>	<u>\$ -</u>	<u>\$ (1,093,140)</u>	<u>\$ 23,892,248</u>

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 4. Bonded Debt (continued)

Series 2006A Bonds

On December 1, 2006 the District issued General Obligation Refunding Bonds, Series 2006A. The bonds, in the amount of \$9,825,000, were issued to refund the District's Series 1996 A Bonds. (See first paragraph of Note 4)

The bonds bear interest from their date to maturity or redemption at rates ranging from 4-5% payable semi-annually at June 1 and December 1 of each year commencing June 1, 2007. Principal is paid annually at December 1 commencing December 1, 2007.

Series 2006B Bonds

During 2006 the District issued a bond in the form of a loan to the District from the Colorado Water Resources and Power Development Authority (the Authority) to fund a water project in the amount of \$9,996,005.

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

The District and the Authority agree that the amounts payable under this loan agreement are payable solely from pledged property. Pledged property is defined as Ad valorem taxes without limitation as to rate, on all taxable property within the District, in an amount necessary to pay the loan payments but not to exceed \$1,100,000; provided nothing shall be deemed to prevent the District from paying the amounts payable under the loan agreement from any other legally available source.

All funds from this loan agreement were held in an escrow account to be disbursed in accordance with the terms of the agreement as construction on the project proceeds. All funds had been disbursed as of December 31, 2010.

Annual payment of principal and interest are paid in equal semi-annual installments as documented in the loan agreement. The loan bears interest at an average annual rate of 3.54%.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 4. Bonded Debt (continued)

The following is a summary of Debt Service Requirements to Maturity:

Series 2006A			
<u>Due Date</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2011	\$ 495,000	\$ 355,650	\$ 850,650
2012	565,000	330,900	895,900
2013	635,000	308,300	943,300
2014	710,000	282,900	992,900
2015	785,000	254,500	1,039,500
2016-2020	<u>5,265,000</u>	<u>732,930</u>	<u>5,997,930</u>
	<u>\$ 8,455,000</u>	<u>\$ 2,265,180</u>	<u>\$ 10,720,180</u>

Series 2006B			
<u>Due Date</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2011	\$ 434,131	\$ 304,946	\$ 739,077
2012	445,122	295,916	741,038
2013	450,617	286,657	737,274
2014	467,103	276,258	743,361
2015	478,094	262,292	740,386
2016-2020	2,577,309	1,116,878	3,694,187
2021-2025	2,912,524	857,377	3,769,901
2026-2027	<u>1,357,348</u>	<u>209,700</u>	<u>1,567,048</u>
	<u>\$ 9,122,248</u>	<u>\$ 3,610,024</u>	<u>\$ 12,732,272</u>

Series 2008A Bonds

On September 27, 2008 the District issued General Obligation Refunding Bonds, Series 2008A. The bonds, in the amount of \$6,730,000, were issued to refund the District's Series 1998A Bonds.

The bonds bear interest from their date to maturity or redemption at a rate of 4.65% payable semi-annually at June 1 and December 1 of each year commencing June 1, 2009. Principal is paid annually at December 1 commencing December 1, 2009.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 4. Bonded Debt (continued)

The following is a summary of Debt Service Requirements to Maturity:

Series 2008A			
<u>Due Date</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Total Debt Service</u>
2011	\$ 250,000	\$ 293,648	\$ 543,648
2012	265,000	282,023	547,023
2013	275,000	269,700	544,700
2014	290,000	256,913	546,913
2015	305,000	243,428	548,428
2016-2020	1,735,000	992,543	2,727,543
2021-2025	2,175,000	549,863	2,724,863
2026-2027	<u>1,020,000</u>	<u>71,610</u>	<u>1,091,610</u>
	<u><u>\$ 6,315,000</u></u>	<u><u>\$ 2,959,728</u></u>	<u><u>\$ 9,274,728</u></u>

The following is an analysis of changes in accrued interest for the years ended December 31, 2010 and 2009:

	Balance December 31, 2009	Additions	(Deletions/ Payments)	Balance December 31, 2010
2006A	\$ 31,429	\$ 375,359	\$ (377,150)	\$ 29,638
2006B	130,728	276,761	(313,748)	93,741
2008A	<u>25,401</u>	<u>303,878</u>	<u>(304,808)</u>	<u>24,471</u>
Total	<u><u>\$ 187,558</u></u>	<u><u>\$ 955,998</u></u>	<u><u>\$ (995,706)</u></u>	<u><u>\$ 147,850</u></u>

Authorized, But Unissued Debt

On November 2, 1993, the electors of the District authorized debt to an amount not to exceed \$30,000,000. As of December 31, 2010, the District had authorized but unissued debt of \$1,525,742.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 5. Restricted Assets

At December 31, 2010 and 2009, the District has restricted cash deposits and investments that are held by a trustee in accordance with the terms of the various bond issues and internally restricted funds as follows:

	2010	2009
Capital Projects —This represents an escrow fund which is restricted under the terms of the loan agreement with the Colorado Water Resources and Power Development Authority. The project funded is a joint water purification project including production wells, a pumping station and transmission lines.	\$ -	\$1,534,700
Cash Restricted for Debt Service —This amount represents property taxes collected in excess of debt service requirements	<u>529,164</u>	<u>326,388</u>
Total	<u>\$ 529,164</u>	<u>\$1,861,088</u>

Note 6. Commitments and Contingencies

Arapahoe County Water and Wastewater Authority Agreements

The District has entered into intergovernmental agreements with the Arapahoe County Water and Wastewater Authority (Arapahoe). The objective of the agreements is the integration of the facilities of both entities in an effort to optimize operational efficiency and to reduce overall costs of providing services.

The charges were \$6.75 per 1,000 gallons of wastewater treated by Arapahoe during 2010. In addition, the District and Arapahoe have agreed to hourly rates for services not specifically covered by the contract.

The first agreement provided for the construction of an interconnecting pipeline between the District's wastewater collection system and Arapahoe's wastewater treatment plant. Costs of \$233,860 associated with construction of the interconnecting line were capitalized as sewer rights and are being amortized over the term of the agreement, twenty years.

The agreement calls for the District to pay a portion of its wastewater tap fees collected to Arapahoe. The District has paid a total of \$4,236,792 to Arapahoe for wastewater tap fees under this agreement.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 6. Commitments and Contingencies (continued)

Additional matters covered in the agreements concern retention of effluent reuse, Arapahoe's use of the District's potable water and storage reservoir, balancing the use of nontributary groundwater between the parties in integrated operations, expansion of service areas and construction and ownership of future facilities for the benefit of both parties. The agreement allows the District to contract with Parker Water and Sanitation District for treatment of the District's future wastewater flows generated from developed and undeveloped property east of Cherry Creek.

The District has also entered into an agreement with Arapahoe for the joint construction and operation of a water treatment plant and related pipelines. Construction of the plant commenced in early 2008 and completion is projected in late 2009. Construction costs are shared based on ratios determined by water supply requirements and the District's share of the total cost is estimated at \$11,000,000 for which it has issued bonds to fund the majority of these costs.

Note 7. TABOR Amendment

On November 3, 1992, the State of Colorado passed Article X, Section 20 of the Colorado Constitution, commonly known as the TABOR Amendment. This is a tax, spending, revenue and debt limitation amendment. This amendment affects the ability of governmental entities to increase property taxes. Starting in 1992, with certain exceptions, the mill levy may not be increased over the prior year's mill levy, except previously approved bonded debt increases, without the approval of the voters in that entity's jurisdiction. In November of 1993, the District's voters approved the issuance of new and refunding bonds, the increase of mill levies, and spending of ad valorem taxes.

The District believes it is in substantial compliance with this amendment. However, TABOR is complex and subject to interpretation. The ultimate outcome of these TABOR-related matters cannot be finally determined at present, and no provision for any liability that might arise from TABOR has been recorded.

Enterprises are defined by TABOR to be government-owned businesses authorized to issue revenue bonds in which businesses receive less than 10% of annual revenue on grants from all state and local governments combined; such government-owned businesses are excluded from the provisions of TABOR. The District believes that its water and sanitation operations qualify for this exclusion, and it adopted a resolution providing that such operations are being conducted as an enterprise. Under the TABOR amendment the District is required to have emergency reserves of 3 percent of expenditures in 1995 and thereafter.

Cottonwood Water and Sanitation District

Notes to Financial Statements

December 31, 2010 and 2009

Note 8. Risk Management: Colorado Special Districts Property and Liability Pool

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 one of approximately 960 special districts which are members of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2010. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, and boiler and machinery and workers compensation coverage to its members. The Pool provides coverage for property claims up to \$40,000,000 and liability coverage for claims up to \$1,000,000. 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, public officials and worker's compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 9. Property, Plant and Equipment

An analysis of the changes in capital assets for the period ended December 31, 2010 is as follows:

	Balance December 31, 2009	Additions	Disposals/ Transfers	Balance December 31, 2010
Capital assets not being depreciated:				
Land	\$ 198,583	\$ -	\$ -	\$ 198,583
Water rights	7,581,111	35,715	-	7,616,826
Construction in progress	11,969,831	1,318,678	(12,855,833)	432,676
Capital assets being depreciated:				
Water system	9,293,925	12,817,480	-	22,111,405
Sewer system	6,098,322	-	-	6,098,322
Engineering studies	138,057	2,638	-	140,695
Office and general equipment	129,786	-	-	129,786
Total cost	<u>35,409,615</u>	<u>14,174,511</u>	<u>(12,855,833)</u>	<u>36,728,293</u>
Depreciation	<u>(9,116,450)</u>	<u>(718,217)</u>	<u>-</u>	<u>(9,834,667)</u>
Net	<u>\$ 26,293,165</u>	<u>\$ 13,456,294</u>	<u>\$ (12,855,833)</u>	<u>\$ 26,893,626</u>

Cottonwood Water and Sanitation District
Notes to Financial Statements
December 31, 2010 and 2009

Note 10. Restricted Net Assets

Restricted net assets as of December 31, 2010 and 2009 is calculated as follows:

	2010	2009
Restricted assets (as presented in Statements of Net Assets)	\$ 2,833,424	\$ 4,038,471
Less: Deferred property tax revenue	(2,292,747)	(2,166,261)
Less: Accounts payable from restricted assets	<u>-</u>	<u>(737,056)</u>
Total	<u>\$ 540,677</u>	<u>\$ 1,135,154</u>

Supplemental Information

Cottonwood Water and Sanitation District

Statement of Revenues, Expenditures Compared to Budget

Year Ended December 31, 2010

	Original & Final Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Operating Revenues			
Water revenue	\$ 1,490,000	\$ 1,424,757	\$ (65,243)
Sewer revenue	1,345,000	1,284,020	(60,980)
Miscellaneous	9,000	10,415	1,415
Total operating revenues	<u>2,844,000</u>	<u>2,719,192</u>	<u>(124,808)</u>
Operating Expenses			
Accounting and auditing	88,000	86,013	1,987
Insurance expense	32,000	30,112	1,888
Legal	30,000	64,040	(34,040)
Management fees	105,000	93,208	11,792
Miscellaneous	82,000	70,761	11,239
Water treatment	300,000	391,341	(91,341)
Wastewater treatment	1,600,000	1,360,644	239,356
Operations staffing	125,000	113,086	11,914
Professional services	25,000	25,627	(627)
Repairs and maintenance	130,000	78,605	51,395
Utilities	200,000	336,569	(136,569)
Total operating expenses	<u>2,717,000</u>	<u>2,650,006</u>	<u>66,994</u>
Operating income	<u>127,000</u>	<u>69,186</u>	<u>(57,814)</u>
Nonoperating Revenues			
Interest—unrestricted	55,000	20,260	(34,740)
Interest—restricted	-	3,484	3,484
Capital recovery fees	35,000	41,555	6,555
Tap fees (Net of ACWWA tap payments)	250,000	210,966	(39,034)
Asset sales	1,950,000	-	(1,950,000)
Property taxes—restricted	2,166,261	2,164,298	(1,963)
Specific ownership taxes	169,000	147,963	(21,037)
Total nonoperating revenues	<u>4,625,261</u>	<u>2,588,526</u>	<u>(2,036,735)</u>
Nonoperating Expenditures			
Paying agent fees	2,500	400	2,100
County collection fees	32,494	32,586	(92)
Capital improvements	3,605,000	2,055,734	1,549,266
Authority participation	22,000	28,750	(6,750)
Bond principal paid	1,093,140	1,093,140	-
Interest	995,706	955,998	39,708
Water rights	40,000	37,660	2,340
Total nonoperating expenditures	<u>5,790,840</u>	<u>4,204,268</u>	<u>1,586,572</u>

Cottonwood Water and Sanitation District
Statement of Revenue, Expenditures
Compared to Budget (continued)
Year Ended December 31, 2010

	Budget (Unaudited)	Actual	Variance Favorable (Unfavorable)
Nonoperating income (loss)	<u>(1,165,579)</u>	<u>(1,615,742)</u>	<u>(450,163)</u>
Excess revenues over (under) expenditures	<u><u>\$ (1,038,579)</u></u>	(1,546,556)	<u><u>\$ (507,977)</u></u>
Funds available (Note 2c)—beginning of year		<u>3,817,976</u>	
Funds available (Note 2c)—end of year		<u><u>\$ 2,271,420</u></u>	
Reconciliation to GAAP financial statements:			
Net income (GAAP)		\$ 590,709	
Depreciation		718,217	
Amortization		(32,317)	
Capital expenditures		(2,055,734)	
Bond principal paid		<u>(1,093,140)</u>	
Excess revenue over expenditures (Budgetary basis)		<u><u>\$ (1,872,265)</u></u>	

Cottonwood Water and Sanitation District
Schedule of Debt Service Requirements to Maturity
December 31, 2010

\$9,825,000 General Obligation Refunding Bonds Issued 12/1/2006 Due June 1 and December 1 <u>with Principal and Interest from 4 to 5%</u>				\$9,996,005 General Obligation Bonds Issued 12/1/2006 Due June 1 and December 1 <u>with Principal and Net Interest at 3.54%</u>		
<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Date</u>						
2011	\$ 495,000	\$ 355,650	\$ 850,650	\$ 434,131	\$ 304,946	\$ 739,077
2012	565,000	330,900	895,900	445,122	295,916	741,038
2013	635,000	308,300	943,300	450,617	286,657	737,274
2014	710,000	282,900	992,900	467,103	276,258	743,361
2015	785,000	254,500	1,039,500	478,094	262,292	740,386
2016-2020	5,265,000	732,930	5,997,930	2,577,309	1,116,878	3,694,187
2021-2025	-	-	-	2,912,524	857,377	3,769,901
2026-2027	-	-	-	1,357,348	209,701	1,567,049
	<u>\$ 8,455,000</u>	<u>\$ 2,265,180</u>	<u>\$10,720,180</u>	<u>\$ 9,122,248</u>	<u>\$ 3,610,024</u>	<u>\$12,732,272</u>

\$6,730,000 General Obligation Refunding Bonds Issued 9/26/2008 Due June 1 and December 1 <u>with Principal and Interest at 4.65%</u>				Total		
<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>Date</u>						
2011	\$ 250,000	\$ 293,648	\$ 543,648	\$ 1,179,131	\$ 954,244	\$ 2,133,375
2012	265,000	282,023	547,023	1,275,122	908,839	2,183,961
2013	275,000	269,700	544,700	1,360,617	864,657	2,225,274
2014	290,000	256,913	546,913	1,467,103	816,071	2,283,174
2015	305,000	243,428	548,428	1,568,094	760,220	2,328,314
2016-2020	1,735,000	992,543	2,727,543	9,577,309	2,842,351	12,419,660
2021-2025	2,175,000	549,863	2,724,863	5,087,524	1,407,240	6,494,764
2026-2027	1,020,000	71,610	1,091,610	2,377,348	281,311	2,658,659
	<u>\$ 6,315,000</u>	<u>\$ 2,959,728</u>	<u>\$ 9,274,728</u>	<u>\$23,892,248</u>	<u>\$ 8,834,933</u>	<u>\$32,727,181</u>

Cottonwood Water and Sanitation District

Five-Year Summary of Assessed Valuation, Mill Levy, and Property Taxes Collected December 31, 2010

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Mill Levies		Total Property Taxes		Percent Collected to Levied
	Debt Service	General Service	Levied	Collected		
2006	\$ 62,339,140	27.000	-	\$ 1,683,157	\$ 1,658,867	98.6%
2007	\$ 65,206,590	27.000	-	\$ 1,760,578	\$ 1,705,957	96.9%
2008	\$ 67,930,550	27.000	-	\$ 1,834,125	\$ 1,808,914	98.6%
2009	\$ 71,326,770	27.000	-	\$ 1,925,823	\$ 1,913,741	99.4%
2010	\$ 80,231,890	27.000	-	\$ 2,166,261	\$ 2,164,298	99.9%
Estimated for the year ending 12/31/2011	\$ 84,916,570	27.000	-	\$ 2,292,747	-	

Note: Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the county treasurer does not permit identification of specific year or levy.

Cottonwood Water and Sanitation District

**Single Audit
December 31, 2010**



Certified Public Accountants (a professional corporation)

1221 West Mineral Ave, Ste. 202 Littleton, Colorado 80120-4544 (303) 734-4800 Fax (303) 795-3356

INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Cottonwood Water & Sanitation District:

We have audited the consolidated financial statements of the Cottonwood Water & Sanitation District as of and for the years ended December 31, 2010, and have issued our report thereon dated July 21, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Cottonwood Water & Sanitation District's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cottonwood Water & Sanitation District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cottonwood Water & Sanitation District's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness in internal control over financial reporting is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.



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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cottonwood Water & Sanitation District's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Directors, management, Colorado Water Resources & Power Development Authority and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Haynie & Co.", written in dark ink.

Littleton, Colorado
July 21, 2011



Certified Public Accountants (a professional corporation)

1221 West Mineral Ave, Ste. 202 Littleton, Colorado 80120-4544 (303) 734-4800 Fax (303) 795-3356

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

To the Board of Directors of
Cottonwood Water & Sanitation District:

Compliance

We have audited the compliance of Cottonwood Water & Sanitation District with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. Cottonwood Water & Sanitation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cottonwood Water & Sanitation District's management. Our responsibility is to express an opinion on Cottonwood Water & Sanitation District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cottonwood Water & Sanitation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cottonwood Water & Sanitation District's compliance with those requirements.

In our opinion, Cottonwood Water & Sanitation District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010.



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Internal Control Over Compliance

Management of Cottonwood Water & Sanitation District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cottonwood Water & Sanitation District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Cottonwood Water & Sanitation District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, Colorado Water Resources & Power Development Authority and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Littleton, Colorado

July 21, 2011

**Cottonwood Water and Sanitation District
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2009**

<u>FEDERAL GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>EXPENDITURES</u>
Environmental Protection Agency: Pass through Colorado Water Resources and Power Development Authority Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>\$ 576,815</u>

Note: The above schedule of expenditures of federal awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Cottonwood Water and Sanitation District

Schedule of Findings and Questioned Costs for the Year Ended December 31, 2010

1. Summary of Auditor's Results

Type of report issued on the financial statements: **Unqualified**

Material weaknesses in financial reporting internal control noted: **None**

Significant deficiency(s) identified that are not considered to be material weaknesses in financial reporting: **None**

Material noncompliance noted: **None**

Material weaknesses in internal control over major programs: **None**

Significant deficiency(s) identified that are not considered to be material weaknesses over major programs: **None**

Type of report issued on compliance for major programs: **Unqualified**

Audit findings required to be reported: **None**

The following programs are considered to be major:

Department of Housing and Urban Development:

Capitalization Grants for Drinking Water State Revolving
Funds – CFDA 66.468

Dollar threshold used to distinguish Type A and Type B programs: **\$300,000**

Risk type qualification: **High-risk**

2. Findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.

None

3. Findings and questioned costs for Federal Awards

None

4. Summary Schedule of Prior Audit Findings

None

**Cottonwood Water and Sanitation District
Douglas County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditors' Report

December 31, 2011 and 2010

Cottonwood Water and Sanitation District

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December 31, 2011 and 2010

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**WAGNER
BARNES, PC**

Certified Public Accountants & Business Consultants

Independent Auditors' Report

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

We have audited the accompanying financial statements of Cottonwood Water and Sanitation District (the District) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. The supplemental information is the responsibility of management and were derived from and relate 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. The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

The financial statements of the District as of December 31, 2010, and for the year then ended were audited by another auditor. The auditor expressed an unqualified opinion on those financial statements in their report dated July 21, 2011.

Wagner Barnes, PC

Lakewood, Colorado
July 13, 2012

BASIC FINANCIAL STATEMENTS

Cottonwood Water and Sanitation District

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011	(Restated) 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 944,986	\$ 955,764
Certificates of deposit	250,000	251,050
Accounts receivable - users	314,386	262,279
Accounts receivable - other	67,471	57,843
Total current assets	<u>1,576,843</u>	<u>1,526,936</u>
Restricted assets		
Cash and cash equivalents-debt service	671,747	529,164
Cash and cash equivalents-operating reserve	587,400	741,420
Accounts receivable - County Treasurer	5,955	11,513
JWPP operating reserve	148,100	-
Property taxes receivable	2,091,674	2,292,747
Total restricted assets	<u>3,504,876</u>	<u>3,574,844</u>
Capital assets, net	<u>26,297,508</u>	<u>26,909,022</u>
Other assets		
Debt issuance costs (net of accumulated amortization of \$334,228 and 261,339, respectively)	857,010	929,899
Deferred bond interest - long-term	-	259,337
Total other assets	<u>857,010</u>	<u>1,189,236</u>
Total assets	<u><u>\$ 32,236,237</u></u>	<u><u>\$ 33,200,038</u></u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 369,135	\$ 537,613
Due to other governments	133,742	-
Accrued interest payable	174,375	147,850
Deferred property taxes	2,091,674	2,292,747
Current portion of long-term debt	1,227,129	1,179,131
Total current liabilities	<u>3,996,055</u>	<u>4,157,341</u>
Long-term obligations	<u>21,831,421</u>	<u>23,090,867</u>
Total liabilities	<u>25,827,476</u>	<u>27,248,208</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,921,593	3,722,768
Restricted	1,413,202	1,282,097
Unrestricted	1,073,966	989,323
Total net assets	<u><u>\$ 6,408,761</u></u>	<u><u>\$ 5,994,188</u></u>

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

Cottonwood Water and Sanitation District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For The Years Ended December 31, 2011 and 2010

	2011	(Restated) 2010
OPERATING REVENUES		
Water and sewer services	\$ 3,100,307	\$ 2,708,777
Miscellaneous income	12,321	10,415
Total operating revenues	<u>3,112,628</u>	<u>2,719,192</u>
OPERATING EXPENSES		
Accounting and billing services	80,223	76,163
Audit	9,850	9,850
Insurance	32,367	30,112
Legal	78,203	101,700
Management fees	87,761	93,208
Water treatment	1,025,416	348,983
Wastewater treatment	1,331,592	1,360,644
System operating costs	99,840	113,086
Professional services	62,723	25,627
Repairs and maintenance	68,701	78,605
Utilities	233,255	336,569
Depreciation	939,851	718,217
Miscellaneous	67,373	70,761
Total operating expenses	<u>4,117,155</u>	<u>3,363,525</u>
OPERATING (LOSS)	<u>(1,004,527)</u>	<u>(644,333)</u>
NONOPERATING REVENUES		
Property taxes	2,154,137	2,164,298
Specific ownership taxes	152,701	147,963
Investment income, net of County interest rebate	153	23,744
Capital recovery fees	9,577	41,555
Tap fees	349,393	210,966
Total nonoperating revenues	<u>2,665,961</u>	<u>2,588,526</u>
NONOPERATING EXPENSES		
Authority participation	47,444	28,750
County Treasurer fees	32,241	32,586
Paying agent fees	400	400
Tap fees	133,742	-
Bond interest	980,769	1,197,100
Amortization - net	52,265	52,290
Total nonoperating expenses	<u>1,246,861</u>	<u>1,311,126</u>
CHANGE IN NET ASSETS	414,573	633,067
NET ASSETS - beginning of year	<u>5,994,188</u>	<u>5,361,121</u>
NET ASSETS - end of year	<u><u>\$ 6,408,761</u></u>	<u><u>\$ 5,994,188</u></u>

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

Cottonwood Water and Sanitation District
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,050,892	\$ 2,763,522
Payments to suppliers for goods and services	<u>(3,518,688)</u>	<u>(3,140,955)</u>
Net cash (used) by operating activities	<u>(467,796)</u>	<u>(377,433)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,159,695	2,163,907
Specific ownership taxes	152,701	147,963
County Treasurer's fees	<u>(32,241)</u>	<u>(32,586)</u>
Net cash provided by noncapital financing activities	<u>2,280,155</u>	<u>2,279,284</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	349,393	210,966
Capital recovery fees	9,577	41,555
Authority participation	(47,444)	(28,750)
Acquisition of fixed assets	(272,865)	(1,318,678)
Redemption of investments	-	2,033,650
Debt principal payments	(1,179,131)	(1,093,140)
Interest paid on debt	(694,907)	(997,705)
Paying agent fees	<u>(400)</u>	<u>(400)</u>
Net cash (used) by capital and related financing activities	<u>(1,835,777)</u>	<u>(1,152,502)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings received	<u>1,203</u>	<u>23,744</u>
Net cash provided by investing activities	<u>1,203</u>	<u>23,744</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(22,215)</u>	<u>773,093</u>
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,226,348</u>	<u>1,453,255</u>
CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 2,204,133</u></u>	<u><u>\$ 2,226,348</u></u>

(continued)

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

Cottonwood Water and Sanitation District
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2011 and 2010
(continued)

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING (LOSS) TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	<u>\$ (1,004,527)</u>	<u>\$ (644,333)</u>
Adjustments to reconcile operating income (loss) to		
net cash (used) by operating activities		
Depreciation and amortization	939,851	718,217
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(61,736)	44,330
JWPP operating reserve	(148,100)	-
Cherry Creek Authority participation	(24,806)	(42,358)
Increase (decrease) in:		
Accounts payable	<u>(168,478)</u>	<u>(453,289)</u>
Total adjustments	<u>536,731</u>	<u>266,900</u>
Net cash (used) by operating activities	<u><u>\$ (467,796)</u></u>	<u><u>\$ (377,433)</u></u>

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

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

Note 1 – Definition of reporting entity

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

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

The District has no employees and contracts for all of its management and professional services.

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

Note 2 – Summary of significant accounting policies

The more significant accounting policies of the District are described as follows:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

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

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2011 and 2010

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

Operating revenues and expenses

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

Cash equivalents

For purposes of the Statements of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

Investments

Investments for the District are reported at fair value.

Accounts receivable, allowance for doubtful accounts

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

Property Taxes

Property taxes are levied based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or in

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2011 and 2010

equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November and December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measureable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Capital assets

Capital assets include land, water rights, water and sewer plants and systems, equipment and vehicles. 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 or at the developer's cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Water system	5 to 30 years
Sewer system	6 to 30 years
Engineering studies	10 years
Building and improvements	10 to 30 years

Water rights

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

Capital contributions

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

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Debt issue costs and original issue discount/premium

Bond premium and discounts are deferred and amortized over the life of the bonds using a straight-line basis. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2011 and 2010 Statement of Net Assets as follows:

	2011	2010
Cash and investments	\$ 944,986	\$ 955,764
Cash and investments - restricted	1,259,147	1,270,584
Certificates of deposit	250,000	251,050
Total cash and investments	<u>\$ 2,454,133</u>	<u>\$ 2,477,398</u>

At December 31, 2011 and 2010, the District's cash deposits had bank balances of \$1,134,516 and \$246,618, respectively, and carrying balances of \$1,143,122 and \$241,331, respectively

Deposits with financial institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2011, the federal insurance limit was \$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not adopted a deposit policy for custodial credit risk. As of December 31, 2011 and 2010, the District's bank balances and carrying balances were insured or collateralized as follows:

	2011	2010
Bank balances:		
Federally insured	\$ 634,205	\$ 240,089
Collateralized	750,311	-
Total bank balances	<u>\$ 1,384,516</u>	<u>\$ 240,089</u>
Carrying balances:		
Federally insured	\$ 642,811	\$ 241,331
Collateralized	750,311	-
Total carrying balances	<u>\$ 1,393,122</u>	<u>\$ 241,331</u>

Investments

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest including the following:

- . 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
- . Local government investment pools

The local government investment pools, which include the Colorado Local Government Liquid Asset Trust (Colotrust), is rated AAAM by Standard & Poor's

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS
(continued)

December 31, 2011 and 2010

As of December 31, 2011 and 2010, the District had the following investments, recorded at fair value:

<u>Investment</u>	<u>Maturity</u>	<u>2011</u>	<u>2010</u>
Certificate of deposit	Less than 1 year	\$ 250,000	\$ 251,050
Colorado Liquid Asset Trust (Colotrust)	Less than 1 year	1,061,011	1,450,566
Total investments		<u>\$ 1,311,011</u>	<u>\$ 1,701,616</u>

COLOTRUST

During 2011 and 2010, the District invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust.

Restricted cash and investments

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan (see Note 5) the District is required to maintain an operating reserve equal to three months of operation and maintenance expenses budgeted for the then-current fiscal year. As of December 31, 2011 and 2010, the required operating reserve was \$587,400 and \$671,920, respectively.

According to bond debt obligations, property taxes collected above required bond payments are to be reserved to pay debt obligations. As of December 31, 2011, the District had \$671,747 and \$529,164 restricted for debt payments, respectively.

The District had restricted cash of \$69,500 and \$69,500, for emergencies as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 9), as of December 31, 2011 and 2010, respectively.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	Balance at December 31, 2010	Increases	Decreases	Balance at December 31, 2011
Capital assets, not being depreciated				
Land	\$ 198,583	\$ -	\$ -	\$ 198,583
Water rights	6,441,167	-	-	6,441,167
Construction in progress	432,676	272,865	129,027	576,514
Total capital assets, not being depreciated	<u>7,072,426</u>	<u>272,865</u>	<u>129,027</u>	<u>7,216,264</u>
Capital assets being depreciated				
Water system	22,111,405	55,662	-	22,167,067
Sewer system	6,098,322	73,366	-	6,171,688
Engineering studies	140,695	-	-	140,695
Office and general equipment	129,786	-	-	129,786
Sewage treatment rights	233,860	-	-	233,860
Total capital assets being depreciated	<u>28,714,068</u>	<u>129,028</u>	<u>-</u>	<u>28,843,096</u>
Accumulated depreciation	<u>(10,054,885)</u>	<u>(951,545)</u>	<u>-</u>	<u>(11,006,430)</u>
Total capital assets being depreciated, net	<u>18,659,183</u>	<u>(822,517)</u>	<u>-</u>	<u>17,836,666</u>
Capital assets, net	<u>\$ 25,731,609</u>	<u>\$ (549,652)</u>	<u>\$ 129,027</u>	<u>\$ 25,052,930</u>

Depreciation expense of \$939,851 and \$718,217 for the years ended December 31, 2011 and 2010, respectively, was charged to water and sewer operations. In addition, the District had \$11,694 and \$11,693 in amortization costs for sewer treatment rights, for December 31, 2011 and 2010, respectively. The District's participation in the Cherry Creek Project Water Authority is \$1,244,578 and \$1,219,772 for the years ended December 31, 2011 and 2010, respectively.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Note 5 – Long term obligations

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2011:

	Balance at December 31, 2010	Additions	Reductions	Balance at December 31, 2011	Due within One Year
2006A General Obligation Refunding Bonds	\$ 8,455,000	\$ -	\$ 495,000	\$ 7,960,000	\$ 565,000
CWRPDA Loan	9,122,248	-	434,161	8,688,117	445,122
2008A General Obligation Refunding Bonds	6,315,000	-	250,000	6,065,000	184,690
	<u>23,892,248</u>	<u>-</u>	<u>1,179,131</u>	<u>22,713,117</u>	<u>1,194,812</u>
Bond premium, net	377,750	-	32,317	345,433	32,317
	<u>\$24,269,998</u>	<u>\$ -</u>	<u>\$ 1,211,448</u>	<u>\$ 23,058,550</u>	<u>\$1,227,129</u>

Series 2006A Bonds

On December 1, 2006, the District issued General Obligation Refunding Bonds, Series 2006A. The bonds, in the amount of \$9,825,000, were issued to refund the District's Series 1996A Bonds.

The bonds bear interest from their date to maturity or redemption at rates ranging from 4-5% payable semi-annually at June 1 and December 1 of each year commencing June 1, 2007. Principal is paid annually at December 1 commencing December 1, 2007.

The Bonds are secured by and payable from Pledged revenue consisting of monies derived from an Ad Valorem property tax levy sufficient to pay debt service payments.

Colorado Water Resources and Power Development Authority Loan

During 2006, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (the Authority) to fund a water project in the amount of \$9,996,005.

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

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

The District and the Authority agree that the amounts payable under this loan agreement are payable solely from pledged property. Pledged property is defined as Ad Valorem taxes without limitation as to rate, on all taxable property within the District, in an amount necessary to pay the loan payments but not to exceed \$1,100,000; provided nothing shall be deemed to prevent the District from paying the amounts payable under the loan agreement from any other legally available source.

Annual payment of principal and interest are paid in equal semi-annual installments as documented in the loan agreement. The loan bears interest at an average annual rate of 3.54%.

Series 2008A Bonds

On September 27, 2008, the District issued General Obligation Refunding Bonds, Series 2008A. The bonds in the amount of \$6,730,000 were issued to refund the District's Series 1998A Bonds.

The bonds bear interest from their date to maturity or redemption at a rate of 4.65% payable semi-annually at June 1 and December 1 of each year commencing June 1, 2009. Principal is paid annually at December 1 commencing December 1, 2009.

The following is a summary of Debt Service Requirements to Maturity:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	1,275,122	908,839	2,183,961
2013	1,360,617	864,657	2,225,274
2014	1,467,103	816,071	2,283,174
2015	1,568,094	760,220	2,328,314
2016	1,669,084	700,342	2,369,426
2017-2021	8,852,758	2,478,933	11,331,691
2022-2026	5,302,432	1,126,357	6,428,789
2027	1,217,907	68,860	1,286,767
	<u>\$ 22,713,117</u>	<u>\$ 7,724,279</u>	<u>\$ 30,437,396</u>

Debt authorization

On November 2, 1993, the electors of the District authorized debt to an amount not to exceed \$30,000,000. As of December 31, 2011 and 2010, the District had authorized but unissued debt of \$1,525,742.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Note 6 – Net assets

The District has net assets consisting of three components - invested in capital assets, net of related debt, restricted, and unrestricted.

Invested in capital assets consists of capital assets, net of accumulated depreciation, if any. As of December 31, 2011 and 2010, the District had invested in capital assets of \$3,921,593 and \$3,722,768, respectively.

Restricted assets include assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District has restricted net assets of \$1,413,202 and \$1,282,097, for legal and contractual operating reserves, as of December 31, 2011 and 2010, respectively.

The District's unrestricted net assets as of December 31, 2011 and 2010 are \$1,073,966 and \$989,323, respectively.

Note 7– Intergovernmental agreements

Arapahoe County Water and Wastewater Authority

On June 18, 2003, the District entered into an agreement with Arapahoe County Water and Wastewater Authority (ACWWA) to mutually construct and operate a water treatment facility, known as the Joint Water Purification Plant (JWPP). Under the agreement, ACWWA will operate the facility and receive reimbursement for operating expense from the District. According to subsequent amendments, the District's portion of the operating expenses was initially to be in the range of 33% and ACWWA's portion of expenses was to be approximately 67%. ACWWA holds an operating reserve of \$148,100 for the District.

The District has a dispute with ACWWA under this agreement regarding costs to the District for ongoing operation of the JWPP by ACWWA, and regarding the procedures for decision making related to operations and capital facility revisions or improvements. Per the agreement, the dispute is to be addressed through "non-binding alternative dispute resolution prior to initiating litigation". In this regard, the District has requested a non-binding mediation session with ACWWA.

In addition, the District has a number of agreements with ACWWA dating back to 1991 regarding ACWWA's provision of wastewater services for the District. The agreements call for the District to pay a portion of its wastewater tap fees to ACWWA. The District has paid a total of \$4,236,792 to ACWWA for wastewater tap fees under these agreements, and is disputing payment to ACWWA of \$133,742 in tap fees collected in 2010 and 2011 where payments due to ACWWA under the agreements were withheld by the District. This amount was paid under protest, with reservation of rights on July 23, 2012.

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2011 and 2010

In a March 2012 letter to the District, ACWWA claims the agreements for wastewater service by ACWWA have a twenty year term that ended in March 2012. The District claims that the terms of the agreement for termination of service by ACWWA have not been met, and has requested mediation with ACWWA to resolve this dispute. ACWWA has not yet agreed to mediation of this matter. In its notice of termination to the District, ACWWA has indicated that services will be provided for 3 years to allow the District to procure services elsewhere.

The outcome of mediation is uncertain. If the parties proceed to trial, the District could recover damages from ACWWA, which could be substantial, up to and /or exceeding several million dollars, or could possibly be subject to an order to pay fees to ACCWA up to several hundred thousand dollars.

Cherry Creek Project Water Authority

On October 14, 2005, the District entered into a Water Project Agreement and created the Cherry Creek Project Water Authority (Cherry Creek Authority) with Inverness Water and Sanitation District, ACWWA, and Denver Southeast Suburban Water and Sanitation District. On November 17, 2005, the Cherry Creek Authority purchased certain water rights, well rights, facilities and storage rights at a bankruptcy action for \$14,000,000 plus closing costs. Of this amount the District contributed \$1,175,660. The value of the District's participation is \$1,244,578 and \$1,219,772 at December 31, 2011 and 2010, respectively, which represents an interest of 7.14% for both years. For a copy of the Cherry Creek Authority's financial statements, contact Cherry Creek Authority at (303)799-9595.

Note 8 – Risk management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and 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, 2011. 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.

The District pays annual premiums to the Pool for liability, property and public officials liability 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.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2011 and 2010

Note 9 – 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. While the District receives more than 10% of its revenue from government sources, the District's management believes a significant portion of its operations qualifies for this exclusion.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

In November 1993, a majority of the District's electors authorized the District to collect, retain, and expend each year all revenues it receives, in fiscal year 1994 and thereafter, from all sources, as a voter approved revenue change and without regard to spending, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the property tax revenue limitation of Section 29-1-301, Colorado Revised Statutes, or any other law.

Note 10 – Restatement

The December 31, 2010 actual funds available (page 19) has been increased by \$86,680.

In addition, the beginning net assets for December 31, 2011 and 2010 were restated by \$42,358 and \$1,754, respectively, to record allocation of Cherry Creek Authority net assets that are applicable to the District.

* * * * *

SUPPLEMENTAL INFORMATION

Cottonwood Water and Sanitation District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

WATER AND SEWER FUND

For The Year Ended December 31, 2011

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Operating revenues			
Charges for services	\$ 2,984,000	\$ 3,100,307	\$ 116,307
Miscellaneous income	5,000	12,321	7,321
Total Revenues	<u>2,989,000</u>	<u>3,112,628</u>	<u>123,628</u>
Operating expenses			
Accounting	75,000	80,223	(5,223)
Audit	10,000	9,850	150
Insurance	32,000	32,367	(367)
Legal	80,000	78,203	1,797
Management fees	103,000	87,761	15,239
Water treatment	800,000	1,025,416	(225,416)
Wastewater treatment	1,400,000	1,331,592	68,408
System operating fees	105,000	99,840	5,160
Professional fees	30,000	62,723	(32,723)
Repairs and Maintenance	100,000	68,701	31,299
Utilities	150,000	233,255	(83,255)
Miscellaneous fees	57,000	67,373	(10,373)
Contingency	25,000	-	25,000
Total operating expenses	<u>2,942,000</u>	<u>3,177,304</u>	<u>(235,304)</u>
Nonoperating revenues			
Property taxes	2,292,747	2,154,137	(138,610)
Specific ownership taxes	150,000	152,701	2,701
Net investment income	25,000	153	(24,847)
Capital recovery fees	9,570	9,577	7
Tap fees	250,000	349,393	99,393
Total nonoperating revenues	<u>2,727,317</u>	<u>2,665,961</u>	<u>(61,356)</u>
Nonoperating expenses			
County treasurer fees	34,391	32,241	2,150
Authority participation	22,000	47,444	(25,444)
Tap fees	-	133,742	(133,742)
Paying agent fees	2,500	400	2,100
Debt service - principal	1,179,131	1,179,131	-
Debt service - interest	954,244	980,769	(26,525)
Capital outlay	1,273,000	272,865	1,000,135
Total nonoperating expenses	<u>3,465,266</u>	<u>2,646,592</u>	<u>818,674</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(690,949)</u>	<u>(45,307)</u>	<u>(521,098)</u>
BEGINNING FUNDS AVAILABLE	<u>2,460,325</u>	<u>2,358,100</u>	<u>(102,225)</u>
ENDING FUNDS AVAILABLE	<u>\$ 1,769,376</u>	<u>\$ 2,312,793</u>	<u>\$ (623,323)</u>

Cottonwood Water and Sanitation District
RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER AND SEWER FUNDS
For the Year Ended December 31, 2011

Revenues (budgetary basis)	<u>\$ 5,778,589</u>
Total revenues per Statement of Revenues, Expenses and Changes in Net Assets	<u>5,778,589</u>
Expenditures (budgetary basis)	5,823,896
Depreciation and amortization	992,116
Debt service - principal	(1,179,131)
Capital outlay	<u>(272,865)</u>
Total expenses per Statement of Revenues, Expenses and Changes in Net Assets	<u>5,364,016</u>
Change in net assets per Statement of Revenues, Expenses and Changes in Net Assets	<u><u>\$ 414,573</u></u>

Cottonwood Water and Sanitation District
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2011

\$9,825,000 General Obligation Refunding Bonds Issued 12/1/2006 Interest at 4 to 5% Payable June 1 and December 1				\$9,996,005 CRWPA Loan Dated 12/1/2006 Principal and Interest at 3.54% Payable February 1 and August 1				\$6,730,000 General Obligation Refunding Bonds Issued 9/26/2005 Interest at 4.65% Payable June 1 and December 1				Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2012	565,000	330,900	445,122	295,916	265,000	282,023	1,275,122	908,839					
2013	635,000	308,300	450,617	286,657	275,000	269,700	1,360,617	864,657					
2014	710,000	282,900	467,103	276,258	290,000	256,913	1,467,103	816,071					
2015	785,000	254,500	478,094	262,292	305,000	243,428	1,568,094	760,220					
2016	865,000	223,100	489,084	247,997	315,000	229,245	1,669,084	700,342					
2017	955,000	188,500	505,570	233,373	330,000	214,598	1,790,570	636,471					
2018	1,045,000	150,330	516,561	222,857	345,000	199,253	1,906,561	572,440					
2019	1,150,000	108,500	527,552	212,112	365,000	183,210	2,042,552	503,822					
2020	1,250,000	62,500	538,542	200,538	380,000	166,238	2,168,542	429,276					
2021	-	-	549,533	188,356	395,000	148,568	944,533	336,924					
2022	-	-	566,019	171,925	415,000	130,200	981,019	302,125					
2023	-	-	582,505	155,001	435,000	110,903	1,017,505	265,904					
2024	-	-	598,991	141,559	455,000	90,675	1,053,991	232,234					
2025	-	-	615,477	126,300	475,000	69,518	1,090,477	195,818					
2026	-	-	659,440	82,846	500,000	47,430	1,159,440	130,276					
2027	-	-	697,907	44,680	520,000	24,180	1,217,907	68,860					
	7,960,000	1,909,530	8,688,117	3,148,667	6,065,000	2,666,082	22,713,117	7,724,279					

Cottonwood Water and Sanitation District
SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2011

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Total Mills Levied		Total Property Taxes		Percent Collected to Levied
		General operation	Debt Service	Levied	Collected	
2007	65,206,590	-	27.000	1,760,578	1,705,957	96.9%
2008	67,930,550	-	27.000	1,834,125	1,808,914	98.6%
2009	71,326,770	-	27.000	1,925,823	1,913,741	99.4%
2010	80,231,890	-	27.000	2,166,261	2,164,298	99.9%
2011	84,916,570	-	27.000	2,292,747	2,154,137	94.0%

Estimated for the year ending December 31, 2012	77,469,400	-	27.000	2,091,674	
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Note:

Property taxes collected in one year include collection of delinquent property taxes levied or abatement of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.

**Cottonwood Water and Sanitation District
Douglas County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2012 and 2011

Cottonwood Water and Sanitation District

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December 31, 2012 and 2011

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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cottonwood Water and Sanitation District

We have audited the accompanying financial statements of Cottonwood Water and Sanitation District (the District) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements.

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 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 audits to obtain reasonable assurance about whether the financial statements are free from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cottonwood Water and Sanitation District, as of December 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

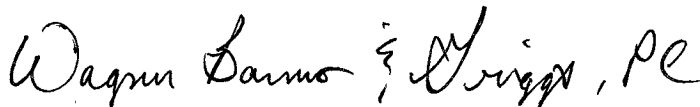
Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Wagon Lamm & Briggs, PC". The signature is written in a cursive, flowing style.

Lakewood, Colorado
September 30, 2013

BASIC FINANCIAL STATEMENTS

Cottonwood Water and Sanitation District

STATEMENTS OF NET POSITION

December 31, 2012 and 2011

	2012	(Restated) 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 989,098	\$ 944,986
Certificates of deposit	-	250,000
Accounts receivable - users	384,348	314,386
Accounts receivable - other (net)	61,231	67,471
Total current assets	<u>1,434,677</u>	<u>1,576,843</u>
Restricted assets		
Cash and cash equivalents - debt service	644,761	671,747
Cash and cash equivalents - legal and contractual reserves	608,300	587,400
Accounts receivable - County Treasurer	9,024	5,955
JWPP operating reserve	148,100	148,100
Property taxes receivable	2,066,619	2,091,674
Total restricted assets	<u>3,476,804</u>	<u>3,504,876</u>
Capital assets, net	<u>25,584,630</u>	<u>26,297,508</u>
Total assets	<u>30,496,111</u>	<u>31,379,227</u>
DEFERRED OUTFLOWS OF RESOURCES		
Cost of refunding, net	489,615	534,831
Total deferred outflows of resources	<u>489,615</u>	<u>534,831</u>
LIABILITIES		
Current liabilities		
Accounts payable	256,369	369,135
Due to other governments	-	133,742
Accrued interest payable	167,607	174,375
Current portion of long-term debt	1,392,934	1,227,129
Total current liabilities	<u>1,816,910</u>	<u>1,904,381</u>
Long-term obligations	<u>20,358,177</u>	<u>21,831,421</u>
Total liabilities	<u>22,175,087</u>	<u>23,735,802</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred property taxes	2,066,619	2,091,674
Total deferred inflows of resources	<u>2,066,619</u>	<u>2,091,674</u>
NET POSITION		
Net investment in capital assets	4,089,827	3,529,914
Restricted	1,475,885	1,482,702
Unrestricted	1,178,308	1,073,966
Total net position	<u>\$ 6,744,020</u>	<u>\$ 6,086,582</u>

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

Cottonwood Water and Sanitation District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended December 31, 2012 and 2011

	2012	(Restated) 2011
OPERATING REVENUES		
Water and sewer services	\$ 3,323,627	\$ 3,100,307
Miscellaneous income	10,506	12,321
Total operating revenues	<u>3,334,133</u>	<u>3,112,628</u>
OPERATING EXPENSES		
Accounting and billing services	90,434	80,223
Audit	6,134	9,850
Insurance	29,254	32,367
Legal	341,764	78,203
Management fees	118,452	87,761
Water treatment	471,426	1,025,416
Wastewater treatment	1,295,378	1,331,592
System operating costs	99,840	99,840
Professional services	70,403	62,723
Repairs and maintenance	76,429	68,701
Utilities	360,300	233,255
Depreciation	865,222	939,851
Miscellaneous	65,899	67,373
Total operating expenses	<u>3,890,935</u>	<u>4,117,155</u>
OPERATING INCOME (LOSS)	<u>(556,802)</u>	<u>(1,004,527)</u>
NONOPERATING REVENUES		
Property taxes	2,027,554	2,154,137
Specific ownership taxes	160,710	152,701
Investment income, net of County interest rebate	12,131	153
Capital recovery fees	8,668	9,577
Tap fees	-	349,393
Total nonoperating revenues	<u>2,209,063</u>	<u>2,665,961</u>
NONOPERATING EXPENSES		
Authority participation	48,960	47,444
County Treasurer fees	30,493	32,241
Paying agent fees	400	400
Tap fees	-	133,742
Bond interest	902,071	980,769
Amortization - net	12,899	24,594
Total nonoperating expenses	<u>994,823</u>	<u>1,219,190</u>
CHANGE IN NET POSITION	657,438	442,244
NET POSITION - beginning of year	<u>6,086,582</u>	<u>5,644,338</u>
NET POSITION - end of year	<u><u>\$ 6,744,020</u></u>	<u><u>\$ 6,086,582</u></u>

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

Cottonwood Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,270,411	\$ 3,050,892
Payments to suppliers for goods and services	<u>(3,298,670)</u>	<u>(3,518,688)</u>
Net cash provided (used) by operating activities	<u>(28,259)</u>	<u>(467,796)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,024,485	2,159,695
Specific ownership taxes	160,710	152,701
County Treasurer's fees	<u>(30,493)</u>	<u>(32,241)</u>
Net cash provided (used) by noncapital financing activities	<u>2,154,702</u>	<u>2,280,155</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	-	349,393
Capital recovery fees	8,668	9,577
Authority participation	(48,960)	(47,444)
Acquisition of fixed assets	(125,895)	(272,865)
Redemption of investments	250,000	-
Debt principal payments	(1,275,122)	(1,179,131)
Interest paid on debt	(908,839)	(694,907)
Paying agent fees	<u>(400)</u>	<u>(400)</u>
Net cash provided (used) by capital and related financing activities	<u>(2,100,548)</u>	<u>(1,835,777)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings received	12,131	1,203
Net cash provided (used) by investing activities	<u>12,131</u>	<u>1,203</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	38,026	(22,215)
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,204,133</u>	<u>2,226,348</u>
CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 2,242,159</u></u>	<u><u>\$ 2,204,133</u></u>

(continued)

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

Cottonwood Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2012 and 2011
(continued)

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	<u>\$ (556,802)</u>	<u>\$ (1,004,527)</u>
Adjustments to reconcile operating income (loss) to		
net cash (used) by operating activities		
Depreciation and amortization	865,222	939,851
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(63,722)	(61,736)
JWPP operating reserve	-	(148,100)
Cherry Creek Authority participation	(26,449)	(24,806)
Increase (decrease) in:		
Accounts payable	<u>(246,508)</u>	<u>(168,478)</u>
Total adjustments	<u>528,543</u>	<u>536,731</u>
Net cash (used) by operating activities	<u><u>\$ (28,259)</u></u>	<u><u>\$ (467,796)</u></u>

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

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

Note 1 – Definition of reporting entity

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

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

The District has no employees and contracts for all of its management and professional services.

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

Note 2 – Summary of significant accounting policies

The more significant accounting policies of the District are described as follows:

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

During 2012, the District implemented Governmental Accounting Standards Board (GASB) No. 62 which eliminated proprietary funds from electing to use Financial Accounting Standards Board (FASB) standards for financial reporting.

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

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from 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 sewer 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 capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Cash equivalents

For purposes of the Statements of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

Investments

Investments for the District are reported at fair value.

Accounts receivable, allowance for doubtful accounts

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible property taxes receivable has been made in the financial statements. The District collects certain engineering costs from developers in the District. The District has an estimated allowance for doubtful accounts for these reimbursable costs in the amount of \$10,944.

Property Taxes

Property taxes are levied based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November and December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measureable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

Capital assets

Capital assets include land, water rights, water and sewer plants and systems, equipment and vehicles. 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 or at the developer's cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Water system	5 to 30 years
Sewer system	6 to 30 years
Engineering studies	10 years
Building and improvements	10 to 30 years

Water rights

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

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

Capital contributions

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

Original issue discount/premium

Bond premium and discounts are deferred and amortized over the life of the bonds using a straight-line basis.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year-end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that District management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements and Deferred outflows/inflows of resources

Effective January 1, 2012, the District implemented the provisions of GASB No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* (GASB 63) and early implemented the provisions of GASB No. 65, *"Items Previously Reported as Assets and Liabilities"* (GASB No. 65). As a result, 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 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred property taxes, which arises only under a modified accrual basis of accounting is reported in the government-wide statement of net position.

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

Accordingly, deferred property taxes are reported only in the governmental funds balance sheet and are deferred and recognized as an inflow of resources in the period that the amounts become available.

GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. Some assets previously reported as assets are now reported as an outflow of resources/expenses. One of these assets is debt issuance costs. The District's beginning net position has been restated to reflect expensing of all debt issuances costs that have been previously capitalized. The effect of this treatment is as follows:

Net position – December 31, 2010, as originally stated	\$ 5,994,188
Restatement related to debt issuance costs	(349,850)
Net position – December 31, 2010, as restated	<u>\$ 5,644,338</u>

Additionally, the District's receivable related to property taxes to be collected in the ensuing year is treated as a deferred inflow of resources and prior loss on refunding is treated as a deferred outflow of resources.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2012 and 2011 Statement of Net Position as follows:

	2012	2011
Cash and investments	\$ 989,098	\$ 944,986
Cash and investments - restricted	1,253,061	1,259,147
Certificates of deposit	-	250,000
Total cash and investments	<u>\$ 2,242,159</u>	<u>\$ 2,454,133</u>

At December 31, 2012 and 2011, the District's cash deposits had bank balances of \$1,725,098 and \$1,134,516, respectively, and carrying balances of \$1,711,840 and \$1,005,993, respectively

Deposits with financial institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. As of December 31, 2012, the federal insurance limit was \$250,000. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2012 and 2011

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 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has not adopted a deposit policy for custodial credit risk. As of December 31, 2012 and 2011, the District's bank balances and carrying balances were insured or collateralized as follows:

	<u>2012</u>	<u>2011</u>
Bank balances:		
Federally insured	\$ 719,105	\$ 634,205
Collateralized	<u>1,005,993</u>	<u>750,311</u>
Total bank balances	<u>\$ 1,725,098</u>	<u>\$ 1,384,516</u>
Carrying balances:		
Federally insured	\$ 705,662	\$ 642,811
Collateralized	<u>1,006,178</u>	<u>750,311</u>
Total carrying balances	<u>\$ 1,711,840</u>	<u>\$ 1,393,122</u>

Investments

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest including the following:

- . 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
- . Local government investment pools

The local government investment pools, which include the Colorado Local Government Liquid Asset Trust (Colostrust), is rated AAAM by Standard & Poor's

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2012 and 2011

As of December 31, 2012 and 2011, the District had the following investments, recorded at fair value:

<u>Investment</u>	<u>Maturity</u>	<u>2012</u>	<u>2011</u>
Certificate of deposit	Less than 1 year	\$ -	\$ 250,000
Colorado Liquid Asset Trust (Colotrust)	Less than 1 year	530,319	1,061,011
Total investments		<u>\$ 530,319</u>	<u>\$ 1,311,011</u>

COLOTRUST

During 2012 and 2011, the District invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust.

Restricted cash and investments

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan (see Note 5) the District is required to maintain an operating reserve equal to three months of operation and maintenance expenses budgeted for the then-current fiscal year. As of December 31, 2012 and 2011, the required operating reserve was \$608,300 and \$587,400, respectively.

According to bond debt obligations, property taxes collected above required bond payments are to be reserved to pay debt obligations. As of December 31, 2012, the District had \$644,761 and \$671,747 restricted for debt payments, respectively.

The District had restricted cash of \$65,700 and \$69,500, for emergencies as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 9), as of December 31, 2012 and 2011, respectively.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2012 and 2011

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2012 was as follows:

	Balance at December 31, 2011	Increases	Decreases	Balance at December 31, 2012
Capital assets, not being depreciated				
Land	\$ 198,583	\$ -	\$ -	\$ 198,583
Water rights	6,441,167	-	-	6,441,167
Construction in progress	576,514	125,895	76,230	626,179
Total capital assets, not being depreciated	<u>7,216,264</u>	<u>125,895</u>	<u>76,230</u>	<u>7,265,929</u>
Capital assets being depreciated				
Water system	22,167,067	54,029	-	22,221,096
Sewer system	6,171,688	22,201	-	6,193,889
Engineering studies	140,695	-	-	140,695
Office and general equipment	129,786	-	-	129,786
Sewage treatment rights	233,860	-	-	233,860
Total capital assets being depreciate	<u>28,843,096</u>	<u>76,230</u>	<u>-</u>	<u>28,919,326</u>
Accumulated depreciation	<u>(11,006,430)</u>	<u>(865,222)</u>	<u>-</u>	<u>(11,871,652)</u>
Total capital assets being depreciated, net	<u>17,836,666</u>	<u>(788,992)</u>	<u>-</u>	<u>17,047,674</u>
Capital assets, net	<u>\$ 25,052,930</u>	<u>\$ (663,097)</u>	<u>\$ 76,230</u>	<u>\$ 24,313,603</u>

Depreciation expense of \$863,273 and \$939,851 for the years ended December 31, 2012 and 2011, respectively, was charged to water and sewer operations. In addition, the District had \$1,949 and \$11,693 in amortization costs for sewer treatment rights, for December 31, 2012 and 2011, respectively. The District's participation in the Cherry Creek Project Water Authority is \$1,271,027 and \$1,244,578 for the years ended December 31, 2012 and 2011, respectively.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2012 and 2011

Note 5 – Long term obligations

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2012:

	Balance at December 31, 2011	Additions	Reductions	Balance at December 31, 2012	Due within One Year
2006 A General Obligation					
Refunding Bonds	\$ 7,960,000	\$ -	\$ 565,000	\$ 7,395,000	\$ 635,000
CWRPDA Loan	8,688,117	-	445,122	8,242,995	450,617
2008A General Obligation					
Refunding Bonds	6,065,000	-	265,000	5,800,000	275,000
	<u>22,713,117</u>	-	1,275,122	21,437,995	1,360,617
Bond premium, net	345,433	-	32,317	313,116	32,317
	<u>\$ 23,058,550</u>	<u>\$ -</u>	<u>\$ 1,307,439</u>	<u>\$ 21,751,111</u>	<u>\$ 1,392,934</u>

Series 2006A Bonds

On December 1, 2006, the District issued General Obligation Refunding Bonds, Series 2006A. The bonds, in the amount of \$9,825,000, were issued to refund the District's Series 1996A Bonds.

The bonds bear interest from their date to maturity or redemption at rates ranging from 4-5% payable semi-annually at June 1 and December 1 of each year commencing June 1, 2007. Principal is paid annually at December 1 commencing December 1, 2007.

The Bonds are secured by and payable from Pledged revenue consisting of monies derived from an Ad Valorem property tax levy sufficient to pay debt service payments.

Colorado Water Resources and Power Development Authority Loan

During 2006, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (the Authority) to fund a water project in the amount of \$9,996,005.

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

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2012 and 2011

The District and the Authority agree that the amounts payable under this loan agreement are payable solely from pledged property. Pledged property is defined as Ad Valorem taxes without limitation as to rate, on all taxable property within the District, in an amount necessary to pay the loan payments but not to exceed \$1,100,000; provided nothing shall be deemed to prevent the District from paying the amounts payable under the loan agreement from any other legally available source.

Annual payment of principal and interest are paid in equal semi-annual installments as documented in the loan agreement. The loan bears interest at an average annual rate of 3.54%.

Series 2008A Bonds

On September 27, 2008, the District issued General Obligation Refunding Bonds, Series 2008A. The bonds in the amount of \$6,730,000 were issued to refund the District's Series 1998A Bonds.

The bonds bear interest from their date to maturity or redemption at a rate of 4.65% payable semi-annually at June 1 and December 1 of each year commencing June 1, 2009. Principal is paid annually at December 1 commencing December 1, 2009.

The following is a summary of Debt Service Requirements to Maturity:

Year Ended December 31,	Principal	Interest	Total
2013	\$ 1,360,617	\$ 864,657	\$ 2,225,274
2014	1,467,103	816,071	2,283,174
2015	1,568,094	760,220	2,328,314
2016	1,669,084	700,342	2,369,426
2017	1,790,570	636,471	2,427,041
2018-2022	8,043,207	2,144,587	10,187,794
2023-2027	5,539,320	893,092	6,432,412
	<u>\$ 21,437,995</u>	<u>\$ 6,815,440</u>	<u>\$ 28,253,435</u>

Debt authorization

On November 2, 1993, the electors of the District authorized debt to an amount not to exceed \$30,000,000. As of December 31, 2012 and 2011, the District had authorized but unissued debt of \$1,525,742.

Cottonwood Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2012 and 2011

Note 6 – Net position

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, if any. As of December 31, 2012 and 2011, the District had net investment in capital assets of \$4,089,827 and \$3,529,914 respectively.

Restricted position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District has restricted net position of \$1,475,885 and \$1,482,702, for legal and contractual operating reserves, as of December 31, 2012 and 2011, respectively.

The District's unrestricted net position as of December 31, 2012 and 2011 is \$1,178,308 and \$1,073,966, respectively.

Note 7– Intergovernmental agreements

Arapahoe County Water and Wastewater Authority

On June 18, 2003, the District entered into an agreement with Arapahoe County Water and Wastewater Authority (ACWWA) to mutually construct and operate a water treatment facility, known as the Joint Water Purification Plant (JWPP). Under the agreement, ACWWA will operate the facility and receive reimbursement for operating expense from the District. ACWWA holds an operating reserve of \$148,100 for the District.

The District has a dispute with ACWWA under this agreement regarding costs to the District for ongoing operation of the JWPP by ACWWA, and regarding the procedures for decision making related to operations and capital facility revisions or improvements. Per the agreement, the dispute is to be addressed through “non-binding alternative dispute resolution prior to initiating litigation”. In this regard, the District has requested a non-binding mediation session with ACWWA.

The District is a party to several intergovernmental agreements with ACWWA regarding design and construction of water treatment facilities. ACWWA and the District together built the JWPP, which opened in 2010. The District and ACWWA had been negotiating an operating agreement related to the Joint Water Purification Plant (“JWPP”), but those negotiations have not reached a conclusion.

ACWWA has asserted that additional fees totaling approximately \$245,000 are owed by the District to ACWWA for administrative costs allegedly related to the JWPP and for costs related to capital changes to the plant. The District has contested these charges. ACWWA has not filed an action to collect those charges.

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

In addition, the District and ACWWA disagree over operational decisions and design changes at the JWPP. In March 2012, the District provided ACWWA and the Arapahoe County Public Improvement District ("PID") with a demand for mediation and notice of claims. The District asserted that ACWWA breached contractual and common law duties owed to the District. The District and ACWWA participated in non-binding mediation of the JWPP disputes on August 2012, which did not result in a settlement. ACWWA and the District held a joint Board meeting on July 17, 2013, to further try to resolve their disputes. If the follow-up from that meeting is unsuccessful in resolving those disputes, the District's Board of Directors may consider filing a lawsuit against ACWWA. At its May 16, 2013 meeting, the District's Board approved a resolution directing counsel to prepare a complaint. The District would expect to assert claims for substantial damages and distribution of assets. However, ACWWA may assert counterclaims and the outcome of litigation is difficult to predict.

The outcome of mediation is uncertain. If the parties proceed to trial, the District could recover damages from ACWWA, which could be substantial, up to or exceeding several million dollars, or could possibly be subject to an order to pay fees to ACCWA up to several hundred thousand dollars.

Cherry Creek Project Water Authority

On October 14, 2005, the District entered into a Water Project Agreement and created the Cherry Creek Project Water Authority (Cherry Creek Authority) with Inverness Water and Sanitation District, ACWWA, and Denver Southeast Suburban Water and Sanitation District. On November 17, 2005, the Cherry Creek Authority purchased certain water rights, well rights, facilities and storage rights at a bankruptcy action for \$14,000,000 plus closing costs. Of this amount the District contributed \$1,175,660. The value of the District's participation is \$1,271,028 and \$1,244,578 at December 31, 2012 and 2011, respectively, which represents an interest of 7.14% for both years. For a copy of the Cherry Creek Authority's financial statements, contact Cherry Creek Authority at (303)799-9595.

Note 8 – Risk management

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and 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, 2012. 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.

The District pays annual premiums to the Pool for liability, property and public officials liability 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

Cottonwood Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2012 and 2011

require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Note 9 – 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 establishes separate budgets for enterprise activity and general government activity. Budgeted general government activity consists only of tax revenue and expenditures related to the District's debt obligations (Note 5). While the District, in total, receives more than 10% of its revenue from government sources, the District's management believes a significant portion of its operations, separately budgeted as enterprise revenue and expenditures, qualifies for the enterprise exclusion.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

In November 1993, a majority of the District's electors authorized the District to collect, retain, and expend each year all revenues it receives, in fiscal year 1994 and thereafter, from all sources, as a voter approved revenue change and without regard to spending, revenue raising, or other limitation contained within Article X, Section 20 of the Colorado Constitution, the property tax revenue limitation of Section 29-1-301, Colorado Revised Statutes, or any other law.

SUPPLEMENTAL INFORMATION

Cottonwood Water and Sanitation District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

For the year ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Enterprise:			
Revenues			
Charges for services	\$ 3,195,000	\$ 3,323,627	\$ 128,627
Miscellaneous income	5,000	10,506	5,506
Total revenues	<u>3,200,000</u>	<u>3,334,133</u>	<u>134,133</u>
Expenses			
Accounting	85,000	90,434	(5,434)
Audit	7,000	6,134	866
Insurance	34,000	29,254	4,746
Legal	80,000	341,764	(261,764)
Management fees	100,000	118,452	(18,452)
Water treatment	1,000,000	471,426	528,574
Wastewater treatment	1,300,000	1,295,378	4,622
System operating fees	100,000	99,840	160
Professional fees	35,000	70,403	(35,403)
Repairs and Maintenance	80,000	76,429	3,571
Utilities	175,000	360,300	(185,300)
Miscellaneous fees	82,000	65,899	16,101
Authority participation	40,000	48,960	(8,960)
Contingency	20,000	-	20,000
Total expenses	<u>3,138,000</u>	<u>3,074,673</u>	<u>63,327</u>
EXCESS OF ENTERPRISE REVENUE OVER ENTERPRISE EXPENDITURES	62,000	259,460	197,460
OTHER FINANCING SOURCES (USES)			
Financing proceeds	1,000,000	-	(1,000,000)
Financing costs	(50,000)	-	50,000
Tap fees	250,000	-	(250,000)
Capital recovery fees	10,000	8,668	(1,332)
Net investment income	10,000	11,991	1,991
Capital outlay	(880,000)	(125,895)	754,105
Total other financing sources (uses)	<u>340,000</u>	<u>(105,236)</u>	<u>(445,236)</u>
EXCESS OF ENTERPRISE REVENUE OVER ENTERPRISE EXPENDITURES AND OTHER FINANCING SOURCES (USES)	402,000	154,224	(247,776)
FUNDS AVAILABLE - BEGINNING OF YEAR - ENTERPRISE	<u>1,518,453</u>	<u>1,780,484</u>	<u>262,031</u>
FUNDS AVAILABLE - END OF YEAR - ENTERPRISE	<u>\$ 1,920,453</u>	<u>\$ 1,934,708</u>	<u>\$ 14,255</u>

Cottonwood Water and Sanitation District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
(continued)

For the year ended December 31, 2012

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Bond Fund:			
Revenues			
Property taxes	\$ 2,091,674	\$ 2,027,554	\$ (64,120)
Specific ownership taxes	140,000	160,710	20,710
Net investment income	3,000	140	(2,860)
Total revenues	<u>2,234,674</u>	<u>2,188,404</u>	<u>(46,270)</u>
Expenses			
County treasurer fees	31,375	30,493	882
Paying agent fees	1,000	400	600
Debt service - principal	1,275,122	1,275,122	-
Debt service - interest	908,839	902,071	6,768
Total expenses	<u>2,216,336</u>	<u>2,208,086</u>	<u>8,250</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>18,338</u>	<u>(19,682)</u>	<u>(38,020)</u>
BEGINNING FUNDS AVAILABLE - BOND FUND	<u>930,804</u>	<u>532,309</u>	<u>(398,495)</u>
ENDING FUNDS AVAILABLE - BOND FUND	<u>949,142</u>	<u>512,627</u>	<u>(436,515)</u>
TOTAL DISTRICT REVENUES	6,704,674	5,543,196	(1,161,478)
TOTAL DISTRICT EXPENDITURES	6,284,336	5,408,654	875,682
TOTAL DISTRICT BEGINNING FUNDS AVAILABLE	<u>2,449,257</u>	<u>2,312,793</u>	<u>(136,464)</u>
TOTAL DISTRICT ENDING FUNDS AVAILABLE	<u>\$ 2,869,595</u>	<u>\$ 2,447,335</u>	<u>\$ (422,260)</u>

Cottonwood Water and Sanitation District
RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31, 2012

Revenues (budgetary basis)	<u>\$ 5,543,196</u>
Total revenues per Statement of Revenues, Expenses and	
Changes in Net Position	<u>5,543,196</u>
 Expenditures (budgetary basis)	 5,408,654
Depreciation and amortization	878,121
Debt service - principal	(1,275,122)
Capital outlay	<u>(125,895)</u>
Total expenses per Statement of Revenues, Expenses and	
Changes in Net Position	<u>4,885,758</u>
 Change in net position per Statement of Revenues, Expenses	
and Changes in Net Position	<u><u>\$ 657,438</u></u>

Cottonwood Water and Sanitation District
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2012

\$9,825,000 General Obligation Refunding Bonds Issued 12/1/2006 Interest at 4 to 5% Payable June 1 and December 1 Principal Due December 1			\$9,996,005 CRWPDA Loan Dated 12/1/2006 Principal and Interest at 3.54% Payable February 1 and August 1		\$6,730,000 General Obligation Refunding Bonds Issued 9/26/2005 Interest at 4.65% Payable June 1 and December 1 Principal Due December 1		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 635,000	\$ 308,300	\$ 450,617	\$ 286,657	\$ 275,000	\$ 269,700	\$ 1,360,617	\$ 864,657
2014	710,000	282,900	467,103	276,258	290,000	256,913	1,467,103	816,071
2015	785,000	254,500	478,094	262,292	305,000	243,428	1,568,094	760,220
2016	865,000	223,100	489,084	247,997	315,000	229,245	1,669,084	700,342
2017	955,000	188,500	505,570	233,373	330,000	214,598	1,790,570	636,471
2018	1,045,000	150,330	516,561	222,857	345,000	199,253	1,906,561	572,440
2019	1,150,000	108,500	527,552	212,112	365,000	183,210	2,042,552	503,822
2020	1,250,000	62,500	538,542	200,538	380,000	166,238	2,168,542	429,276
2021	-	-	549,533	188,356	395,000	148,568	944,533	336,924
2022	-	-	566,019	171,925	415,000	130,200	981,019	302,125
2023	-	-	582,505	155,001	435,000	110,903	1,017,505	265,904
2024	-	-	598,991	141,559	455,000	90,675	1,053,991	232,234
2025	-	-	615,477	126,300	475,000	69,518	1,090,477	195,818
2026	-	-	659,440	82,846	500,000	47,430	1,159,440	130,276
2027	-	-	697,907	44,680	520,000	24,180	1,217,907	68,860
	<u>\$ 7,395,000</u>	<u>\$ 1,578,630</u>	<u>\$ 8,242,995</u>	<u>\$ 2,852,751</u>	<u>\$ 5,800,000</u>	<u>\$ 2,384,059</u>	<u>\$21,437,995</u>	<u>\$6,815,440</u>

Cottonwood Water and Sanitation District
SUMMARY OF ASSESSED VALUATION, MILL LEVY AND PROPERTY TAXES COLLECTED
December 31, 2012

Year Ended December 31,	Prior Year Assessed Valuation for Current Year Property Tax Levy	Total Mills Levied		Total Property Taxes		Percent Collected to Levied
		General operation	Debt Service	Levied	Collected	
2007	\$ 65,206,590	-	27.000	\$ 1,760,578	\$ 1,705,957	96.9%
2008	\$ 67,930,550	-	27.000	\$ 1,834,125	\$ 1,808,914	98.6%
2009	\$ 71,326,770	-	27.000	\$ 1,925,823	\$ 1,913,741	99.4%
2010	\$ 80,231,890	-	27.000	\$ 2,166,261	\$ 2,164,298	99.9%
2011	\$ 84,916,570	-	27.000	\$ 2,292,747	\$ 2,154,137	94.0%
2012	\$ 77,469,400		27.000	\$ 2,091,674	\$ 2,027,554	96.9%

Estimated for the year ending
December 31, 2013 \$ 76,541,460 - 27.000 \$ 2,066,619

Note:

Property taxes collected in one year include collection of delinquent property taxes levied or abatement of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.

Appendix C

APPENDIX C

Cottonwood Water & Sanitation

Balance Sheet

July 31, 2013

UnauditedAssets**Unrestricted Assets**

Operating Cash	\$ 350,252	
Investments	1,209,838	
Accounts Receivable	457,219	
Accounts Receivable -Misc	65,215	
Total Unrestricted Assets		\$ 2,082,524

Restricted Assets

Investments Reserved for Debt Service	\$ 1,603,741	
Cash with County Treasurer	18,737	
JWPP Operating Reserve	150,522	
Total Restricted Assets		\$ 1,773,000

Other Assets

Sewer rights, less accum amortization	\$ 1,949	
Bond issue costs, less accum amort	857,011	
Total Other Assets		\$ 858,960

Capital Assets

Water Systems	\$ 22,167,067	
Sewer Systems	6,171,687	
Engineering Studies	140,695	
Office and general equipment	129,786	
	\$ 28,609,235	
Accumulated depreciation	\$ (10,774,518)	
	\$ 17,834,717	
Land	\$ 198,583	
Water Rights	6,441,166	
Investments in Authority	1,244,578	
Construction in Progress	576,514	
Net capital assets		\$ 26,295,558

Total Assets\$ 31,010,042Liabilities and Fund Balance**Current Liabilities**

Accounts Payable	\$ 352,073	
Total Current Liabilities		\$ 352,073

Long Term Liabilities

Bonds Payable - Long Term	\$ 22,713,117	
Interest Payable	174,375	
Bond issue premium, less accum amort	345,433	
Total Long Term Liabilities		\$ 23,232,925

Total Liabilities\$ 23,584,998**Fund Balance**

Net Assets	\$ 6,521,029	
Current Year Profit (Loss)	904,015	
Total Fund Balance		\$ 7,425,044

Total Liabilities & Fund Balance\$ 31,010,042

Confidential: For Internal Use Only

Cottonwood Water & Sanitation
Income Statement
For the Period Ended July 31, 2013

Unaudited

	<u>Current Actual</u>	<u>YTD Actual</u>	<u>Annual Budget</u>	<u>Remaining Budget</u>
OPERATIONS				
<u>Operating Income</u>				
Water Service Fees	\$ 176,653	\$ 945,407	\$ 1,734,000	\$ 788,593
Sewer Service Fees	134,401	936,251	1,640,000	703,749
Storm Sewer Fees	343	2,398	4,000	1,603
Other Service Income	1,260	5,315	7,000	1,685
IREA Dividend	-	(1)	-	-
Total Operating Income	<u>\$ 312,657</u>	<u>\$ 1,889,370</u>	<u>\$ 3,385,000</u>	<u>\$ 1,495,630</u>
<u>Operating Expenses</u>				
Management Fees	\$ 8,771	\$ 59,392	\$ 120,000	\$ 60,608
Directors Fees	-	3,100	7,500	4,400
Accounting & Utility Billing	11,573	58,643	90,000	31,357
Audit Expense	-	-	7,500	7,500
Bank Fees	654	3,362	6,000	2,638
Legal fees	25,603	130,857	700,000	569,144
Legal-Water Rights	6,971	28,288	60,000	31,712
Professional Services	3,888	23,775	60,000	36,224
Insurance	-	28,095	32,000	3,905
Sewer Treatment Costs	125,071	888,851	1,365,000	476,149
System Operating Costs	8,320	58,240	100,000	41,760
UCCWA	-	25,000	15,000	(10,000)
Repair & Maintenance	1,478	37,317	90,000	52,683
Water Plant	14,413	167,630	250,000	82,370
Water Utilities	43,767	222,036	425,000	202,964
Water Conservation Rebates	390	2,799	6,000	3,201
Miscellaneous Expense	2,340	30,976	45,000	14,024
Contingency Operations	-	-	20,000	20,000
Total Expenses	<u>\$ 253,239</u>	<u>\$ 1,768,361</u>	<u>\$ 3,399,000</u>	<u>\$ 1,630,639</u>
Net Operating Revenue	<u>\$ 59,418</u>	<u>\$ 121,009</u>	<u>\$ (14,000)</u>	<u>\$ (135,009)</u>
<u>Other Revenues & (Expenses)</u>				
Tap Fees	\$ 25,372	\$ 25,372	\$ 120,000	\$ 94,628
Capital Recovery Fee	-	-	9,000	9,000
Water Treatment Plant	(4,006)	(42,208)	(100,000)	(57,792)
Other Capital Projects	(3,543)	(161,953)	(585,000)	(423,047)
Interest Income	607	3,921	10,000	6,079
Total Other	<u>\$ 18,430</u>	<u>\$ (174,868)</u>	<u>\$ (546,000)</u>	<u>\$ (371,132)</u>
Net Operating Income	<u>\$ 77,848</u>	<u>\$ (53,859)</u>	<u>\$ (560,000)</u>	<u>\$ (506,141)</u>

Confidential: For Internal Use Only

Cottonwood Water & Sanitation
Income Statement
For the Period Ended July 31, 2013

Unaudited

	<u>Current Actual</u>	<u>YTD Actual</u>	<u>Annual Budget</u>	<u>Remaining Budget</u>
<u>Debt Service Income</u>				
Property Taxes	\$ 4,637	\$ 1,916,086	\$ 2,066,619	\$ 150,533
Specific Ownership Tax	15,575	98,295	155,000	56,705
Interest Income	<u>(1,385)</u>	<u>(1,515)</u>	<u>3,000</u>	<u>4,515</u>
Debt Service Income	<u>\$ 18,827</u>	<u>\$ 2,012,866</u>	<u>\$ 2,224,619</u>	<u>\$ 211,753</u>
Treasurer Fees	\$ 49	\$ 28,719	\$ 30,999	\$ 2,280
Paying Agent Fees	-	-	1,000	1,000
Debt Service 2006B (DWRP)	368,637	737,273	737,274	1
Debt Service 2006A	-	154,150	943,300	789,150
Debt Service 2008	<u>-</u>	<u>134,850</u>	<u>544,700</u>	<u>409,850</u>
Total Debt Service Expenses	<u>\$ 368,686</u>	<u>\$ 1,054,992</u>	<u>\$ 2,257,273</u>	<u>\$ 1,202,281</u>
Net Debt Service Income	<u>\$ (349,859)</u>	<u>\$ 957,874</u>	<u>\$ (32,654)</u>	<u>\$ (990,528)</u>
Net Income (Loss)	<u>\$ (272,011)</u>	<u>\$ 904,015</u>	<u>\$ (592,654)</u>	<u>\$ (1,496,669)</u>

WATER INFRASTRUCTURE AND SUPPLY EFFICIENCY PROJECT

Loan Feasibility Study

Supplemental Information

B&V PROJECT NO. 176888

PREPARED FOR

Colorado Water Conservation Board on Behalf
of the WISE Authority

14 MARCH 2014



Expected Project Yield

The Water Delivery Agreement (WDA) with Denver Water and Aurora Water allows for variable deliveries every year based on hydrology conditions. However, the WDA also guarantees that each participant will receive a minimum amount of water over any 10-year period. This guaranteed delivery amount is listed in Supplement Table 1, along with the corresponding average annual average yield (1/10th of the 10-year guaranteed delivery).

Supplement Table 1. Expected WISE Project Yield

WISE Authority Member	10-Year Guaranteed Delivery (AF)	Average Annual Delivery (AFY)
Castle Rock	10,000	1,000
Centennial	10,000	1,000
Cottonwood	4,000	400
Dominion	13,250	1,325
Inverness	5,000	500
Meridian	3,000	300
Parker	12,000	1,200
Pinery	5,000	500
Rangeview	5,000	500
Stonegate	5,000	500
Total	72,250	7,225

Detailed Project Cost Breakdown by Participant

The estimated amount that each WISE Authority member is required to pay for each project component is shown in Supplement Table 2 and is based on:

- The amount of water each WISE Authority member has committed to taking.
- The amount of local infrastructure that must be constructed to deliver each member's WISE water.

Supplemental Table 2 – WISE Project Capital Cost Opinion by Participant (\$Millions)

Component ID	Castle Rock	Centennial	Cottonwood	Dominion	Inverness	Meridian	Parker	Pinery	Rangeview	Stonegate
E22	0.05	0.05	0.02	0.06	0.02	0.01	0.06	0.02	0.02	0.02
E3	0.32	0.32	0.13	0.43	0.16	0.10	0.39	0.16	0.16	0.16
E5	0.00	0.00	0.53	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E7	0.00	0.00	0.00	0.00	0.00	0.12	0.00	0.00	0.00	0.00
E8	0.00	0.00	0.00	0.00	0.73	0.00	0.00	0.00	0.00	0.00
E9	0.00	0.26	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E13P	1.11	0.00	0.00	1.47	0.00	0.00	0.00	0.55	0.00	0.55
E15	1.77	0.00	0.00	2.35	0.00	0.00	0.00	0.00	0.00	0.00
E16P	8.16	0.00	0.00	2.06	0.00	0.00	0.00	0.00	0.00	0.00
E16, E19, E20	8.56	0.00	0.00	2.16	0.00	0.00	0.00	0.00	0.00	0.00
E12	0.66	0.00	0.00	0.87	0.00	0.00	0.79	0.33	0.00	0.33
E13	1.05	0.00	0.00	1.39	0.00	0.00	1.26	0.52	0.00	0.52
E17	0.55	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
E2P	1.04	1.04	0.41	1.37	0.52	0.31	1.24	0.52	0.52	0.52
E2	1.16	1.16	0.46	1.53	0.58	0.35	1.39	0.58	0.58	0.58
E1	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.28	0.00
E14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.33	0.00	0.33
E21	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.86	0.00	0.00
E11	0.00	0.00	0.00	12.19	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal	24.43	2.83	1.55	25.88	2.01	0.89	5.13	5.87	2.56	3.01
Engineering/Design (8%)	1.95	0.23	0.12	2.07	0.16	0.07	0.41	0.47	0.20	0.24
Permitting/Easements (2%)	0.49	0.06	0.03	0.52	0.04	0.02	0.10	0.12	0.05	0.06
Subtotal	26.87	3.11	1.71	28.47	2.21	0.98	5.64	6.46	2.82	3.31
Contingency (30%)	8.06	0.93	0.51	8.54	0.66	0.29	1.69	1.94	0.84	0.99
Total Construction Cost	34.93	4.05	2.22	37.01	2.87	1.27	7.34	8.39	3.66	4.30
ECCV pipeline acquisition (WISE Authority portion)	4.06	4.06	1.62	5.37	2.03	1.22	4.87	2.03	2.03	2.03
DIA Connection Fee	1.00	1.00	0.40	1.33	0.50	0.30	1.21	0.50	0.50	0.50
Total Capital Cost Opinion	40.0	9.1	4.2	43.7	5.4	2.8	13.4	10.9	6.2	6.8