
ARAPAHOE COUNTY
WATER AND WASTEWATER AUTHORITY
A Component Unit Of Arapahoe County
FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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Independent Auditor's Report

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Board of Directors
Arapahoe County Water and Wastewater Authority
Centennial, Colorado

Report On The Financial Statements

We have audited the accompanying financial statements of the Arapahoe County Water and Wastewater Authority (ACWWA), a component unit of Arapahoe County, Colorado, as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise ACWWA's basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACWWA, as of December 31, 2013 and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

Prior-Period Comparative Information

ACWWA's 2012 financial statements were audited by predecessor auditors, and those auditors expressed an unmodified audit opinion on those audited financial statements in their report dated June 10, 2013.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through vii be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise ACWWA's basic financial statements. The schedule of revenues, expenditures and funds available budget and actual (budgetary basis), the reconciliation of budgetary basis (actual) to statement of revenues, expenses and changes in net position, the schedule of debt service requirements to maturity and the continuing disclosure annual financial information are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of revenues, expenditures and funds available budget and actual (budgetary basis), the reconciliation of budgetary basis (actual) to statement of revenues, expenses and changes in net position and the schedule of debt service requirements to maturity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The continuing disclosure annual financial 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 it.

RubinBrown LLP

June 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Arapahoe County Water and Wastewater Authority (ACWWA) offers the readers of ACWWA's financial statements this narrative overview and analysis of the financial activities of ACWWA for the years ended December 31, 2013 and 2012 and 2011.

Financial Highlights

- Net position increased to \$65,560,446 as of the end of 2013 from \$62,019,374 as of the end of 2012, or \$3,541,072.
- Operating revenue was \$17,062,043 in 2013 compared to \$17,050,193 in 2012, an increase of \$11,850.
- Operating expenses increased \$954,658 in 2013 while component changes in 2013 compared to 2012 consisted of a increase in salary and benefits of \$347,585; a decrease in professional services of \$254,428; an increase in repair and maintenance of \$83,496; an increase of \$637,444 in operational expenses due to the water management fees relating to ACWWAFlow; an increase in utilities of \$370,594 and an increase in office and other supplies and expenses of \$35,764; an increase of \$7,416 in contractual services; an decrease in depreciation and depletion of \$112,682, a decrease in liability insurance of \$2,556; an increase of \$3,563 in bad debt expense, and a decrease in other supplies and expenses of \$161,538.
- Non-operating revenues and expenses consisted of interest and fiscal charges in the amount of \$7,716,491; BABs interest subsidy of \$1,854,684; and interest income of \$18,689.
- Tap fees and extra-territorial fees increased \$2,342,519 to \$3,325,478 in 2013 compared to \$982,959 in 2012 due to an increase in the number of taps sold.
- Capital assets, net of depreciation and depletion, increased \$1,084,305 to \$169,252,819 in 2013 from \$168,168,514 in 2012.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to ACWWA's basic financial statements. The basic financial statements are comprised of Financial Statements and Notes to Financial Statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

The financial statements of ACWWA are presented as a special purpose government engaged only in business type activities - providing water and sewer utility services.

The Statement of Net Position presents information on all of ACWWA's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of ACWWA is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position present information that reflects how ACWWA's net position changed during the past year. All changes in the net

position are reported as soon as the underlying event giving rise to the change occurs. Thus, revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows.

The Statements of Cash Flows reports ACWWA's cash flows from operating, noncapital financing, capital and investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The supplemental information provides budget and actual information, debt service requirements and continuing disclosure annual information.

Statement of Net Position

| | December 31, | | |
|----------------------------------|---------------|---------------|------------------|
| | 2013 | 2012 | Restated 2011 |
| Current Assets | \$ 23,339,751 | \$ 21,783,793 | \$ 19,852,504 |
| Restricted and other assets | 7,788,312 | 6,764,453 | 6,807,313 |
| Capital Assets | 169,252,819 | 168,168,514 | 168,335,394 |
| Deferred outflows of resources | 2,063,596 | 2,228,684 | 2,377,263 |
| Total Assets | 202,444,478 | 198,945,444 | 197,372,474 |
| Current liabilities | 4,301,014 | 3,258,239 | 4,496,752 |
| Long-term obligations | 132,463,695 | 133,556,165 | 133,033,169 |
| Deferred inflows of resources | 119,323 | 111,666 | |
| Total Liabilities | 136,884,032 | 136,926,070 | 137,529,921 |
| Net position: | | | |
| Net investment in capital assets | 41,521,087 | 39,465,437 | 39,992,421 |
| Debt Reserve | 7,668,989 | 6,652,787 | 6,709,859 |
| Unrestricted | 16,370,370 | 15,901,150 | 13,140,273 |
| Total net position, restated | \$ 65,560,446 | \$ 62,019,374 | \$ 59,842,553 |

ACWWA's assets are primarily dedicated to providing water and wastewater services to its customers and the acquisition of water rights and related water system infrastructure. The acquisition of water rights and infrastructure assures that ACWWA will be able to provide a high quality of water to its customers for the foreseeable future. While ACWWA's investment in its capital assets is used to generate revenues, the capital assets themselves are not intended to be liquidated to repay the debt related to these assets. Such debt repayment must be funded through future operations.

Certain of ACWWA's assets represent resources that are restricted as to how they must be used. Restricted cash as of December 31, 2013 was \$7,668,989 compared to \$6,652,787 in 2012, an increase of \$1,016,202. This increase is related to the use of restricted cash investment in related water system infrastructure. Restricted cash consists of escrow accounts, debt reserves, and funds restricted for capital projects.

Current, restricted and other assets increased by \$2,579,817 in 2013 to \$31,128,063 from \$28,548,246 in 2012. This increase is primarily the net result of transactions related to operations and debt service.

Capital assets increased \$1,084,305 in 2013 to \$169,252,819 from \$168,168,514 in 2012 primarily due to the net investment in infrastructure and decrease in accumulated depreciation and depletion of \$112,682 to \$2,933,136 in 2013 from \$3,045,818 in 2012.

Current liabilities increased by a net amount of \$1,042,775 primarily due to an increase in the current portion of bonds payable of \$40,000 from \$1,110,000 in 2012 to \$1,150,000 in 2013; an increase in accounts payable and accrued expenses of \$286,637 from \$766,540 in 2012 to \$1,053,177 in 2013; a decrease in accrued payroll of \$76,612 from \$153,637 in 2012 to \$77,025 in 2013; an increase of \$30,000 in meter deposits from \$26,000 in 2012 to \$56,000 in 2013; an increase in escrowed development funds of \$668,150 from \$450,936 in 2012 to \$1,119,086 in 2013; an increase in compensated absences of \$98,549 from \$118,979 in 2012 to \$217,528 in 2013; and a decrease in accrued interest payable of \$3,949 from \$632,147 in 2012 to \$628,198 in 2013.

Long-term obligations decreased by a net amount of \$1,092,470 in 2013 to \$132,463,695 from \$133,556,165 in 2012. More detailed information about ACWWA's long-term debt and other liabilities is presented in Note 5 to the basic financial statements.

Change in Net Position

December 31,

| | 2013 | 2012 | Restated 2011 |
|---|--------------|--------------|------------------|
| Revenues | | | |
| Operating revenue | | | |
| Water charges | \$10,206,846 | \$10,964,732 | \$10,637,445 |
| Sewer charges | 4,959,230 | 4,826,201 | 4,895,956 |
| Fees for services | 838,286 | 493,616 | 684,718 |
| Water plant revenue | 270,078 | 502,125 | 868,834 |
| Other revenue | 787,603 | 263,519 | 240,904 |
| Total operating revenues | 17,062,043 | 17,050,193 | 17,327,857 |
| Non-operating revenues | | | |
| Net investment income | 18,689 | 43,518 | 78,550 |
| Interest subsidy | 1,854,684 | 2,014,866 | 2,014,866 |
| Contributions | | | |
| Tap and Extra-territorial fees | 3,325,478 | 982,959 | 969,314 |
| Water shortage revenue | | | 2,500,000 |
| Total revenues | 22,260,894 | 20,091,536 | 22,890,587 |
| Expenses | | | |
| Operating expenses | | | |
| Salaries and benefits | 3,545,489 | 3,197,904 | 3,651,391 |
| Office expense | 139,839 | 104,075 | 440,575 |
| Professional services | 645,150 | 899,578 | 646,657 |
| Insurance | 175,199 | 177,755 | 183,881 |
| Operational | 656,983 | 19,539 | 18,673 |
| Contractual services | 112,549 | 105,133 | 112,033 |
| Repairs and maintenance | 500,930 | 417,434 | 677,583 |
| Utilities | 1,776,570 | 1,405,976 | 1,887,352 |
| Depreciation and depletion | 2,933,136 | 3,045,818 | 2,553,548 |
| Other supplies and expense | 513,923 | 675,461 | 1,655,345 |
| Total operating expenses | 11,003,331 | 10,048,673 | 11,827,038 |
| Non-operating expense | | | |
| Interest and fiscal charges, as restated | 7,716,491 | 7,866,042 | 7,871,310 |
| Loss on disposal of capital assets | | | 86,548 |
| Total expenses | 18,719,822 | 17,914,715 | 19,784,896 |
| Changes in net assets | 3,541,072 | 2,176,821 | 3,105,691 |
| Net position-Beginning of year, as restated | 62,019,374 | 59,842,553 | 56,736,862 |
| Net position-End of year, as restated | \$65,560,446 | \$62,019,374 | \$59,842,553 |

ACWWA's financial position as measured by the change in net position increased from \$62,019,374 as of the end of 2012 to \$65,560,446 as of the end of 2013, or \$3,541,072. The major components of this increase are explained as follows:

Operating revenues increased \$11,850 to \$17,062,043 in 2013 from \$17,050,193 in 2012. Component changes consisted of an decrease in water charges of \$757,886 from \$10,964,732 in 2012 to \$10,206,846 in 2013 due to a wet irrigation season and the loss of a high volume user irrigation customer; an increase in sewer charges of \$133,029 from \$4,826,201 in 2012 to \$4,959,230 in 2013; an increase in fees for service of \$344,670 from \$493,616 in 2012 to \$838,286 in 2013; a decrease in revenue generated from the water treatment plant of \$232,047 due to Cottonwood Water and Sanitation District not taking water from the Plant; and an increase of \$524,084 from \$263,519 in 2012 to \$787,603 in 2013 in other revenue.

Operating expenses increased \$954,658 in 2013 to \$11,003,331 from \$10,048,673 in 2012. Component changes consisted of an increase in salaries and benefits of \$347,585; a decrease in professional services of \$254,428 from \$899,578 in 2012 to \$645,150 in 2013; an increase in repairs and maintenance of \$83,496 from \$417,434 in 2012 to \$500,930 in 2013; an increase in operating expenses relating to water treatment of \$637,444 from \$19,539 in 2012 to \$656,983 in 2013; an decrease in depreciation and depletion of \$112,682 from \$3,045,818 in 2012 to \$2,933,136 in 2013; a decrease in liability insurance of \$2,556 from \$177,755 in 2012 to \$175,199 in 2013; an increase in contracted services of \$7,416 from \$105,133 in 2012 to \$112,549 in 2013; and increase in utilities of \$370,594 from \$1,405,976 in 2012 to \$1,776,570 in 2013; an increase in office expenses of \$35,764 from \$104,075 in 2012 to \$139,839 in 2013; and a net decrease in all other component items of \$161,538 from \$675,461 in 2012 to \$513,923 in 2013.

Non-operating revenues and expenses consisted of a decrease in interest and fiscal charges of \$149,551 from \$7,866,042 in 2012 to \$7,716,491 in 2013; an interest income decrease of \$24,829 from \$43,518 in 2012 to \$18,689 in 2013; and a decrease of \$160,182 interest subsidy relating to the Build America Bonds from \$2,014,866 in 2012 to \$1,854,684 in 2013. The net effect of these changes is a decrease in non-operating revenue and expenses of \$334,562 in 2013.

Tap and extra-territorial fees increased \$2,342,519 to \$3,325,478 in 2013 compared to \$982,959 in 2012.

Budgetary Highlights

ACWWA prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of debt issuance, sale of assets and debt repayments, as well as capital outlay in addition to operations and nonoperating revenue and contributions. Capital contributions of facilities and depreciation are not reflected on the budget since they do not affect "funds available". State statutes require this budgetary accounting.

Capital Assets

The activity related to capital assets during 2013, 2012 and 2011 is as follows:

Capital Assets Activity

| | December 31, | | |
|--------------------------------|--------------|-------------|--------------|
| | 2012 | Net Changes | 2013 |
| Land and land improvements | 2,063,196 | | 2,063,196 |
| Water rights, net of depletion | 121,340,864 | (51,558) | 121,289,306 |
| Construction in progress | 3,135,250 | (1,254,505) | 1,880,745 |
| Water system | 41,778,768 | 5,220,188 | 46,998,956 |
| Sewer system | 15,097,364 | 22,694 | 15,120,058 |
| Buildings and projects | 3,254,315 | | 3,254,315 |
| Total assets | 186,669,757 | 3,936,819 | 190,606,576 |
| Accumulated depreciation | (18,501,243) | (2,852,514) | (21,353,757) |
| Net capital assets | 168,168,514 | 1,084,305 | 169,252,819 |

| | December 31, | | |
|--------------------------------|--------------|-------------|--------------|
| | 2011 | Net Changes | 2012 |
| Land and land improvements | 2,063,196 | | 2,063,196 |
| Water rights, net of depletion | 121,401,829 | (60,965) | 121,340,864 |
| Construction in progress | 1,805,926 | 1,329,324 | 3,135,250 |
| Water system | 40,266,428 | 1,512,340 | 41,778,768 |
| Sewer system | 15,097,364 | | 15,097,364 |
| Buildings and projects | 3,244,015 | 10,300 | 3,254,315 |
| Total assets | 183,878,758 | 2,790,999 | 186,669,757 |
| Accumulated depreciation | (15,543,364) | (2,957,879) | (18,501,243) |
| Net capital assets | 168,335,394 | (166,880) | 168,168,514 |

| | December 31, | | |
|--------------------------------|--------------|-------------|--------------|
| | 2010 | Net Changes | 2011 |
| Land and land improvements | 2,063,196 | | 2,063,196 |
| Water rights, net of depletion | 81,462,818 | 39,939,011 | 121,401,829 |
| Construction in progress | 2,642,582 | (836,656) | 1,805,926 |
| Water system | 38,789,373 | 1,477,055 | 40,266,428 |
| Sewer system | 13,572,795 | 1,524,569 | 15,097,364 |
| Buildings and projects | 3,185,282 | 58,733 | 3,244,015 |
| Total assets | 141,716,046 | 42,162,712 | 183,878,758 |
| Accumulated depreciation | (13,271,569) | (2,271,795) | (15,543,364) |
| Net capital assets | 128,444,477 | 39,890,917 | 168,335,394 |

ACWWA's net capital assets increased \$1,084,305 from \$168,168,514 in 2012 to \$169,252,819 in 2013.

Additional information on ACWWA's capital assets can be found in Note 4 of this report.

Debt Administration

All scheduled debt service payments were made timely during 2013 and 2012.

Additional detail on ACWWA's debt is in Note 5 of this report.

Economic and Other Factors

ACWWA continues to emphasize three key areas for the 2014 year: capital improvement project needs, proactive maintenance of the water and wastewater infrastructure, and operating costs required in sustaining and enhancing service levels. ACWWA's emphasis will allow the system to continue providing high quality and reliable water and wastewater services at reasonable rates while also maintaining a healthy financial position. ACWWA has made efforts to ensure that rates remain affordable for its customers while ensuring the continued stability of the system and the ability to meet the needs related to future growth.

Request for Information

This report is designed to provide a general overview of ACWWA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Arapahoe County Water and Wastewater Authority
13031 E. Caley Avenue
Centennial, Colorado 80111

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

STATEMENTS OF NET POSITION December 31, 2013 And 2012

| | Assets And Deferred Outflows Of Resources | |
|--|---|-----------------------|
| | 2013 | 2012 |
| Current Assets | | |
| Cash and cash equivalents | \$ 20,973,624 | \$ 19,492,121 |
| Receivables | 2,190,973 | 2,242,304 |
| Prepaid expenses and other | 175,154 | 49,368 |
| Total Current Assets | 23,339,751 | 21,783,793 |
| Restricted Assets | | |
| Cash and cash equivalents | 7,668,989 | 6,652,787 |
| Capital Assets, Net | 169,252,819 | 168,168,514 |
| Other Assets | | |
| Noncurrent receivables | 119,323 | 111,666 |
| Total Assets | 200,380,882 | 196,716,760 |
| Deferred Outflows Of Resources | | |
| Deferred charges on refunding | 2,063,596 | 2,228,684 |
| Total Assets And Deferred Outflows Of Resources | \$ 202,444,478 | \$ 198,945,444 |

| | Liabilities, Deferred Inflows Of Resources And Net Position | |
|--|---|-----------------------|
| Current Liabilities | | |
| Accounts payable and accrued expenses | \$ 1,053,177 | \$ 766,540 |
| Accrued payroll | 77,025 | 153,637 |
| Meter deposits | 56,000 | 26,000 |
| Escrowed development funds | 1,119,086 | 450,936 |
| Accrued interest payable | 628,198 | 632,147 |
| Compensated absences payable, current portion | 217,528 | 118,979 |
| Revenue bonds payable, current portion | 1,150,000 | 1,110,000 |
| Total Current Liabilities | 4,301,014 | 3,258,239 |
| Long-Term Liabilities | | |
| Compensated absences payable, long-term portion | 265,867 | 181,904 |
| Revenue bonds payable, long-term portion | 132,197,828 | 133,374,261 |
| Total Long-Term Liabilities | 132,463,695 | 133,556,165 |
| Total Liabilities | 136,764,709 | 136,814,404 |
| Deferred Inflows Of Resources | | |
| Deferred revenue | 119,323 | 111,666 |
| Net Position | | |
| Net investment in capital assets | 41,521,087 | 39,465,437 |
| Debt reserve | 7,668,989 | 6,652,787 |
| Unrestricted | 16,370,370 | 15,901,150 |
| Total Net Position | 65,560,446 | 62,019,374 |
| Total Liabilities, Deferred Inflows Of Resources And Net Position | \$ 202,444,478 | \$ 198,945,444 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

Years Ended December 31, 2013 And 2012

| | 2013 | 2012 |
|---|----------------------|----------------------|
| Operating Revenue | | |
| Water revenue | \$ 10,206,846 | \$ 10,964,732 |
| Sewer revenue | 4,959,230 | 4,826,201 |
| Fees for services | 838,286 | 493,616 |
| Water plant revenue | 270,078 | 502,125 |
| Other revenue | 787,603 | 263,519 |
| Total Operating Revenues | 17,062,043 | 17,050,193 |
| Operating Expenses | | |
| Salaries and benefits | 3,545,489 | 3,197,904 |
| Office expense | 139,839 | 104,075 |
| Professional services | 645,150 | 899,578 |
| Insurance | 175,199 | 177,755 |
| Operational | 656,983 | 19,539 |
| Contractual services | 112,549 | 105,133 |
| Repairs and maintenance | 500,930 | 417,434 |
| Utilities | 1,776,570 | 1,405,976 |
| Depreciation and depletion | 2,933,136 | 3,045,818 |
| Bad debt expense | 3,563 | — |
| Other supplies and expense | 513,923 | 675,461 |
| Total Operating Expenses | 11,003,331 | 10,048,673 |
| Operating Income | 6,058,712 | 7,001,520 |
| Nonoperating Revenues | | |
| Net investment income | 18,689 | 43,518 |
| Interest subsidy | 1,854,684 | 2,014,866 |
| Total Nonoperating Revenues | 1,873,373 | 2,058,384 |
| Nonoperating Expenses | | |
| Interest and fiscal charges | 7,716,491 | 7,866,042 |
| Income Before Contributions | 215,594 | 1,193,862 |
| Capital Contributions | | |
| Tap and extraterritorial fees | 3,325,478 | 982,959 |
| Change In Net Position | 3,541,072 | 2,176,821 |
| Total Net Position - Beginning Of Year | 62,019,374 | 59,842,553 |
| Total Net Position - End Of Year | \$ 65,560,446 | \$ 62,019,374 |

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

STATEMENTS OF CASH FLOWS Years Ended December 31, 2013 And 2012

| | 2013 | 2012 |
|---|----------------------|---------------|
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 17,113,374 | \$ 16,582,446 |
| Payments to suppliers | (4,333,855) | (3,627,046) |
| Payments to employees and related expenses | (3,439,589) | (3,186,249) |
| Net Cash Provided By Operating Activities | 9,339,930 | 9,769,151 |
| Cash Flows From Capital And Related Financing Activities | | |
| Net tap and extra-territorial fees | 3,325,478 | 982,959 |
| Principal payments on bonds | (1,110,000) | (6,427,857) |
| Interest paid on revenue bonds | (7,581,785) | (7,509,080) |
| Subsidy received on bond interest | 1,854,684 | 2,014,866 |
| Bond issuance | — | 5,525,000 |
| Bond issue costs | — | (63,100) |
| Payments for capital acquisitions | (4,017,441) | (2,878,938) |
| Net Cash Provided By (Used In) Capital And Related Financing Activities | (7,529,064) | (8,356,150) |
| Cash Flows From Investing Activities | | |
| Interest received | 18,689 | 31,625 |
| Change in escrowed funds | 668,150 | — |
| Net Cash Provided By Investing Activities | 686,839 | 31,625 |
| Net Increase In Cash And Cash Equivalents | 2,497,705 | 1,444,626 |
| Cash And Cash Equivalents - Beginning Of Year | 26,144,908 | 24,700,282 |
| Cash And Cash Equivalents - End Of Year | \$ 28,642,613 | \$ 26,144,908 |
| Reconciliation Of Operating Income (Loss) To Net Cash Provided By Operating Activities | | |
| Operating income | \$ 6,058,712 | \$ 7,001,520 |
| Provided by operating activities | | |
| Depreciation and amortization | 2,933,136 | 3,045,818 |
| (Increase) decrease in | | |
| Accounts receivable | 51,331 | (420,128) |
| Prepaid expenses | (125,786) | (9,463) |
| Increase (decrease) in | | |
| Accounts payable and accrued expenses | 392,537 | 199,023 |
| Deposits | 30,000 | (47,619) |
| Net Cash Provided By Operating Activities | \$ 9,339,930 | \$ 9,769,151 |
| Noncash Transactions | | |
| Water capacity exchange 2012 | \$ — | \$ 2,500,000 |

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2013 And 2012

1. Definition Of Reporting Entity

The Arapahoe County Water and Wastewater Authority (ACWWA) was organized pursuant to Colorado State Statutes (CRS 29-1-204.2) by an Intergovernmental Agreement (the IGA) between Arapahoe County (the County) and the Arapahoe Water and Sanitation District (the District) in 1988. ACWWA is governed by a nine-member Board of Directors appointed by the Arapahoe County Board of Commissioners. As of December 31, 2013, one of the five County Commissioners served on ACWWA's Board of Directors. Currently, two of the five County Commissioners serve on ACWWA's Board of Directors. ACWWA does not have taxing powers.

Effective January 1, 1989, the IGA granted to ACWWA all responsibility for and control over the District's operating system, including related operating assets, tap fees, contributions, revenues and expenses. The agreement provided for a lease of the District's property, plant and equipment, which would expire on the earlier of December 1, 2010, or upon the dissolution of the District. Pursuant to the IGA dated July 7, 1995, the County and ACWWA entered into a plan to dissolve the District. The voters of the District approved the plan and the Order of Dissolution was signed March 4, 2000, by the Arapahoe County District Court, officially dissolving the District. All property, assets and water rights were turned over to ACWWA, and any prior agreements between the two entities are subordinate to the July 7, 1995 agreement.

On February 6, 2002, the County entered into an IGA with the Arapahoe County Water and Wastewater Public Improvement District (PID). PID was organized in 2001, pursuant to the provisions of CRS Title 30, Article 20, Part 5, for the purpose of constructing certain public improvements to serve customers within and without its jurisdictional boundaries. The IGA was amended and restated, in part, to have PID replace the District as a party to the IGA. PID retains ACWWA as its management agency pursuant to this management agreement. In consideration for ACWWA's commitment to provide management service, PID agreed to issue general obligation bonds, certify a mill levy on property within PID at a level sufficient to make the annual debt service payments as identified in PID's annual capital plan. PID purchased certain assets from ACWWA's inventory with a replacement value of approximately \$32,000,000. Upon issuance of the first series of general obligation bonds and in consideration for conveyance of the assets, PID paid to ACWWA the replacement value of the assets. ACWWA, in recognizing its responsibilities to the District, and reviewing its powers, determined that revenue from the sale of its assets shall be used for the repayment of the general obligation debt of the District. PID is a component unit of the County.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

Notes To Financial Statements (*Continued*)

ACWWA 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 of ACWWA.

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.

ACWWA is not financially accountable for any other organization. ACWWA is considered a component unit of Arapahoe County.

2. Summary Of Significant Accounting Policies

The more significant accounting policies of ACWWA are described as follows:

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

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

Basis Of Accounting

ACWWA's records are maintained on the accrual basis of accounting. Revenue is recognized when earned, and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets. Redemptions of bonds and loans are recorded as a reduction in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

Notes To Financial Statements (*Continued*)

Operating Revenues And Expenses

ACWWA distinguishes between operating revenues and expenses and nonoperating items in the statements of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ACWWA's purpose of providing water and wastewater services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the State Budget Law, ACWWA's Board of Directors holds a public hearing 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 and other financing uses level and lapses at year-end. ACWWA's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

Cash Equivalents

For purposes of the statement of cash flows, ACWWA considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are carried at fair value.

Capital Assets

Capital assets, which include land, water rights, buildings, distribution and collection systems and machinery and equipment, are reported by ACWWA. Capital assets are recorded by ACWWA as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost when provided or constructed. Donated and or exchanged capital assets are recorded at estimated fair value at the date of donation or at the developers' 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.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

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

| | |
|----------------------------------|---------------|
| Water rights (nontributary only) | 100 years |
| Tanks | 40 - 50 years |
| Wells | 25 years |
| Water mains | 30 years |
| Sewer mains | 20 years |
| Buildings | 10 years |
| Sewer system | 5 - 30 years |
| Water system | 5 - 30 years |
| Equipment | 3 - 5 years |
| Leasehold improvements | 5 years |

Tap Fees And Contributed Lines

Tap fees are recorded as capital contributions in the period in which they are received or become collectible. Under ACWWA's policy, developers are required to pay for the equivalent cost of certain water lines previously constructed by ACWWA to serve the developers' property as actual development begins. Water and sewer lines contributed to ACWWA by developers are recorded as capital contributions and additions to the systems at the developers' cost or at estimated fair value when received. ACWWA records the contributions at the time the lines are conveyed to ACWWA for preliminary acceptance. Payments to other governments for the construction of capital infrastructure that will benefit ACWWA but not be owned, operated or maintained by ACWWA, are recorded as an expense.

Water Rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Certain water rights to renewable water resources have a perpetual life and are not amortized. Nontributary water rights are being amortized over one hundred years. All other costs, including costs incurred for the protection of water rights, are expensed.

Amortization

Bond premiums are deferred and amortized over the respective terms of the debt using the straight line method which approximates the effective interest method.

The deferred cost on debt refunding is being amortized using the straight-line method which approximates the effective interest method over the life of the new debt. The amortization amount is a component of interest expense.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

Compensated Absences

ACWWA's employees are entitled to certain compensated absences, in the form of vacation and sick leave benefits, and are accrued based on their length of employment. Compensated absences are accrued when incurred in the financial statements. At December 31, 2013, accrued vacation benefits are capped at 240 hours per employee. Sick leave benefits are accrued using the termination payment method. When terminations are made, employees are allowed up to 50% of their allowable 480 hours of accrued benefit. ACWWA has accrued \$483,395 and \$300,883 as of December 31, 2013 and 2012, respectively, for future payment of this earned leave.

Reimbursement Agreements

ACWWA may enter into various reimbursement agreements with developers. The terms of these agreements will vary based on the individual circumstances of each project and on the terms negotiated with each agreement.

Reclassifications

For comparability, certain 2012 amounts have been reclassified where appropriate to conform with the 2013 financial statement presentation.

3. Cash And Investments

Cash and investments as of December 31, 2013 and 2012 are classified in the accompanying financial statements as follows:

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| Statement Of Net Position | | |
| Cash and cash equivalents | \$ 20,973,624 | \$ 19,492,121 |
| Cash and cash equivalents - restricted | 7,668,989 | 6,652,787 |
| Total Cash And Cash Equivalents | \$ 28,642,613 | \$ 26,144,908 |

Cash and investments as of December 31, 2013 and 2012 consist of the following:

| | <u>2013</u> | <u>2012</u> |
|--------------------------------------|----------------------|----------------------|
| Deposits with financial institutions | \$ 28,642,613 | \$ 21,366,053 |
| Investments | — | 4,778,855 |
| Total Cash And Investments | \$ 28,642,613 | \$ 26,144,908 |

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

Notes To Financial Statements (*Continued*)

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2013, ACWWA had bank deposits of \$28,941,130 collateralized with securities held by the financial institution's agent but not in the ACWWA's name.

Investments

ACWWA's investment policy limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, ACWWA is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

Revenue bonds of local government securities, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

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

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

As of December 31, 2013 and 2012, ACWWA had the following investments:

| <u>Investment</u> | <u>Maturity</u> | <u>Fair Value</u> | |
|---|-----------------------------------|-------------------|--------------|
| | | <u>2013</u> | <u>2012</u> |
| Colorado Liquid Asset Trust (COLOTRUST) | Weighted average under 60 days | \$ — | \$ 4,778,855 |

COLOTRUST

ACWWA invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), 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 COLOTRUST. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. COLOTRUST 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 COLOTRUST's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for COLOTRUST'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 COLOTRUST. COLOTRUST is rated AAAM by Standard & Poor's.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

4. Capital Assets

An analysis of the changes in capital assets for the years ended December 31, 2013 and 2012 follows:

| | 2013 | | | Balance At December 31, 2013 |
|---|------------------------------------|--------------|--------------|------------------------------------|
| | Balance At December 31, 2012 | Increases | Decreases | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 2,063,196 | \$ — | \$ — | \$ 2,063,196 |
| Water rights | 122,644,802 | 29,064 | — | 122,673,866 |
| Depletion | (1,303,938) | (80,622) | — | (1,384,560) |
| Net water rights | 121,340,864 | (51,558) | — | 121,289,306 |
| Construction in progress | 3,135,250 | 3,965,683 | 5,220,188 | 1,880,745 |
| Total Capital Assets, Not Being Depreciated | 126,539,310 | 3,914,125 | 5,220,188 | 125,233,247 |
| Capital Assets, Being Depreciated | | | | |
| Water system | 41,778,768 | 5,220,188 | — | 46,998,956 |
| Sewer system | 15,097,364 | 22,694 | — | 15,120,058 |
| Buildings, equipment and projects | 3,254,315 | — | — | 3,254,315 |
| Total Capital Assets, Being Depreciated | 60,130,447 | 5,242,882 | — | 65,373,329 |
| Less Accumulated Depreciation For | | | | |
| Water system | 8,013,064 | 1,906,464 | — | 9,919,528 |
| Sewer system | 8,278,466 | 700,899 | — | 8,979,365 |
| Buildings, equipment and projects | 2,209,713 | 245,151 | — | 2,454,864 |
| Total Accumulated Depreciation | 18,501,243 | 2,852,514 | — | 21,353,757 |
| Total Capital Assets, Being Depreciated, Net | 41,629,204 | 2,390,368 | — | 44,019,572 |
| Capital Assets, Net | \$ 168,168,514 | \$ 6,304,493 | \$ 5,220,188 | \$ 169,252,819 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

| | 2012 | | | Balance At December 31, 2012 |
|---|------------------------------------|---------------------|---------------------|------------------------------------|
| | Balance At December 31, 2011 | Increases | Decreases | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ 2,063,196 | \$ — | \$ — | \$ 2,063,196 |
| Water rights | 122,617,828 | 26,974 | — | 122,644,802 |
| Depletion | (1,215,999) | (87,939) | — | (1,303,938) |
| Net water rights | 121,401,829 | (60,965) | — | 121,340,864 |
| Construction in progress | 1,805,926 | 2,836,965 | 1,507,641 | 3,135,250 |
| Total Capital Assets, Not Being Depreciated | 125,270,951 | 2,776,000 | 1,507,641 | 126,539,310 |
| Capital Assets, Being Depreciated | | | | |
| Water system | 40,266,428 | 1,512,340 | — | 41,778,768 |
| Sewer system | 15,097,364 | — | — | 15,097,364 |
| Buildings, equipment and projects | 3,244,015 | 10,300 | — | 3,254,315 |
| Total Capital Assets, Being Depreciated | 58,607,807 | 1,522,640 | — | 60,130,447 |
| Less Accumulated Depreciation For | | | | |
| Water system | 6,148,266 | 1,864,798 | — | 8,013,064 |
| Sewer system | 7,538,566 | 739,900 | — | 8,278,466 |
| Buildings, equipment and projects | 1,856,532 | 353,181 | — | 2,209,713 |
| Total Accumulated Depreciation | 15,543,364 | 2,957,879 | — | 18,501,243 |
| Total Capital Assets, Being Depreciated, Net | 43,064,443 | (1,435,239) | — | 41,629,204 |
| Capital Assets, Net | \$ 168,335,394 | \$ 1,340,761 | \$ 1,507,641 | \$ 168,168,514 |

Depreciation and depletion expense for the years ended December 31, 2013 and 2012 was charged to the following:

| | 2013 | 2012 |
|-----------------------------------|---------------------|---------------------|
| Water | \$ 1,987,086 | \$ 1,952,737 |
| Sewer | 700,899 | 739,900 |
| Buildings, equipment and projects | 245,151 | 353,181 |
| | \$ 2,933,136 | \$ 3,045,818 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

5. Long-Term Obligations

The following is an analysis of the changes in ACWWA's long-term obligations for the years ended December 31, 2013 and 2012:

| | Balance At December 31, 2012 | Increases | Decreases | Balance At December 31, 2013 | Amounts Due Within One Year |
|------------------------------------|------------------------------------|-------------------|---------------------|------------------------------------|-----------------------------------|
| Series 2006 | | | | | |
| Revenue bonds | \$ 20,680,000 | \$ — | \$ 625,000 | \$ 20,055,000 | \$ 645,000 |
| Bond premium | 309,261 | — | 26,433 | 282,828 | — |
| Series 2007 | | | | | |
| Revenue bonds | 16,425,000 | — | 485,000 | 15,940,000 | 505,000 |
| Series 2009A | | | | | |
| Revenue bonds | 91,545,000 | — | — | 91,545,000 | — |
| Series 2012 | | | | | |
| Revenue bonds | 5,525,000 | — | — | 5,525,000 | — |
| Total Bonds Payable | 134,484,261 | — | 1,136,433 | 133,347,828 | 1,150,000 |
| Compensated absences | 300,883 | 301,491 | 118,979 | 483,395 | 217,528 |
| Total Long-Term Obligations | \$ 134,785,144 | \$ 301,491 | \$ 1,255,412 | \$ 133,831,223 | \$ 1,367,528 |

| | Balance At December 31, 2011 | Increases | Decreases | Balance At December 31, 2012 | Amounts Due Within One Year |
|------------------------------------|------------------------------------|---------------------|---------------------|------------------------------------|-----------------------------------|
| Series 2006 | | | | | |
| Revenue bonds | \$ 21,280,000 | \$ — | \$ 600,000 | \$ 20,680,000 | \$ 625,000 |
| Bond premium | 331,351 | — | 22,090 | 309,261 | — |
| Series 2007 | | | | | |
| Revenue bonds | 16,890,000 | — | 465,000 | 16,425,000 | 485,000 |
| Series 2009A | | | | | |
| Revenue bonds | 91,545,000 | — | — | 91,545,000 | — |
| Series 2009B | | | | | |
| Revenue bonds | 5,275,000 | — | 5,275,000 | — | — |
| Premium | 87,857 | — | 87,857 | — | — |
| Series 2012 | | | | | |
| Revenue bonds | — | 5,525,000 | — | 5,525,000 | — |
| Total Bonds Payable | 135,409,208 | 5,525,000 | 6,449,947 | 134,484,261 | 1,110,000 |
| Compensated absences | 289,228 | 11,655 | — | 300,883 | 118,979 |
| Total Long-Term Obligations | \$ 135,698,436 | \$ 5,536,655 | \$ 6,449,947 | \$ 134,785,144 | \$ 1,228,979 |

The detail of ACWWA's bonds payable is as follows:

Series 2006 Refunding Bonds

On December 28, 2006, ACWWA issued \$22,940,000, with a premium of \$441,801, in revenue bonds with interest rates ranging from 4% to 5%. The revenue refunding and improvement bonds are due in average annual principal and interest installments of \$1,550,265 until December 2033.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

Revenue Refunding And Improvement Bonds, Series 2007

On August 23, 2007, ACWWA issued \$18,760,000, with a discount of \$70,654, in Water and Wastewater Revenue Refunding and Improvement Bonds with interest rates ranging from 4% to 5%. The revenue refunding bonds are due in average annual principal and interest installments of \$1,262,915 until December 2033.

Series 2009A Revenue Bonds

On December 8, 2009, ACWWA issued \$91,545,000 in Taxable Water and Wastewater Revenue Direct Pay Build America Bonds (BAB) with interest rates ranging from 3.61% to 6.68%. The revenue refunding and improvement bonds are due in annual principal and interest installments of \$5,516,894 to \$15,804,642 until December 2039. ACWWA is eligible to receive a 35% interest subsidy credit on its interest payments for these bonds subject to Section 6431 of the Internal Revenue Code. To receive BAB credits, ACWWA must file a form 8038-CP between 45 and 90 days prior to the corresponding interest payment date. Such credits, if received by ACWWA, are required under the bond resolution to be deposited to the Build America Bond Interest account of the Build America Bond Fund. There is no assurance, however, that ACWWA will receive all or any of the BAB credits which it expects to receive. ACWWA will be required to pay interest on the 2009A bonds regardless of whether BAB payments are received. ACWWA received interest subsidies in the amounts of \$1,854,684 and \$2,014,866, during 2013 and 2012, respectively. In accordance with the Trust Indenture, as of December 31, 2013 and 2012, \$7,115,881 and \$6,100,112, respectively, was held in reserves.

Series 2009B Revenue Bonds

On December 8, 2009, ACWWA issued \$5,625,000 in water and wastewater revenue bonds with interest rates ranging from 2% to 2.5%. The revenue refunding and improvement bonds are due in annual principal and interest installments of \$121,960 to \$2,224,250 until December 2014.

Series 2012 Revenue Refunding Loan

On October 18, 2012, ACWWA refunded the Series 2009B Revenue Bonds and entered into a loan agreement with Colorado State Bank and Trust dated October 18, 2012 in the amount of \$5,525,000. Principal and interest payments are due June 1 and December 1 in varying amounts through December 1, 2022, with a fixed interest rate of 2.17%. In accordance with the Trust Indenture, as of December 31, 2013, \$553,108 was held in reserves.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

Notes To Financial Statements (*Continued*)

Pledged Revenue And Debt Coverage Requirements

Over the years, ACWWA has issued revenue bonds with certain pledged revenues as collateral, certain debt coverage requirements and various covenants in which ACWWA's management believes that ACWWA is in compliance.

Refunding

On October 18, 2012, ACWWA issued \$5,525,000 in Revenue Refunding Loan dated October 18, 2012 for the refunding of the Series 2009B Tax-Exempt Water and Wastewater Revenue Bonds. Bond proceeds were transferred by the bond resolution to pay the costs of issuance and the remaining proceeds placed in a special fund and trust account for the purpose of paying the principal of, premium, if any, and interest on the refunded bonds as they become due and payable.

On October 18, 2012, ACWWA advance refunded and defeased (debt legally satisfied) \$5,362,857 of Water and Wastewater Revenue Bonds, Tax-Exempt Series 2009B, dated December 8, 2009 with interest rates ranging from 2.0% to 2.5%. ACWWA advanced refunded the Series 2009B bonds to reduce its total debt service payments over the next three years by almost \$5,225,909 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$201,012. ACWWA incurred issuance cost in the amount of \$63,100. The defeased bonds are not considered a liability of ACWWA since sufficient funds in the amount of \$5,463,172 were deposited with a trustee and invested in U.S. government securities for the purpose of paying the principal and interest of the defeased bonds until the call date, at which point the bonds will be repaid in their entirety from the remaining funds in the escrow account. The bonds will be redeemed on December 1, 2014. As of December 31, 2013 and 2012, the outstanding principal balance of the bonds was \$2,170,000 and \$3,735,000, respectively.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

ACWWA's long-term obligations will mature as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|-----------------------|-----------------------|-----------------------|
| 2014 | \$ 1,150,000 | \$ 7,538,374 | \$ 8,688,374 |
| 2015 | 2,855,000 | 7,487,888 | 10,342,888 |
| 2016 | 2,945,000 | 7,384,624 | 10,329,624 |
| 2017 | 3,050,000 | 7,250,789 | 10,300,789 |
| 2018 | 4,220,000 | 7,104,466 | 11,324,466 |
| 2019 - 2023 | 22,185,000 | 32,785,989 | 54,970,989 |
| 2024 - 2028 | 21,640,000 | 27,524,662 | 49,164,662 |
| 2029 - 2033 | 26,835,000 | 20,871,021 | 47,706,021 |
| 2034 - 2038 | 33,370,000 | 11,814,413 | 45,184,413 |
| 2039 | 14,815,000 | 989,642 | 15,804,642 |
| Total Payments | \$ 133,065,000 | \$ 130,751,868 | \$ 263,816,868 |

6. Net Position

ACWWA has net position consisting of two components: net investment in capital assets and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. As of December 31, 2013 and 2012, ACWWA had net investment in capital assets calculated as follows:

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Net investment in capital assets | | |
| Capital assets, net | \$ 169,252,819 | \$ 168,168,514 |
| Debt reserves | 3,552,500 | 3,552,500 |
| Cost of refunding | 2,063,596 | 2,228,684 |
| Bond premium | (282,828) | (309,261) |
| Capital related debt | (133,065,000) | (134,175,000) |
| Net Investment In Capital Assets | \$ 41,521,087 | \$ 39,465,437 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

7. Intergovernmental Agreements

Cherry Creek Project Water Authority

ACWWA participates in the Cherry Creek Project Water Authority (CCPWA). CCPWA is expected to produce approximately 2,000 acre feet of firm annual yield water for the use of the members. The amount of water to be received by each member will be based on each member's percentage of equity interest. ACWWA contributed over \$6,000,000 and expects to receive 42% of the water produced on the completion of future facilities.

Town Of Castle Rock

In October 2009, ACWWA entered into an agreement with the Town of Castle Rock, whereby ACWWA leases a portion of Castle Rock's surplus water on an "as-available, as-needed basis." "As available" is defined as all surplus water not required in the management of Castle Rock's water resources. However, Castle Rock has an existing lease for one acre foot of surplus water, which is considered a prior encumbrance and not available for ACWWA's use. ACWWA will pay \$250/acre foot of leased water. The agreement is one year annually renewable; either party may terminate this agreement with 90-days' notice.

Cottonwood Water And Sanitation District

In 2009, ACWWA entered into an agreement with Cottonwood Water and Sanitation District (CWSD) to mutually plan for the construction and operation of a Joint Water Purification Plant. ACWWA agreed to drill an alluvial well on the CWSD site known as Well CCC-4. Project costs were paid by ACWWA, and ACWWA will initially own the well and equipment. Once the well is operational, CWSD may exercise its option to purchase the well. In this case, CWSD will reimburse ACWWA for the cost of the well and equipment, less the agreed-upon depreciation. Under all circumstances, ACWWA may use the well for its purposes for no less than 5 years from the agreement date.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

Cottonwood Water And Sanitation District Lease

In November 2012, ACWWA entered into a lease agreement with CWSD with respect to the Chambers Pipeline. ACWWA will lease the pipeline from Cottonwood for transportation of raw water supplies for \$10 per year beginning on October 22, 2012 through October 22, 2015. During the term of the lease, ACWWA will operate and maintain the Chambers Pipeline at its expense. At the end of the lease, ACWWA will return the pipeline to Cottonwood in the same condition as of the date of the lease. In the event of damage, Cottonwood and ACWWA will confer to determine a reasonable course of action; however, the costs of any repairs shall not be paid by ACWWA without ACWWA's consent, unless the damage is caused by ACWWA's use.

Cottonwood Water And Sanitation District - Sewer Service Agreement

In December 2012, ACWWA entered into a sewer service agreement with CWSD whereby ACWWA agrees to receive and process wastewater from CWSD's sanitary sewer collection system, and thereafter to return or dispose of the effluent to CWSD, per the specific terms of the agreement.

East Cherry Creek Valley Water And Sanitation District

In 2009, ACWWA entered into agreements with East Cherry Creek Valley Water and Sanitation District (ECCV) and United Water and Sanitation District (United), whereby ACWWA acquired water rights, easements and infrastructure from United and ECCV. PID (see Note 1) acquires water rights and assets for the purpose of providing water services to its customers. Construction by ECCV of a reverse osmosis plant was started in the fall of 2010 and was completed in mid-2012.

Compark Business Campus Metropolitan District

In February 2011, ACWWA entered into an East-West Pipeline Capacity Acquisition Agreement with Compark Business Campus Metropolitan District whereby ACWWA acquired capacity from the Compark Business Campus Metropolitan District in the ECCV East-West Pipeline in exchange for Water Resource Fee Credits. The purchase price of the capacity of \$2,500,000 was satisfied by providing Water Resource Fee Credit.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

Notes To Financial Statements (*Continued*)

Inverness Water And Sanitation District

In April 2005, ACWWA, Inverness Water and Sanitation District (IWSD) and PID entered into an agreement for the financing and construction of a wastewater treatment plant expansion including discharges from IWSD to the Lone Tree Creek Wastewater Treatment Plant (WWTP). On September 30, 2011, the parties entered into the First Amendment to the 2005 Agreement to set the initial rate to be charged in 2011 for the treatment of effluent delivered by IWSD to WWTP and also to set the terms of a Renewal and Replacement Reserve Fund, which is to be established by both ACWWA and IWSD. The Renewal and Replacement Reserve Fund will be contributed to annually based on the established prorated share of capacity in WWTP. The maximum balance, once established, shall not exceed \$7,500,000 and will be reviewed every four years, beginning in 2011, as to the adequacy of the reserve amount and shall be adjusted accordingly.

Joint Water Purification Plant

In February 2002, ACWWA entered into an agreement with PID (see Note 1) with respect to the construction and operation of public improvements. In June 2003, ACWWA entered into an agreement with CWSO concerning the construction of water treatment facilities (now known as the Joint Water Purification Plant or JWPP). The 2003 agreement, among other things, assigns responsibility to ACWWA for the overall management and operations of JWPP. Under the terms of the agreement, ACWWA is to be the manager and operator of JWPP. In exchange for operating the plant, pursuant to a lease dated April 2002 and amended in April 2002, PID has leased and will transfer its assets in JWPP to ACWWA for a nominal amount at the final payment of the last PID bonds issued pursuant to the 2001 bond authorization. In June 2010, JWPP was placed into service and began operations. On December 6, 2010, ACWWA received a Notice of Violation/Cease and Desist Order as a result of an alleged permit violation from the Colorado Department of Public Health and Environment, Division of Administration, Water Quality Control Division (CDPHE) related to excess discharge of selenium in the waste product of JWPP which allegedly violated a Federal Environmental Protection Agency standard. The potential loss was unknown as of December 31, 2012; however, on May 16, 2013, the penalty was reduced to \$80,000, which ACWWA accepted. The final penalty and payment terms were established in a formal agreement with CDPHE. JWPP moved to microfiltration in 2012 while it continues to work on a longer-term solution that is compatible with the original construction design.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

In November 2013, the two parties agreed to a tolling agreement due to the dispute concerning the design, construction and operation of the JWPP plant. The tolling agreement will end no later than June 15, 2014.

Stonegate Village Metropolitan District

In February 2013, ACWWA entered into a limited wastewater system connection agreement with Stonegate Village Metropolitan District (SVMD) whereby ACWWA is authorized to make a connection to SVMD's wastewater system for the limited purpose of discharging the liquid waste from the chlorine analyzers that ACWWA will operate at the ECCV Connection Chlorination Vault. The volume of discharge shall not exceed 5,000 gallons per month. In exchange, ACWWA will pay regular monthly waste water fees to SVMD.

Stonegate Village Metropolitan District

In February 2013, ACWWA entered into a limited potable water system connection agreement with SVMD whereby ACWWA is authorized to make a connection to SVMD's potable water system to supply an emergency eyewash/shower station location at the Chambers Pump Station. The volume of water permitted shall not exceed 1,000 gallons per month. In exchange, ACWWA will pay regular monthly water service fees to SVMD.

City Of Longmont

In February 2013, ACWWA entered into a water supply agreement with the City of Longmont (Longmont), ECCV and United whereby, from May 1, 2013 through September 30, 2013, ECCV and ACWWA shall deliver fully consumable water from the ECCV/ACWWA Water Rights and/or the United/ACWWA Water Rights for the purpose of meeting Longmont's Replacement Obligation. In exchange, from October 1, 2013 through March 31, 2014, Longmont shall release a minimum of 500 acre feet of fully consumable water from Union Reservoir for delivery to ECCV and ACWWA for the purpose of meeting the ECCV/ACWWA Winter Return Flow Obligation.

City Of Aurora

In November 2013, ACWWA entered into a license agreement with the City of Aurora (Aurora), whereby Aurora authorizes ACWWA to construct, operate, maintain, repair and replace sewer mains situated in Arapahoe County.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

ACWWA is also a party to several other agreements with other governmental entities. ACWWA is presently engaged in discussions with the Valley Country Club regarding the continuing provision of nonpotable treated effluent for application to the golf course. These agreements do not have a material effect on the financial statements.

8. Commitments And Contingencies

Construction Commitments

ACWWA has entered into various contracts and agreements with contractors for the improvement and upgrading of facilities. Total commitments with such contractors for 2013 and 2012 totaled approximately \$310,672 and \$882,727, respectively.

9. Pension And Benefit Plans

ACWWA's Retirement Plan (the Plan) was established to qualify as a defined contribution plan under Sections 401(a) and 501(a) of the Internal Revenue Code. It was first adopted in 1990 and has been amended three times since. There are mandatory and discretionary employer contributions.

ACWWA's mandatory contributions are 12.4% of employee compensation. Discretionary employer contributions are decided on an annual basis at the time of budget approval for the following budget year. Historically, each year ACWWA's Board has approved a discretionary additional contribution of 5% of employee compensation, which is matched by a 5% pre-tax salary reduction by the employees, making the entire discretionary contribution 10% of employee compensation. Under the Plan document and the Internal Revenue Code, the entire discretionary contribution is considered an employer contribution. Total Plan contributions for the years ending December 31, 2013 and 2012 were \$563,835 and \$505,807, respectively. Total payroll was \$2,517,118 and \$2,258,068 for the years ended December 31, 2013 and 2012, respectively. Total employer contributions represent 22.4% and 22.4% of total compensation for the years ended December 31, 2013 and 2012, respectively. An employee is not fully vested until the completion of four complete years of service. Vesting is 0% for less than 1 year, 25% for 1 - 2 years, 50% for 2 - 3 years, 75% for 3 - 4 years and 100% for over 4 years.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

10. Related-Party Transactions

As provided by the IGA between PID and ACWWA dated February 6, 2002 and PID's procedures, the Manager of ACWWA has contract signature authority for PID under certain circumstances including the approval of certain expenditures on behalf of PID.

11. Conflict Of Interest

State law requires that members of the Board of Directors verbally disclose potential conflicts of interest prior to discussing topics that may involve those conflicts of interest. The Directors have disclosed their potential conflicts in writing to the Secretary of State and the Secretary of ACWWA. On behalf of the Board, these potential conflicts of interest as of December 31, 2013 are disclosed as follows:

A board member is a member of Valley Country Club, which is a customer of ACWWA.

A board member owns a home in ACWWA's service area. The board member retired from CH2MHill.

A board member is an Arapahoe County Commissioner, a Director of PID, a board member of the Arapahoe County Public Airport Authority, a board member of the Southeast Metro Stormwater Authority and a resident of the East Cherry Creek Valley Water and Sanitation District.

A board member is the owner of a consulting company located in ACWWA's service area. A board member has a relative who is an engineer employed by Anadarko Petroleum.

A board member is a board member of the Southeast Metro Stormwater Authority and whose spouse is a geologist employed by Anadarko Petroleum.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

Notes To Financial Statements (*Continued*)

12. Risk Management

ACWWA is exposed to various risks of losses, including general liability (limited under the Colorado Governmental Immunity Act to \$350,000 per person and \$990,000 per occurrence), property damage, and employee life, medical, dental and accidental benefits. ACWWA has a risk management program, which includes commercial property insurance for catastrophic losses, including floods and earthquakes, for the operating plant. ACWWA also carries commercial insurance for employee life, health, accident and worker's compensation.

ACWWA is also a member of the Colorado Special Districts Property and Liability Pool (the Pool) as of December 31, 2013 and 2012. The Pool is an organization created by 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.

ACWWA pays annual premiums to the Pool for liability, property and public official's coverage which are recorded as expenditures. In the event the 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 Pool members. Any excess funds that the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

13. 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 that 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. ACWWA's management believes a significant portion of its operations qualifies for this exclusion.

ACWWA's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions will require judicial interpretation.

Supplementary Information

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**SCHEDULE OF REVENUES, EXPENDITURES AND
FUNDS AVAILABLE -
BUDGET AND ACTUAL (BUDGETARY BASIS)
For The Year Ended December 31, 2013**

| | Original Budget | Final Budget | Actual | Variance With Budget Positive (Negative) |
|---|----------------------------|-------------------------|---------------------|---|
| Revenues | | | | |
| Water revenue | \$ 11,160,375 | \$ 11,160,375 | \$ 10,206,846 | \$ (953,529) |
| Sewer revenue | 4,942,774 | 4,942,774 | 4,959,230 | 16,456 |
| Water plant revenue | 325,219 | 325,219 | 270,078 | (55,141) |
| Other user fees | 462,085 | 462,085 | 787,603 | 325,518 |
| Interest subsidy | 2,014,866 | 2,014,866 | 1,854,684 | (160,182) |
| Fees for service | 183,607 | 183,607 | 838,286 | 654,679 |
| Interest | 30,800 | 30,800 | 18,689 | (12,111) |
| Tap and territorial fees | 903,990 | 903,990 | 3,325,478 | 2,421,488 |
| Total Revenues | 20,023,716 | 20,023,716 | 22,260,894 | 2,237,178 |
| Expenditures | | | | |
| Salaries and benefits | 3,497,655 | 3,497,655 | 3,545,489 | 47,834 |
| Office expense | 64,000 | 64,000 | 139,839 | 75,839 |
| Professional services | 322,500 | 322,500 | 645,150 | 322,650 |
| Insurance | 210,000 | 210,000 | 175,199 | (34,801) |
| Repairs and maintenance | 639,250 | 639,250 | 500,930 | (138,320) |
| Utilities | 1,410,000 | 1,410,000 | 1,776,570 | 366,570 |
| Operational expenses | 3,727,206 | 3,727,206 | 1,287,018 | (2,440,188) |
| Debt service | 8,688,335 | 8,688,335 | 8,826,491 | 138,156 |
| Capital outlay | 3,677,400 | 3,677,400 | 4,176,370 | 498,970 |
| Acquisition of water rights | 117,370 | 117,370 | 29,064 | (88,306) |
| Total Expenditures | 22,353,716 | 22,353,716 | 21,102,120 | (1,251,596) |
| Change In Net Position (Budgetary Basis) | \$ (2,330,000) | \$ (2,330,000) | \$ 1,158,774 | \$ 3,488,774 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**RECONCILIATION OF BUDGETARY BASIS
(ACTUAL) TO STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
For The Year Ended December 31, 2013**

| | |
|---|---------------------------------|
| Change In Net Position (Budgetary Basis) | \$ 1,158,774 |
| Depreciation, depletion and amortization | (2,933,136) |
| Capital outlay | 4,205,434 |
| Bond issuance | — |
| Bond payments | <u>1,110,000</u> |
| Change in net position | <u>3,541,072</u> |
| Net Position, Beginning Of Year | <u>62,019,374</u> |
| Net Position, End Of Year | <u><u>\$ 65,560,446</u></u> |

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2013

| December 31, | \$22,940,000 Variable Rate Revenue Refunding Bonds, Series 2006 Dated December 28, 2006 Variable Interest Rate Principal And Interest Due December 1 | | \$18,760,000 Variable Rate Water And Wastewater Revenue Bonds, Series 2007 Dated August 23, 2007 Variable Interest Rate Principal And Interest Due December 1 | | \$91,545,000 Variable Rate Taxable Water And Wastewater Revenue Refunding Bonds, Series 2009A Dated December 8, 2009 Variable Interest Rate Principal And Interest Due December 1 | | \$5,525,000 Fixed Rate Water and Wastewater Revenue Refunding Loan Series 2012 Dated September 26, 2012 Fixed Interest Rate Interest Due June 1 and December 1 Principal Due December 1 | | Total Debt Service Requirements | | |
|--------------|--|----------------------|---|---------------------|--|-----------------------|--|-------------------|---------------------------------|-----------------------|-----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Total |
| 2014 | \$ 645,000 | \$ 902,463 | \$ 505,000 | \$ 758,825 | \$ — | \$ 5,756,759 | \$ — | \$ 120,327 | \$ 1,150,000 | \$ 7,538,374 | \$ 8,688,374 |
| 2015 | 675,000 | 873,439 | 530,000 | 737,363 | 1,650,000 | 5,756,759 | — | 120,327 | 2,855,000 | 7,487,888 | 10,342,888 |
| 2016 | 705,000 | 846,438 | 545,000 | 714,838 | 1,695,000 | 5,703,021 | — | 120,327 | 2,945,000 | 7,384,624 | 10,329,624 |
| 2017 | 740,000 | 811,189 | 570,000 | 691,675 | 1,740,000 | 5,627,599 | — | 120,327 | 3,050,000 | 7,250,790 | 10,300,790 |
| 2018 | 775,000 | 774,188 | 600,000 | 663,175 | 1,790,000 | 5,546,775 | 1,055,000 | 120,327 | 4,220,000 | 7,104,465 | 11,324,465 |
| 2019 | 805,000 | 743,189 | 630,000 | 637,675 | 1,845,000 | 5,459,155 | 1,080,000 | 97,433 | 4,360,000 | 6,937,452 | 11,297,452 |
| 2020 | 840,000 | 710,988 | 650,000 | 608,550 | 1,915,000 | 5,364,230 | 1,110,000 | 73,997 | 4,515,000 | 6,757,765 | 11,272,765 |
| 2021 | 875,000 | 677,389 | 680,000 | 579,300 | 1,980,000 | 5,262,831 | 1,135,000 | 49,910 | 4,670,000 | 6,569,430 | 11,239,430 |
| 2022 | 915,000 | 637,388 | 710,000 | 548,700 | 2,050,000 | 5,155,020 | 1,145,000 | 25,281 | 4,820,000 | 6,366,389 | 11,186,389 |
| 2023 | 950,000 | 598,770 | 750,000 | 515,862 | 2,120,000 | 5,040,322 | — | — | 3,820,000 | 6,154,954 | 9,974,954 |
| 2024 | 995,000 | 556,738 | 780,000 | 481,175 | 2,200,000 | 4,918,528 | — | — | 3,975,000 | 5,956,441 | 9,931,441 |
| 2025 | 1,035,000 | 514,450 | 820,000 | 445,100 | 2,285,000 | 4,788,838 | — | — | 4,140,000 | 5,748,388 | 9,888,388 |
| 2026 | 1,080,000 | 470,464 | 860,000 | 404,100 | 2,380,000 | 4,641,913 | — | — | 4,320,000 | 5,516,477 | 9,836,477 |
| 2027 | 1,125,000 | 424,563 | 900,000 | 363,250 | 2,480,000 | 4,488,879 | — | — | 4,505,000 | 5,276,692 | 9,781,692 |
| 2028 | 1,175,000 | 376,750 | 940,000 | 320,500 | 2,585,000 | 4,329,414 | — | — | 4,700,000 | 5,026,664 | 9,726,664 |
| 2029 | 1,225,000 | 326,813 | 990,000 | 273,500 | 2,690,000 | 4,163,199 | — | — | 4,905,000 | 4,763,512 | 9,668,512 |
| 2030 | 1,275,000 | 274,750 | 1,040,000 | 224,000 | 2,805,000 | 3,990,232 | — | — | 5,120,000 | 4,488,982 | 9,608,982 |
| 2031 | 1,340,000 | 211,000 | 1,090,000 | 172,000 | 2,925,000 | 3,807,065 | — | — | 5,355,000 | 4,190,065 | 9,545,065 |
| 2032 | 1,405,000 | 144,000 | 1,145,000 | 117,500 | 3,050,000 | 3,616,063 | — | — | 5,600,000 | 3,877,563 | 9,477,563 |
| 2033 | 1,475,000 | 73,750 | 1,205,000 | 60,250 | 3,175,000 | 3,416,898 | — | — | 5,855,000 | 3,550,898 | 9,405,898 |
| 2034 | — | — | — | — | 6,125,000 | 3,209,571 | — | — | 6,125,000 | 3,209,571 | 9,334,571 |
| 2035 | — | — | — | — | 6,385,000 | 2,809,608 | — | — | 6,385,000 | 2,809,608 | 9,194,608 |
| 2036 | — | — | — | — | 6,660,000 | 2,383,090 | — | — | 6,660,000 | 2,383,090 | 9,043,090 |
| 2037 | — | — | — | — | 6,950,000 | 1,938,202 | — | — | 6,950,000 | 1,938,202 | 8,888,202 |
| 2038 | — | — | — | — | 7,250,000 | 1,473,942 | — | — | 7,250,000 | 1,473,942 | 8,723,942 |
| 2039 | — | — | — | — | 14,815,000 | 989,642 | — | — | 14,815,000 | 989,642 | 15,804,642 |
| Total | \$ 20,055,000 | \$ 10,948,719 | \$ 15,940,000 | \$ 9,317,338 | \$ 91,545,000 | \$ 109,637,555 | \$ 5,525,000 | \$ 848,256 | \$ 133,065,000 | \$ 130,751,868 | \$ 263,816,868 |

**Continuing Disclosure Annual
Financial Information (Unaudited)**

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**HISTORICAL DEBT SERVICE COVERAGE
Year Ended December 31, 2013**

| | Year Ended December 31, 2009 | Year Ended December 31, 2010 | Year Ended December 31, 2011 | Year Ended December 31, 2012 | Year Ended December 31, 2013 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Operating Revenues (4) | \$ 12,277,690 | \$ 15,294,613 | \$ 17,327,857 | \$ 17,050,193 | \$ 17,062,043 |
| Nonoperating revenues (2) | 2,505,526 | 3,246,766 | 5,562,730 | 3,041,343 | 5,198,851 |
| Gross Revenues | 14,783,216 | 18,541,379 | 22,890,587 | 20,091,536 | 22,260,894 |
| Less Operation And Maintenance | | | | | |
| Expenses (net of depreciation) (4) | (7,808,656) | (7,741,919) | (9,273,490) | (7,002,855) | (8,208,848) |
| Net Revenue | 6,974,560 | 10,799,460 | 13,617,097 | 13,088,681 | 14,052,046 |
| Historical Annual Debt Service (3) | \$ 3,442,627 | \$ 8,260,039 | \$ 9,246,310 | \$ 8,931,042 | \$ 8,692,775 |
| Historical Coverage Factor | 2.03 | 1.31 | 1.47 | 1.47 | 1.62 |

(1) This table reflects actual, audited revenues, expenditures and debt service coverage.

(2) Consists of one-time tap fees, Build America Bond Rebate and nonoperating interest.

(3) Constitutes the annual debt service on ACWWA's outstanding water and wastewater revenue bonds.

(4) Gross Revenue and Operation and Maintenance Expenses reflect ACWWA's audited financial statements.

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**WATER ENTERPRISE OPERATIONAL DATA
Year Ended December 31, 2013**

**Residential Water And Irrigation Volume Charges
Year Ended December 31, 2013**

For residential customers, ACWWA imposes a monthly service fee of \$38.68 plus a volume charge for each 1,000 gallons of metered usage, as follows:

| Usage Gallon/Month | From | To | Rate |
|---------------------------|-------------|--------------|-------------|
| Block 1 | — | 4,000 | \$ 3.38 |
| Block 2 | 4,001 | 10,000 | 4.22 |
| Block 3 | 10,001 | 30,000 | 5.27 |
| Block 4 | 30,001 | Above 30,001 | 6.60 |

Usage is divided into four blocks, depending upon volume. Volume charges are imposed in different amounts for each block.

**Nonresidential Meter Size Water And Irrigation Charges
Year Ended December 31, 2013**

Non-residential customers pay service fees which vary based upon both meter size and monthly volume. The base monthly service fee is as follows:

| Meter Size | Monthly Service Fee |
|-------------------|----------------------------|
| ¾" | \$ 38.68 |
| 1" | 77.35 |
| 1½" | 154.70 |
| 2" | 309.40 |
| 3" | 696.18 |
| 4" | 1,469.70 |
| 6" | 2,784.68 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**WATER ENTERPRISE OPERATIONAL DATA
Year Ended December 31, 2013**

**Nonresidential Water And
Irrigation Volume Charges
Year Ended December 31, 2013**

Customer use is divided into four blocks, depending upon volume. Volume charges are imposed in different amounts for each block, as follows:

| Metered Usage | ¾" | 1" | 1½" | 2" | 3" | 4" | 6" |
|------------------------|-----------|-----------|------------|-----------|-----------|-----------|-----------|
| Block 1 from | — | — | — | — | — | — | — |
| Block 1 to | 400,004 | 40,000 | 40,000 | 90,000 | 252,000 | 288,000 | 1,620,000 |
| Block 2 from | 40,001 | 40,001 | 40,001 | 90,001 | 252,001 | 288,001 | 1,620,001 |
| Block 2 to | 100,000 | 100,000 | 100,000 | 225,000 | 672,000 | 768,000 | 2,700,000 |
| Block 3 from | 100,001 | | 100,001 | 225,001 | 672,001 | | 768,001 |
| Block 3 to | 300,000 | | 300,000 | 600,000 | 1,320,000 | | 3,960,000 |
| Block 4 | >300,001 | >300,001 | >300,001 | >600,001 | | | |
| Volume Rate | | | | | | | |
| Block 1 | \$ 3.88 | \$ 3.88 | \$ 3.88 | \$ 3.88 | \$ 388.00 | \$ 3.88 | \$ 3.88 |
| Block 2 | 4.86 | 4.86 | 4.86 | 4.86 | 4.86 | 4.86 | 4.86 |
| Block 3 | 6.07 | 6.07 | 6.07 | 6.07 | 6.07 | 6.07 | 6.07 |
| Block 4 | 7.59 | 7.59 | 7.59 | 7.59 | 7.59 | 7.59 | 7.59 |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**WATER ENTERPRISE OPERATIONAL DATA
Year Ended December 31, 2013**

Historic And Current Tap Fee Amounts

A history of tap fee amounts collected since 2008 is set forth in the following table:

| | <u>Water and Irrigation</u> | | | <u>Sewer</u> | | |
|------|-----------------------------|--------------------|-------------------|---------------|--------------------|-------------------|
| | <u>Amount</u> | <u>\$ Increase</u> | <u>% Increase</u> | <u>Amount</u> | <u>\$ Increase</u> | <u>% Increase</u> |
| 2008 | \$ 14,780 | \$ 705 | 5% | \$ 4,885 | \$ 170 | 3.6% |
| 2009 | 20,700 | 5,920 | 40% | 5,285 | 400 | 8.2% |
| 2010 | 21,200 | 500 | 2% | 5,415 | 130 | 2.5% |
| 2011 | 22,228 | 1,028 | 5% | 5,678 | 263 | 4.6% |
| 2012 | 23,306 | 1,078 | 5% | 5,950 | 272 | 4.6% |
| 2013 | 24,725 | 1,419 | 6% | 6,312 | 362 | 5.7% |

History of Water, Sewer And Irrigation Tap Fee Collections

A history of taps issued and the fees collected from taps since 2008 is presented in the following table:

| <u>Year</u> | <u>Water And Irrigation</u> | | <u>Sewer</u> | | <u>Total Tap Fee</u> |
|-------------|-----------------------------|----------------|---------------|----------------|----------------------|
| | <u>Number (1)</u> | <u>Revenue</u> | <u>Number</u> | <u>Revenue</u> | <u>Revenue</u> |
| 2008 | 182 | \$ 2,562,338 | 154 | \$ 813,890 | \$ 3,376,228 |
| 2009 | 116 | 1,759,620 | 86 | 394,404 | 2,154,024 |
| 2010 | 51 | 946,541 | 40 | 216,600 | 1,163,141 |
| 2011 | 33 | 753,564 | 38 | 215,750 | 969,314 |
| 2012 | 32 | 718,317 | 52 | 264,642 | 982,959 |
| 2013 | 112 | 2,663,298 | 110 | 662,180 | 3,325,478 |

(1) Represents a tap equivalent.

**Current Water And Irrigation Tap Equivalents
As Of December 31, 2013**

The following table sets forth a breakdown of water and irrigation tap equivalents by category and type of tap.

| <u>Customer Category</u> | <u>Type Of Tap</u> | | <u>Total</u> | <u>Percentage Of Total</u> |
|------------------------------|--------------------|-------------------|--------------|--------------------------------|
| | <u>Water</u> | <u>Irrigation</u> | | |
| Residential | 2,460 | 1,160 | 3,620 | 49 |
| Nonresidential | 2,729 | 1,039 | 3,768 | 51 |
| Total | 5,189 | 2,199 | 7,388 | 100 |

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

COMPARISON STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years Ended December 31, 2013

| | Restated | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Operating Revenues | | | | | |
| Water revenue | \$ 6,764,238 | \$ 9,583,597 | \$ 10,637,445 | \$ 10,964,732 | \$ 10,206,846 |
| Sewer revenue | 4,800,891 | 4,959,925 | 4,895,956 | 4,826,201 | 4,959,230 |
| Fees for services | 245,629 | 519,700 | 684,718 | 493,616 | 838,286 |
| Miscellaneous | 466,932 | 231,391 | 1,109,738 | 765,644 | 1,057,681 |
| Total | 12,277,690 | 15,294,613 | 17,327,857 | 17,050,193 | 17,062,043 |
| Operating Expenses | | | | | |
| Salaries, payroll taxes and benefits | 3,969,381 | 3,473,658 | 3,651,391 | 3,197,904 | 3,545,489 |
| Office expense | 270,026 | 282,359 | 440,575 | 104,075 | 139,839 |
| Professional services | 963,548 | 771,713 | 646,657 | 899,578 | 645,150 |
| Insurance expense | 168,126 | 189,024 | 183,881 | 177,755 | 175,199 |
| Operational expense | 164,349 | 112,618 | 130,706 | 124,672 | 773,095 |
| Repairs and maintenance | 755,161 | 894,026 | 677,583 | 417,434 | 500,930 |
| Utilities | 914,601 | 1,147,350 | 1,887,352 | 1,405,976 | 1,776,570 |
| Depreciation and amortization | 1,899,074 | 2,072,291 | 2,553,548 | 3,045,818 | 2,933,136 |
| Miscellaneous | 603,464 | 871,171 | 1,655,345 | 675,461 | 513,923 |
| Total | 9,707,730 | 9,814,210 | 11,827,038 | 10,048,673 | 11,003,331 |
| Operating Income | 2,569,960 | 5,480,403 | 5,500,819 | 7,001,520 | 6,058,712 |
| Nonoperating Revenues | | | | | |
| Interest subsidy | — | 1,930,913 | 2,014,866 | 2,014,866 | 1,854,684 |
| Interest | 174,825 | 148,293 | 78,550 | 43,518 | 18,689 |
| Total | 174,825 | 2,079,206 | 2,093,416 | 2,058,384 | 1,873,373 |
| Nonoperating Expenses | | | | | |
| Loss on disposal of capital assets | — | 243,210 | 86,548 | — | — |
| Interest and fiscal charges | 3,507,173 | 7,491,387 | 7,871,310 | 7,866,042 | 7,716,491 |
| Total | 3,507,173 | 7,734,597 | 7,957,858 | 7,866,042 | 7,716,491 |
| Income (Loss) Before Capital Contributions And Transfers | (762,388) | (174,988) | (363,623) | 1,193,862 | 215,594 |
| Tap fees and contributions | 2,330,701 | 1,167,560 | 969,314 | 982,959 | 3,325,478 |
| Transfer of capital assets to SEMSWA | — | (1,357,295) | — | — | — |
| Water capacity exchange | — | — | 2,500,000 | — | — |
| Total Capital Contributions | 2,330,701 | (189,735) | 3,469,314 | 982,959 | 3,325,478 |
| Change In Net Position | 1,568,313 | (364,723) | 3,105,691 | 2,176,821 | 3,541,072 |
| Net Position Beginning Of Year, Restated | 55,533,272 | 57,101,585 | 56,736,862 | 59,842,553 | 62,019,374 |
| Net Position End Of Year, Restated | \$ 57,101,585 | \$ 56,736,862 | \$ 59,842,553 | \$ 62,019,374 | \$ 65,560,446 |

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY

BUDGET TO ACTUAL (NON-GAAP) COMPARISON OF RESULTS OF OPERATIONS

December 31, 2013

| | 2012 | | | 2013 | | | 2014 |
|--|-----------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|-----------------------|
| | Budget | Actual | Variance | Budget | Actual | Variance | Budget |
| Operating Revenue | | | | | | | |
| Water revenue | \$ 10,917,663 | \$ 10,964,733 | \$ 47,070 | \$ 11,160,375 | \$ 10,206,846 | \$ (953,529) | \$ 7,732,597 |
| Sewer revenue | 4,852,677 | 4,826,201 | (26,476) | 4,942,774 | 4,959,230 | 16,456 | 5,091,057 |
| Water plant revenue | — | 502,125 | 502,125 | 325,219 | 270,078 | (55,141) | 279,415 |
| Fees for service | 198,986 | 263,518 | 64,532 | 394,794 | 838,286 | 443,492 | 54,422 |
| Interest subsidy | 2,014,866 | 2,014,866 | — | 2,014,866 | 1,854,684 | (160,182) | 1,839,572 |
| Interest | 30,000 | 43,518 | 13,518 | 30,800 | 18,689 | (12,111) | 18,000 |
| Other user fees | 45,200 | 493,616 | 448,416 | 250,898 | 787,603 | 536,705 | 229,238 |
| Tap and territorial fees | 878,460 | 982,959 | 104,499 | 903,990 | 3,325,478 | 2,421,488 | 2,327,400 |
| Total Revenues | 18,937,852 | 20,091,536 | 1,153,684 | 20,023,716 | 22,260,894 | 2,237,178 | 17,571,701 |
| Expenses | | | | | | | |
| Salaries and benefits | 3,344,265 | 3,197,904 | (146,361) | 3,497,655 | 3,545,489 | 47,834 | 3,497,655 |
| Office expense | 114,858 | 104,075 | (10,783) | 64,000 | 139,839 | 75,839 | 64,000 |
| Professional services | 685,223 | 899,578 | 214,355 | 322,500 | 645,150 | 322,650 | 322,500 |
| Insurance | 190,000 | 177,755 | (12,245) | 210,000 | 175,199 | (34,801) | 210,000 |
| Repair and maintenance | 329,984 | 417,434 | 87,450 | 639,250 | 500,930 | (138,320) | 639,250 |
| Utilities | 1,668,811 | 1,405,976 | (262,835) | 1,410,000 | 1,776,570 | 366,570 | 1,410,000 |
| Operational expenses | 2,128,037 | 800,133 | (1,327,904) | 3,727,206 | 1,287,018 | (2,440,188) | 3,727,206 |
| Bond payments | 14,134,684 | 14,167,409 | 32,725 | 8,688,335 | 8,826,491 | 138,156 | 8,688,335 |
| Acquisition of water rights | — | 26,974 | 26,974 | 117,370 | 29,064 | (88,306) | 7,000 |
| Capital outlay | 4,807,049 | 2,851,964 | (1,955,085) | 3,677,400 | 4,176,370 | 498,970 | 3,794,770 |
| Total Expenses | 27,402,911 | 24,049,202 | (3,353,709) | 22,353,716 | 21,102,120 | (1,251,596) | 22,360,716 |
| Excess Revenues Over (Under) | | | | | | | |
| Expenditures | (8,465,059) | (3,957,666) | 4,507,393 | (2,330,000) | 1,158,774 | 3,488,774 | (4,789,015) |
| Other Financing Sources And (Uses) | | | | | | | |
| Bond issuance | 5,525,000 | 5,525,000 | — | — | — | — | — |
| Change in net position (budgetary) | \$ (2,940,059) | | \$ 4,507,393 | \$ (2,330,000) | | \$ 3,488,774 | \$ (4,789,015) |
| Depreciation, depletion and amortization | | (3,084,451) | | | (2,933,136) | | |
| Capital outlay | | 2,878,938 | | | 4,205,434 | | |
| Bond issuance | | (5,525,000) | | | — | | |
| Bond principal | | 6,340,000 | | | 1,110,000 | | |
| Change in net assets | | 2,176,821 | | | 3,541,072 | | |
| Net Position, Beginning Of Year, Restated | | 59,842,553 | | | 62,019,374 | | |
| Net Position, End Of Year | | \$ 62,019,374 | | | \$ 65,560,446 | | |

**ARAPAHOE COUNTY WATER AND
WASTEWATER AUTHORITY**

**OUTSTANDING REVENUE BONDS
Year Ended December 31, 2013**

| Senior Bonds | <u>Amount</u> |
|--|------------------------------|
| Water and Wastewater Revenue Refunding Bonds, Series 2006 | \$ 20,055,000 |
| Water and Wastewater Revenue Refunding and Improvement Bonds, Series 2007 | 15,940,000 |
| | |
| Subordinate Bonds | |
| Taxable Water and Wastewater Revenue Direct Pay Build America Bonds, Series 2009A | 91,545,000 |
| Tax-Exempt Water and Wastewater Revenue Bonds, Series 2012B | <u>5,525,000</u> |
| | |
| Total | <u><u>\$ 133,065,000</u></u> |