

CHERRY CREEK PROJECT WATER AUTHORITY

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FINANCIAL STATEMENTS

Year Ended December 31, 2011

**with
Independent Auditor's Report**

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Independent Auditor's Report

Board of Directors
Cherry Creek Project Water Authority

We have audited the accompanying financial statements of the business-type activities of Cherry Creek Project Water Authority as of and for the year ended December 31, 2011, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the Authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has omitted the 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 are not affected by this missing information.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of the business-type activities of the Cherry Creek Project Water Authority as of December 31, 2011, and the respective changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 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 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.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
May 16, 2012

CHERRY CREEK PROJECT WATER AUTHORITY

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Statement of Net Assets
Proprietary Fund
December 31, 2011

ASSETS

	Business- Type Activities
Current Assets	
Cash and investments	\$ 300,551
Prepaid expenses	4,049
Total current assets	<u>304,600</u>
Capital Assets	
Water rights	14,386,897
Real estate	1,792,976
Pipelines	149,681
Water wells	766,497
Other	260,203
Construction in progress	550,271
	<u>17,906,525</u>
Less accumulated depreciation	<u>(172,647)</u>
Net capital assets	<u>17,733,878</u>
Total Assets	<u>\$ 18,038,478</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 31,883
Total current liabilities	<u>31,883</u>
Long-Term Liabilities	
Water rights purchase – due within one year	83,849
Water rights purchase – due in greater than one year	498,679
Total long-term liabilities	<u>582,528</u>
Net Assets	
Invested in capital assets, net of related debt	17,151,350
Unrestricted	272,717
Total Net Assets	<u>17,424,067</u>
Total Liabilities and Net Assets	<u>\$ 18,038,478</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

CHERRY CREEK PROJECT WATER AUTHORITY

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Statements of Revenue, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2011

Operating Revenues	
Authority assessments	\$ 520,000
Water lease	43,545
	<hr/>
Total operating revenues	563,545
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Operating Expenses	
Management	46,425
Operations	10,171
Electricity	37,061
Repairs and maintenance	14,367
Accounting	6,170
Audit	4,000
Legal	22,972
Legal – water	20,148
Engineering	10,848
Insurance	4,083
Miscellaneous	30
Depreciation	40,050
	<hr/>
Total operating expenses	216,325
	<hr/>
Income from Operations	347,220
	<hr/>
Non-Operating Revenues (Expenses)	
Interest income	62
	<hr/>
Total non-operating revenues (expenses)	62
	<hr/>
Income Before Contributions	347,882
Net Income – Change in Assets	347,282
Net Assets – Beginning of Year	17,076,785
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Net Assets – End of Year	\$ 17,424,067
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These financial statements should be read only in connection with the accompanying notes to financial statements.

CHERRY CREEK PROJECT WATER AUTHORITY

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Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2011

Cash flows from operating activities:	
Receipts	\$ 553,733
Payments to suppliers	(222,984)
Net cash provided by operating activities	<u>330,749</u>
Cash flows from capital and related financing activities:	
Debt repayment	(82,205)
Capital acquisitions	(230,908)
Net cash provided (required) by capital and related financing activities	<u>(313,113)</u>
Cash flows from investing activities:	
Investment income	62
Net cash provided (required) by investing activities	<u>62</u>
Net increase (decrease) in cash and cash equivalents	17,698
Cash and equivalents – beginning of year	<u>282,853</u>
Cash and equivalents – end of year	<u><u>\$ 300,551</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Net income from operations	\$ 347,220
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	40,050
Changes in Assets and Liabilities:	
Accounts payable	(46,743)
Prepays revenue	(10,886)
Receivables	1,074
Prepaid expenses	34
Net cash provided by operating activities	<u><u>\$ 330,749</u></u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 1: Definition of Reporting Entity

The Cherry Creek Project Water Authority (“Authority”) is a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special Authority Act. The Authority was established in October 2005 to participate in the purchase of water rights and associated assets, and the development of additional capital infrastructure including water storage, wells, and other components necessary to develop and deliver the water. The members (“Members”) of the Authority include Inverness Water and Sanitation District, Arapahoe County Water and Wastewater Authority, Denver Southeast Suburban Water and Sanitation District and Cottonwood Water and Sanitation District, all political subdivisions of the State of Colorado. The Authority is managed by a Board of Directors appointed by the Members of the Authority. Voting on Authority matters shall be based upon each Member’s percentage of ownership of the use of the water, which is initially based upon their contributions and subject to periodic changes based upon the formation agreement.

The Authority has no employees and all operation and administrative functions are provided under contract.

The Authority follows the Governmental Accounting Standards Boards (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.

As required by accounting principles generally accepted in the United States of America, (“GAAP”), these financial statements present the activities of the Authority, which is legally separate and financially independent of other state and local governments. The Authority has no component units as defined by the Governmental Accounting Standards Board (“GASB”), Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

The Authority is not financially accountable for any other organization.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 2: Summary of Significant Accounting Policies

The accounting policies of the Authority conform to GAAP as applicable to governmental units accounted for as a proprietary enterprise fund. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Basis of Presentation

The accompanying financial statements are presented per GASB No. 34

The government-wide financial statements (i.e. the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the Authority. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of net assets reports all financial and capital resources of the Authority. The difference between the assets and liabilities of the Authority is reported as net assets.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

The Authority reports the following major proprietary fund:

Water Project Enterprise Fund: The Water Project Enterprise Fund accounts for operations related to the acquisition and development of water rights. The intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's ongoing operations. The principal operating revenues are assessments to other authorities and special districts to cover related expenses. Operating expenses for proprietary funds include the cost of services, 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.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

Budget and Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the Authority'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 Authority's Board of Directors can modify the budget assuming it meets the notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year-end.

Statement of Cash Flows

For purposes of the statement of cash flows, the Authority considers cash deposits with a maturity of three months or less to be cash equivalents.

Assets, Liabilities, and Net Assets

Fair Value of Financial Instruments

The Authority's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The Authority estimates that the fair value of all financial instruments at December 31, 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

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

Estimates

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

Debt Authorization

As of December 31, 2011, the Authority had no authorized but unissued indebtedness.

Capital Assets

Capital assets, which include water rights, wells and other related items are reported in the Water Project Enterprise Fund in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of the donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the assets are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated.

CHERRY CREEK PROJECT WATER AUTHORITY

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Notes to Financial Statements
December 31, 2011

Note 2: Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Water Wells	50 years
Pipelines	30 years
Modeling tools	20 years
Master plan	10 years

Note 3: Cash and Investments

Cash and investments as of December 31, 2011 are classified in the accompanying financial statement as follows:

Statement of net assets:	
Cash and investments	<u>\$ 300,551</u>

Cash and investments as of December 31, 2011 consist of the following:

Deposits with financial institutions	\$ 196,555
Investments - COLOTRUST	103,996
	<u>\$ 300,551</u>

Cash Deposits

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

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 3: Cash and Investments (Continued)

Custodial Credit Risks – Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2011, none of the Authority's bank balance of \$196,555 was exposed to custodial credit risk.

Investments

Credit Risk

The Authority has not adopted a formal investment policy, however, the Authority follows state statutes regarding investments.

Colorado State 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 mutual funds
- Guaranteed investment contracts
- * Local government investment pools

The Authority generally limits its concentration of investments to those noted with an asterisk (*) above, which are believed to have minimal credit risk; minimal interest rate risk and no foreign currency risk.

The local government investment pools include the Colorado Local Government Liquid Assets Trust (ColoTrust) rated AAAM by Standard & Poor's.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 3: Cash and Investments (Continued)

Interest Rate Risk

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 or sinking fund requirements.

As of December 31, 2011 the Authority had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
Colorado Liquid Asset Trust (ColoTrust)	Less than 60 days	<u>\$ 103,996</u>

COLOTRUST

As of December 31, 2011 the Authority had 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 Commission 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. As of December 31, 2011, the Authority has \$103,996 invested in COLOTRUST.

Concentration of Credit Risk

The Authority does not have a policy that addresses limitations on the amount that can be invested in any one issuer, however, the Authority invests primarily in local government investment pools and/or U.S. securities, which are not subject to concentration of credit risk.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 4: Capital Assets

An analysis of changes in capital assets for the year ended December 31, 2011 follows:

Business Type Activities	Balance 01/01/2011	Additions	Deletions	Balance 12/31/11
Capital assets not being depreciated:				
Water rights	\$ 14,349,645	\$ 37,252	\$ -	\$ 14,386,897
Real estate	1,792,976	-	-	1,792,976
Construction in progress	359,038	191,233	-	550,271
Total capital assets not being depreciated	<u>16,501,659</u>	<u>228,485</u>	<u>-</u>	<u>16,730,144</u>
Capital assets being depreciated:				
Water wells	766,497	-	-	766,497
Pipeline	149,681	-	-	149,681
Modeling	121,239	2,423	-	123,662
Master plan	136,541	-	-	136,541
Total capital assets:	<u>1,173,958</u>	<u>2,423</u>	<u>-</u>	<u>1,176,381</u>
Less:				
Accumulated Depreciation	<u>(132,597)</u>	<u>(40,050)</u>	<u>-</u>	<u>(172,647)</u>
Net capital assets being depreciated:	<u>1,041,361</u>	<u>(37,626)</u>	<u>-</u>	<u>1,003,734</u>
Business type assets .net	<u>\$17,543,020</u>	<u>\$ 190,858</u>	<u>\$ -</u>	<u>\$ 17,733,878</u>

Depreciation expense for 2011 was charged to the water project in the amount of \$40,050.

Note 5: Long-term Obligations

A description of the long-term obligations as of December 31, 2011 is as follows:

Purchase and Sale of Water Rights – Installment Payments

The Authority entered into a Purchase and Sale of Water Rights Agreement with a private seller on May 25, 2010. Per the agreement, the seller agrees to sell the authority the rights to ground water in the Denver Basin aquifers. The total purchase price of \$795,151 is to be paid in installment payments on or before June 1 of each year beginning in 2010 through 2018. The principal balance accrues interest at a rate of 2% per annum for the first four years of the agreement. The Authority may at any time prepay the total purchase price.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 5: Long-term Obligations (Continued)

This agreement expires on June 1, 2018. At the time and payment of the first payment, the Authority received an Easement Agreement signed by the seller which authorized the Authority to withdraw and use the rights. Concurrent with the signing of the purchase agreement, the Authority entered into an Escrow Agreement which provided for the title to the rights to be placed in escrow until completion of the purchase. During 2011, the Authority paid the annual payment of \$99,500.

The following is a summary of long-term obligations as of December 31, 2011:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 83,849	\$ 11,651	\$ 95,500
2013	85,526	9,974	95,500
2014	95,500	—	95,500
2015	95,500	—	95,500
2016	95,500	—	95,500
2017-2018	126,653	—	126,653
	\$ 582,528	\$ 21,625	\$ 604,153

The following is an analysis of changes in long-term debt for the period ending December 31, 2011:

	<u>Balance at 01/01/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 12/31/11</u>	<u>Due in One Year</u>
Water Rights Installmen: Purchase	\$ 664,733	\$ —	\$ 82,205	\$ 582,528	\$ 83,849
	\$ 664,733	\$ —	\$ 82,205	\$ 582,528	\$ 83,849

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 6: Authority Agreements

Water Project Agreement

The Members entered into a Water Project Agreement and Authority formation agreement on October 14, 2005. This agreement outlines the purpose of the authority and details the phases of the project in order to complete the development of the 2,000 acre-feet water yield. The agreement also includes the process to complete the purchase of the Cherry Creek Project capital assets from the Western Water Company. The Members agreed to make contributions in order to complete this purchase. Initial contributions of \$14,000,000 were made by the various members. The agreement states that such things as voting rights and annual cost sharing will be based upon the percentage ownership in the use of the water, which is initially determined based upon the initial contributions. This formation agreement was amended in 2008 to update member ownership percentages and to clarify other terms.

During 2011, the Members were assessed \$520,000 to cover the Authority's operating expenditures. The Members were assessed \$-0- for capital expenditures during 2011.

Asset Purchase Agreement

The Authority entered into an asset purchase agreement with Western Water Company ("Seller") on October 14, 2005. This agreement resulted from the successful bid placed by the Authority at a bankruptcy auction for the Seller's "Cherry Creek Project" assets. The purchased assets include water rights, land, water wells, storage rights and other related assets. The Authority also assumed some related lease liabilities. The Authority paid \$14,000,000 for these assets. The purchase closed on November 17, 2005.

Lease and Extraction Agreement

The Authority assumed Western Water Company's rights under a Lease and Extraction Agreement whereby the lessor agrees to lease from the lessee (the Authority) approximately 72 acres, including all surface and sub-surface aggregates and the right to extract such minerals from such property. The initial lease was effective December 24, 2002 and the rights to such lease have been transferred to the Authority. The lease calls for a royalty payment of 7% of gross sales with a minimum payment of \$30,000 per year with the lease terminating in 2012 with an option to extend for an additional five years. No payments have been received to date and no receivable has been recorded as of December 31, 2011.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 6: Authority Agreements (Continued)

2007 Water Rights Purchase

The Authority entered into a Purchase and Sale of Water Rights agreement with a private seller on September 14, 2006. During 2006 the Authority remitted a deposit of \$20,000 and incurred expenses totaling \$24,645 related to this purchase. The Authority assessed and received from its members \$1,225,000 during 2006 to cover the cost of this purchase. Per the terms of the agreement, the purchased closed on January 19, 2007 at a cost of \$1,227,593 plus \$52,250 for commission. The initial deposit was applied against the purchase price. During 2007 and 2008 the members were assessed \$321,000 and 8,666 respectively to cover the additional expenses as well as other related capital expenditures. Subsequent to the initial closing, the Authority filed a Water Court Application for a change of use of the water rights and to confirm the historic use. In February 2010 the decree was executed establishing 101.5 acre feet of senior water. In March 2010, the Authority completed the purchase by remitting \$424,000.

Cherry Creek Basin Modeling Project

On August 15, 2007 the Authority entered into an Agreement Regarding Modeling of the Upper Cherry Creek Basin with various water districts whereby the Authority contributed \$86,800 towards the development and operation of computer models and other computer-based analytical tools to study the groundwater and surface hydrology of the Cherry Creek Basin. On October 7, 2008 the Authority approved the Amended Agreement Regarding Modeling of the Upper Cherry Creek Basin which provided for an enlargement of the scope of work and for the inclusion of Stonegate Metropolitan as a party to the project. During 2008, per a supplemental engineering scope of work, the Authority contributed an additional \$29,163. As of the end of 2009, the modeling project had been substantially completed. During 2011, the Authority incurred engineering costs of \$2,423 relating to the modeling project.

2008 Water Rights Purchase

On August 24, 2007 the Authority entered into a Purchase and Sale of Water Rights Agreement with a private party for the purchase of certain water rights and associated easements. During 2007 the Authority remitted the required \$20,000 deposit. On March 3, 2008 the Authority approved the Third Amendment to the Agreement for Purchase and Sale of Water Rights and Notice to Continue for the purchase of water rights from the seller. The Authority remitted the \$220,000 due at the Initial Closing on April 1, 2008. The Authority has since spent approximately \$92,000 related to this purchase.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 6: Authority Agreements (Continued)

Hess Road Improvements

On June 18, 2007 the Authority entered into an Intergovernmental Agreement for the CCPWA Well and Hess Road Improvements with the Town of Parker ("Town"). Per this agreement, the Authority has conveyed certain property to the Town and vacated a specific easement. In exchange, the Town has granted the Authority a well/pipeline easement. The Town has constructed and paid for certain Hess Road Improvements. The Authority agreed to pay for the design and construction of the water lines.

Note 7: Tax, Spending and Debt Limitations

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. 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 Authority, in accordance with C.R.S. 37-45.1-101 et. Seq., has adopted a policy to treat its operations as an enterprise fund. Because of this, the Authority does not feel it is subject to many of the requirements of the TABOR amendment.

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 1% of Fiscal Year Spending (excluding bonded debt service) in 1993, 2% in 1994 and 3% thereafter. Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

CHERRY CREEK PROJECT WATER AUTHORITY

Notes to Financial Statements December 31, 2011

Note 7: Tax, Spending and Debt Limitations (Continued)

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocably pledging present cash reserves for all future payments.

The Authority'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 will require judicial interpretation.

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

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

The Authority 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 intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The Authority 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.

SUPPLEMENTAL INFORMATION

CHERRY CREEK PROJECT WATER AUTHORITY

Schedule of Revenue and Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis) Water Project Enterprise Fund For the Year Ended December 31, 2011

	Original/Final Budget	Actual	Variance – Positive (Negative)
REVENUES			
District assessments	\$ 520,000	\$ 520,000	\$ -
Capital assessments	5,500,000	-	(5,500,000)
Water lease	43,500	43,545	45
Miscellaneous income	1,000	-	(1,000)
Interest income	500	62	(438)
	6,065,000	563,607	(5,501,393)
EXPENSES:			
Management	53,000	46,425	6,575
Operations	20,000	10,171	9,829
Electricity	36,000	37,061	(1,061)
Repairs and maintenance	28,000	14,367	13,633
Accounting	10,000	6,170	3,830
Audit	4,000	4,000	-
Legal	35,000	22,972	12,028
Legal – water	20,000	20,148	(148)
Engineering	10,000	10,848	(848)
Insurance	4,500	4,083	417
Miscellaneous	1,000	31	969
Cherry Creek modeling	5,000	2,423	2,577
Water rights – 2008	25,000	23,957	1,043
Water rights – Installment purchase	97,000	95,500	1,500
Walker Pit – augmentation plan	10,000	10,791	(791)
Walker Pit – storage design	210,000	110,567	99,433
Augmentation plan	70,000	69,875	125
Reservoir	5,500,000	-	5,500,000
Master plan	10,000	-	10,000
Contingency	35,000	-	35,000
	6,183,500	489,389	5,694,111
Excess revenues over expenditures		74,218	
Beginning Funds Available		198,499	
Ending Funds Available		\$ 272,717	
Funds available are defined as follows:			
Current assets		\$ 304,600	
Less current liabilities		31,883	
Funds available		\$ 272,717	

These financial statements should be read only in connection with the accompanying notes to financial statements.

CHERRY CREEK PROJECT WATER AUTHORITY

**Reconciliation of Revenues and Expenditures Budgetary Basis (Actual)
To Statement of Revenues, Expenses and Changes in Net Assets
Water Project Enterprise Fund
For the Year Ended December 31, 2011**

Excess of expenditures over revenues	\$	74,218
Principal payment which is not an expense		82,205
Add capital expenditures which is not an expense		230,909
Deduct depreciation which is an expense		<u>(40,050)</u>
Changes in Net Assets per Statement of Revenues, Expenses and Changes in Net Assets	\$	<u>347,282</u>

These financial statements should be read only in connection with the accompanying notes to financial statements.

Cherry Creek Project Water Authority
Allocation of Net Assets and Contributed Capital
December 31, 2011

	12/31/2005		12/31/2006		12/31/2007		12/31/2008		12/31/2009		12/31/2010		12/31/2011	
	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount
General Net Assets														
Inverness	42.8571%	6,036,344	42.8571%	6,602,348	31.1177%	4,941,542	31.1177%	5,066,289	31.1177%	5,129,380	31.1177%	5,313,910	31.1177%	5,421,976
ACCCWMA	28.5714%	4,024,229	28.5714%	4,401,565	41.2500%	6,550,611	41.2500%	6,715,926	41.2500%	6,799,560	41.2500%	7,044,173	41.2500%	7,187,427
Pinery	21.4286%	3,018,172	21.4286%	3,301,174	20.4894%	3,253,749	20.4894%	3,335,888	20.4894%	3,377,429	20.4894%	3,498,930	20.4894%	3,576,086
Cottonwood	7.1429%	1,006,057	7.1429%	1,100,391	7.1429%	1,344,297	7.1429%	1,162,932	7.1429%	1,177,414	7.1429%	1,219,772	7.1429%	1,244,578
Total General Net Assets	100.0000%	14,084,802	100.0000%	15,405,478	100.0000%	15,880,149	100.0000%	16,281,035	100.0000%	16,483,783	100.0000%	17,076,785	100.0000%	17,424,067
Reservoir Consortium														
Inverness	33.3333%	33,33333	33.3333%	24,743	33.3333%	45,903	33.3333%	46,089	33.3333%	46,089	33.3333%	46,089	33.3333%	46,089
ACCCWMA	33.3333%	33,33333	33.3333%	24,743	33.3333%	0	33.3333%	0	33.3333%	0	33.3333%	0	33.3333%	0
Pinery	33.3334%	33,33344	24.743	33,33344	45,903	33,33344	46,089	33,33344	46,089	33,33344	46,089	33,33344	46,089	33,33344
Cottonwood	100.0000%	0	74,228	100.0000%	137,708	100.0000%	138,266	0.0000%	0	0.0000%	0	0.0000%	0	
Total Reservoir Consortium	100.0000%	0	100.0000%	0	100.0000%	137,708	100.0000%	138,266	0.0000%	0	0.0000%	0	0.0000%	0
Combined Contributed Capital														
Inverness	6.036344	6,036,344	6.627091	6,627,091	4.987445	4,987,445	5.112378	5,112,378	5.129380	5,129,380	5.313910	5,313,910	5.421976	5,421,976
ACCCWMA	4.024229	4,024,229	4.426308	4,426,308	6.550664	6,550,664	6.762015	6,762,015	6.799560	6,799,560	7.044173	7,044,173	7.187427	7,187,427
Pinery	3.018172	3,018,172	3.253749	3,253,749	3.253749	3,253,749	3.335888	3,335,888	3.377429	3,377,429	3.498930	3,498,930	3.576086	3,576,086
Cottonwood	1.006057	1,006,057	1.125134	1,125,134	1.180200	1,180,200	1.209021	1,209,021	1.177414	1,177,414	1.219772	1,219,772	1.244578	1,244,578
Total Combined Contrib Capital	14.084802	14,084,802	15.479706	15,479,706	16.017857	16,017,857	16.419301	16,419,301	16.483783	16,483,783	17.076785	17,076,785	17.424067	17,424,067
Cumulative Contributed Capital:														
General contributed capital														
Inverness	42.8571%	6,000,000	42.8571%	6,525,000	4.837563	4,837,563	31.1177%	4,912,246	4.912246	4,912,246	31.1177%	5,067,836	31.1177%	5,067,836
ACCCWMA	28.5714%	4,000,000	28.5714%	4,350,000	6.412725	6,412,725	41.2500%	6,511,725	6.511725	6,511,725	41.2500%	6,717,975	41.2500%	6,717,975
Pinery	21.4286%	3,000,000	21.4286%	3,262,500	3.185284	3,185,284	20.4894%	3,234,458	3.234458	3,234,458	20.4894%	3,336,903	20.4894%	3,336,903
Cottonwood	7.1429%	1,000,000	7.1429%	1,087,500	1.110429	1,110,429	7.1429%	1,177,572	7.1429%	1,127,572	7.1429%	1,163,287	7.1429%	1,163,287
Total General Contrib Capital	100.0000%	14,000,000	100.0000%	15,225,000	15,546,001	15,546,001	100.0000%	15,786,001	15,786,001	15,786,001	100.0000%	16,286,001	100.0000%	16,286,001
Reservoir Consortium														
Inverness	33.3333%	33,33333	33.3333%	33,33333	45,903	33,33333	46,089	33,33333	46,089	33,33333	46,089	33,33333	46,089	33,33333
ACCCWMA	33.3333%	33,33333	33.3333%	33,33333	0	33,33333	0	33,33333	0	33,33333	0	33,33333	0	33,33333
Pinery	33.3334%	33,33344	33.3334%	33,33344	45,903	33,33344	46,089	33,33344	46,089	33,33344	46,089	33,33344	46,089	33,33344
Cottonwood	100.0000%	0	100.0000%	0	137,708	100.0000%	138,266	0.0000%	0	0.0000%	0	0.0000%	0	0.0000%
Total Reservoir Consortium	100.0000%	0	100.0000%	0	100.0000%	137,708	100.0000%	138,266	0.0000%	0	0.0000%	0	0.0000%	0
Combined Contributed Capital														
Inverness	6.000000	6,000,000	6.525000	6,525,000	4.883466	4,883,466	4.958335	4,958,335	4.912246	4,912,246	5.067836	5,067,836	5.067836	5,067,836
ACCCWMA	4.000000	4,000,000	4.350000	4,350,000	6.458628	6,458,628	6.557814	6,557,814	6.511725	6,511,725	6.717975	6,717,975	6.717975	6,717,975
Pinery	3.262500	3,000,000	3.185284	3,185,284	3.185284	3,185,284	3.234438	3,234,438	3.234458	3,234,458	3.336903	3,336,903	3.336903	3,336,903
Cottonwood	1.000000	1,000,000	1.087500	1,087,500	1.156332	1,156,332	1.173661	1,173,661	1.127572	1,127,572	1.163287	1,163,287	1.163287	1,163,287
Total Combined Contrib Capital	14.000000	14,000,000	15.225000	15,225,000	15,683,709	15,683,709	15,924,267	15,924,267	15,786,001	15,786,001	16,286,001	16,286,001	16,286,001	16,286,001