Cherry Creek Project Water Authority

Years Ended December 31, 2018 and 2017
with
Independent Auditors' Report

Cherry Creek Project Water Authority

Years Ended December 31, 2018 and 2017
(See Independent Auditors' Report)

TABLE OF CONTENTS

Board of Directors
Cherry Creek Project Water Authority
Englewood, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Cherry Creek Project Water Authority (the "Authority") as of and for the years ended December 31, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

14143 Denver West Parkway, Suite 450 | Lakewood, Colorado 80401 | 303.988.1900 | StratagemCPA.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cherry Creek Project Water Authority as of December 31, 2018 and 2017, and the respective changes in the financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental 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.

Stratagem PC
Certified Public Accountants

Lakewood, Colorado

September 27, 2019

Cherry Creek Project Water Authority

Statements of Net Position – Proprietary Fund
December 31, 2018 and 2017
(See Independent Auditors' Report)

Assets

	2018	2017
Current assets:		
Cash and investments	$ 7,342,814	$ 112,528
Accounts receivable	98,480	-
Total current assets	7,441,294	112,528
Capital assets:		
Construction in progress	1,205,669	1,202,523
Other - engineering studies	356,491	356,491
Pipelines	149,681	149,681
Real estate	1,792,976	1,792,976
Water rights	13,571,209	14,792,547
Water wells	856,124	856,124
	17,932,150	19,150,342
Less accumulated depreciation	490,948	443,603
Net capital assets	17,441,202	18,706,739
Total assets	$ 24,882,496	$ 18,819,267

(See Notes to Financial Statements)

Cherry Creek Project Water Authority

Statements of Net Position – Proprietary Fund
December 31, 2018 and 2017
(See Independent Auditors' Report)

Liabilities and Net Position

	2018	2017
Current liabilities:		
Accounts payable	$ 93,593	$ 19,848
Water rights purchase - due within one year	-	31,153
Current and total liabilities	93,593	51,001
Net position:		
Net investment in capital assets	17,441,202	18,675,586
Unrestricted	7,347,701	92,680
Total net position	24,788,903	18,768,266
Total liabilities and net position	$ 24,882,496	$ 18,819,267

(See Notes to Financial Statements)

Cherry Creek Project Water Authority

Statements of Revenues, Expenses, and Change in Net Position –
Proprietary Fund
Years Ended December 31, 2018 and 2017
(See Independent Auditors' Report)

	2018	2017
Operating revenues:		
General assessments	$ 100,000	$ 100,000
Capital assessments	100,000	100,000
Water sales	196,150	59,401
Total operating revenues	396,150	259,401
Operating expenses:		
Accounting	8,044	4,648
Audit	4,250	4,000
Engineering	2,282	2,360
Depreciation	47,345	41,088
Insurance	4,153	3,721
Legal	45,063	26,423
Legal - water	16,493	12,685
Management services	46,947	24,976
Miscellaneous	761	4,005
Operations	15,267	12,056
Repairs and maintenance	4,349	4,184
Utilities	198,506	36,913
Total operating expenses	393,460	177,059
Income from operations	2,690	82,342
Non-operating revenues:		
Interest and miscellaneous income	91,493	5,197
Gain on sale of water rights	5,926,454	-
	6,017,947	5,197
Change in net position	6,020,637	87,539
Net position - beginning of year	18,768,266	18,680,727
Net position - end of year	$ 24,788,903	$ 18,768,266

(See Notes to Financial Statements)

Cherry Creek Project Water Authority

Statements of Cash Flows – Proprietary Fund
Years Ended December 31, 2018 and 2017
(See Independent Auditors' Report)

	2018	2017
Cash flows from operating activities:		
Cash receipts	$ 297,670	$ 259,401
Cash paid to suppliers	(272,370)	(116,390)
Net cash provided by operating activities	25,300	143,011
Cash flows from capital and related financing activities:		
Payment of water rights purchase obligation	(31,153)	(95,500)
Capital acquisitions	(104,468)	(61,284)
Proceeds from sale of water rights	7,249,114	-
Net cash provided (used) by capital and related financing activities	7,113,493	(156,784)
Cash flows from investing activities:		
Interest and miscellaneous income and net cash provided by investing activities	91,493	5,197
Net increase (decrease) in cash and investments	7,230,286	(8,576)
Cash and investments, beginning	112,528	121,104
Cash and investments, ending	$ 7,342,814	$ 112,528

(continued)
(See Notes to Financial Statements)

Cherry Creek Project Water Authority

Statements of Cash Flows – Proprietary Fund (continued)
Years Ended December 31, 2018 and 2017
(See Independent Auditors' Report)

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 2,690	$ 82,342
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	47,345	41,088
(Increase) decrease in:		
Accounts receivable	(98,480)	-
Prepaid expenses	-	3,721
Increase in:		
Accounts payable	73,745	15,860
Net cash provided by operating activities	$ 25,300	$ 143,011

(See Notes to Financial Statements)

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of operations

The Cherry Creek Project Water Authority (the "Authority") is a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special District 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 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 (collectively, the "Members"), 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 Members' percentage of ownership of the water usage, which is initially based upon their contributions and subject to periodic changes based upon the formation agreement of the Authority.

The Authority has no employees and all operation and administrative functions are provided under contract with an outside party.

Definition of reporting entity

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 Authority's governing body, ability to impose its will on the organization, a potential for the Authority 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 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.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

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 government-wide financial statements (i.e. the Statements of Net Position and the Statements of Revenues, Expenses and Change in Net Position) report information on all of the non-fiduciary 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 Statements of Net Position report all financial and capital resources of the Authority. The difference between the assets and liabilities of the Authority is reported as net position.

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 non-operating 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 Authorities 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 non-operating revenues and expenses or capital contributions.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

<u>Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)</u>

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.

<u>Budget and Budgetary Accounting</u>

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 of 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.

<u>Statements of Cash Flows</u>

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

<u>Fair Value of Financial Instruments</u>

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, 2018 and 2017 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statements of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

<u>Deposits and Investments</u>

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.

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.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Estimates

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

Debt Authorization

As of December 31, 2018 and 2017, 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 acquisition 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.

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

2. Cash and Investments

Cash and investments as of December 31, 2018 and 2017 are classified in the accompanying financial statements as follows:

	2018	2017
Statement of Net Position:		
Cash and investments	$ 7,342,814	$ 112,528

Cash and investments as of December 31, 2018 and 2017 consist of the following:

	2018	2017
Deposits with financial institutions	$ 6,870	$ 92,690
Investments - COLOTRUST	7,335,944	19,838
	$ 7,342,814	$ 112,528

Custodial Credit Risks

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 which 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.

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, 2018 and 2017, none of the Authority's bank balance 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 statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

2. Cash and Investments (continued)

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The Authority's investment is not required to be categorized within the fair value hierarchy. This investment's value is calculated using the net asset value method (NAV) per share.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

As of December 31, 2018 and 2017, the Authority had the following investments:

COLOTRUST

The Authority invested in the Colorado Local Government Liquid Asset Trust ("COLOTRUST" or the "Trust"), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to $1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as a safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAm by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST at net asset value as determined by fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period. As of December 31, 2018 and 2017, the Authority had $7,335,944 and $19,838 invested in COLOTRUST, respectively.

Custodial and Concentration of Credit Risk

None of the Authority's investments are subject to custodial or concentration of credit risk.

3. Capital Assets

An analysis of changes in capital assets for the years ended December 31, 2018 and 2017 is as follows:

Business Type Activities	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
Capital assets not being depreciated:				
Water rights	$ 14,792,547	$ 812	$ 1,222,150	$ 13,571,209
Real estate	1,792,976	-	-	1,792,976
Construction in progress	1,202,523	103,657	100,510	1,205,669
Total capital assets not being depreciated	17,788,046	104,469	1,322,660	16,569,854
Capital assets being depreciated:				
Water wells	856,124	-	-	856,124
Pipelines	149,681	-	-	149,681
Modeling	140,380	-	-	140,380
Master plan	216,111	-	-	216,111
Total capital assets being depreciated	1,362,296	-	-	1,362,296
Less:				
Accumulated depreciation	443,603	47,345	-	490,948
Net capital assets being depreciated	918,693	(47,345)	-	871,348
Business type assets, net	$ 18,706,739	$ 57,124	$ 1,322,660	$ 17,441,202

Business Type Activities	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
Capital assets not being depreciated:				
Water rights	$ 14,792,547	$ -	$ -	$ 14,792,547
Real estate	1,792,976	-	-	1,792,976
Construction in progress	1,141,239	61,284	-	1,202,523
Total capital assets not being depreciated	17,726,762	61,284	-	17,788,046
Capital assets being depreciated:				
Water wells	856,124	-	-	856,124
Pipelines	149,681	-	-	149,681
Modeling	140,380	-	-	140,380
Master plan	216,111	-	-	216,111
Total capital assets being depreciated	1,362,296	-	-	1,362,296
Less:				
Accumulated depreciation	402,515	41,088	-	443,603
Net capital assets being depreciated	959,781	(41,088)	-	918,693
Business type assets, net	$ 18,686,543	$ 20,196	$ -	$ 18,706,739

Depreciation expense was approximately $47,300 and $41,100 for the years ended December 31, 2018 and 2017, respectively.

4. Water Rights Purchase Obligation

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.

This agreement expired on June 1, 2018. At the time 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 2018 and 2017, the Authority paid $95,500 and $31,153, respectively.

The following is an analysis of changes in the water rights purchase obligation for the years ending December 31, 2018 and 2017, respectively:

	Balance at 12/31/2017	Additions	Reductions	Balance at 12/31/2018	Due in One Year
Water rights installment purchase	$ 31,153	$ -	31,153	$ -	$ -

	Balance at 12/31/2016	Additions	Reductions	Balance at 12/31/2017	Due in One Year
Water rights installment purchase	$ 126,653	$ -	$ 95,500	$ 31,153	$ 31,153

5. 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 with initial contributions of $14,000,000 made by the Members. The agreement states that voting rights and annual cost sharing will be based upon the percentage ownership in the water usage, 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 2018 and 2017, the Members were assessed $100,000 to cover the Authority's operating expenditures and were assessed $100,000 for capital improvements.

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 and closed the purchase on November 17, 2005.

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 purchase closed on January 19, 2007 at a cost of $1,227,593 plus $52,250 of commissions with the initial deposit applied against the purchase price. During 2007 and 2008, the Members were assessed a total of approximately $330,000 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.

5. Authority Agreements (continued)

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 authorities 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 District 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.

The Authority entered an Intergovernmental Agreement with the City of Aurora, Arapahoe County Water and Wastewater Authority, Cottonwood Water and Sanitation District, Parker Water and Sanitation District, and Upper Cherry Creek Water Authority on September 1, 2016, to conduct a study of the Upper Cherry Creek Alluvial Aquifer ("Aquifer Study IGA"). The purpose of the Aquifer Study IGA is to authorize a joint study of the aquifer during varied hydrological conditions to evaluate surface flow conditions, ground water flow conditions, and aquifer conditions necessary to sustain the productivity of the Cherry Creek alluvial aquifer. The Aquifer Study IGA authorizes a scope of work not to exceed $300,000. In addition, the Aquifer Study IGA allocates water among the parties for storage in Rueter-Hess Reservoir.

Pursuant to the Aquifer Study IGA and an Intergovernmental Agreement Regarding the Allocation of Increased Divertable Yield Stored in Rueter Hess Reservoir, the Authority is obligated to pay up to 10% of the costs of the aquifer study. The study work has begun and the Aquifer Study IGA anticipates completion of the study by September 1, 2018.

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 and remitted the $220,000 due per the amendment. The Authority has since spent approximately $92,000 related to this purchase.

5. Authority Agreements (continued)

Hess Road Improvements

On June 18, 2007, the Authority entered into an Intergovernmental Agreement 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.

Land Purchase and Sale Agreement

On March 30, 2015, the Authority entered into a Purchase and Sale agreement with Meritage Homes of Colorado, subsequently amended on June 29, 2016 and September 1, 2016. The Authority agreed to sell a fee simple interest in approximately 90 acres of real estate for the purchase price of $7,250,000. The closing is to take place on or before the date that is the earlier of (i) the date that is fifteen (15) months following the due diligence termination date or (ii) the date that is five days following the receipt of the governmental approvals, or such date as the parties may agree. The sale closed in June 2018 with the receipt of approximately $7,249,100, net of fees, by the Authority. A gain of approximately $5,926,500 was recognized on the sale.

6. 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.

6. Tax, Spending, and Debt Limitations (continued)

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.

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 applicable 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.

7. Risk Management

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 (the "Pool") as of December 31, 2018 and 2017.

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

The 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
(See Independent Auditors' Report)

Cherry Creek Project Water Authority

Schedule of Revenues, Expenses and Change in
Fund Balance – Budget and Actual (Budgetary Basis) –
Water Project Enterprise Fund
Year Ended December 31, 2018
(See Independent Auditors' Report)

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues:			
General assessments	$ 100,000	$ 100,000	$ -
Capital assessments	100,000	100,000	-
Water sales	87,054	196,150	109,096
Interest and miscellaneous income	5,000	91,493	86,493
Proceeds from asset sale	-	7,249,114	7,249,114
Total revenues	292,054	7,736,757	7,444,703
Expenses:			
Accounting	7,000	8,044	(1,044)
Audit	5,000	4,250	750
Capital contingency	25,000	-	25,000
Capital expenditures	195,000	104,468	90,532
Contingency	10,000	-	10,000
Engineering	10,000	2,282	7,718
Insurance	5,000	4,153	847
Legal	40,000	45,063	(5,063)
Legal - water	35,000	16,493	18,507
Management	40,000	46,947	(6,947)
Member distributions	7,250,000	-	7,250,000
Miscellaneous	1,700	761	939
Operations	20,000	15,267	4,733
Repairs and maintenance	20,000	4,349	15,651
Water rights purchase obligation	31,153	31,153	-
Utilities	35,000	198,506	(163,506)
Total expenses	7,729,853	481,736	7,248,117
Excess revenues over expenses		7,255,021	
Beginning funds available		92,680	
Ending funds available		$ 7,347,701	
Funds available are defined as follows:			
Current assets		$ 7,441,294	
Less current liabilties		(93,593)	
		$ 7,347,701	

Cherry Creek Project Water Authority

Reconciliation of Revenues and Expenses (Budgetary Basis)
To Statement of Revenues, Expenses, and Change in Net Position
Year Ended December 31, 2018
(See Independent Auditors' Report)

Excess of revenues over expenses (budgetary basis)	$ 7,255,021
Cost basis of water rights sold	(1,322,660)
Water rights obligation payment which is not an expense	31,153
Add capital expenditures which is not an expense	104,468
Deduct depreciation which is an expense	(47,345)
Changes in Net Position per Statement of Revenues, Expenses, and Change in Net Position	$ 6,020,637