

**BEAR CREEK WATER AND SANITATION
DISTRICT**

Jefferson County, Colorado

**FINANCIAL STATEMENTS
DECEMBER 31, 2013 and 2012**

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Independent Auditor's Report

Board of Directors
Bear Creek Water and Sanitation District
Jefferson County, Colorado

We have audited the accompanying basic financial statements of Bear Creek Water and Sanitation District (District) as of and for the years ended December 31, 2013 and 2012, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bear Creek Water and Sanitation District, as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages III through XIII be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental information is the responsibility of management and was 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 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
July 14, 2014



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

Introduction

As management of the Bear Creek Water and Sanitation District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the years ended December 31, 2013 and 2012. The District, comprised of approximately 2,600 acres, lies approximately 75 percent within the City of Lakewood and 25 percent in unincorporated Jefferson County. A population of approximately 20,430 is served public water and sanitary sewer services by the District. The public water distribution and sanitary sewer transmission systems are owned, operated, and maintained by the District. The business of providing these services and operating these systems is accounted for in a single proprietary fund.

The District Management's Discussion and Analysis is intended to provide you, the reader and user of our financial statements, with

- an understanding of the financial issues of the District
- an overview of the District's financial activities
- an explanation of the changes in the District's financial position
- an explanatory analysis of the variations of the annual, approved budget
- an assessment of any future financial or operating issues of the District

Because this discussion and analysis is intended to focus on the 2013 and 2012 activities, resulting changes, and currently known facts and conditions, it should be read in conjunction with and with reference to the accompanying audited financial statements and related notes to the financial statements beginning on Page 1.

Financial Highlights

2013 Financial Highlights

Following are some highlights from the 2013 audited financial statements. More discussion on these topics can be found in the Analysis of Financial Position and Operating Results section.

- Net position decreased from \$29,516,755 at December 31, 2012, to \$29,056,453 at December 31, 2013.
- Operating Revenue decreased approximately 2.58 percent from \$631,380 in 2012 to \$615,115 in 2013.
- From 2012 to 2013, General Property Tax and Specific Ownership Tax increased from \$603,264 to \$607,903.
- Sanitary sewer use fees of \$606,778 were billed to cover sewage treatment charges and related costs of \$565,941 in 2013 plus \$13,959 that was under billed in 2012. Adjustments were made in 2011 and 2012 to phase-in multi-family accounts to the current single rate for all customers.
- Tap permit fees collected for water and sanitary sewer connections decreased from \$23,290 in 2012 to \$4,660 in 2013.



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

2013 Financial Highlights (continued)

- Investment income decreased from the previous year by 56.3 percent in 2013.
- Operations, preventative maintenance and repair of public water and sanitary sewer systems decreased slightly from \$200,335 in 2012 to \$198,743 in 2013.

2012 Financial Highlights

Following are some highlights from the 2012 audited financial statements. More discussion on these topics can be found in the Analysis of Financial Position and Operating Results section.

- Net position decreased slightly from the previous year from \$29,759,853 at December 31, 2011 to \$29,516,755 at December 31, 2012.
- Operating Revenue decreased approximately 23 percent from \$819,893 in 2011 to \$631,380 in 2012.
- From 2011 to 2012, General Property Tax and Specific Ownership Tax decreased from \$629,116 to \$603,264.
- Sanitary sewer use fees of \$608,201 were billed to cover sewage treatment charges and related costs of \$532,040 in 2012. Although these figures are usually closer, adjustments are being made to phase-in multi-family accounts to a single rate.
- Tap permit fees collected for water and sanitary sewer connections increased from \$17,120 in 2011 to \$23,290 in 2012.
- Investment income decreased from the previous year by 39.2 percent in 2012.
- Operations, preventative maintenance and repair of public water and sanitary sewer systems decreased by approximately 14.7 percent from 2011 to \$200,335 in 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) Management's Discussion and Analysis (Required Supplemental Information), 2) Financial Statements, and 3) Notes to the financial statements that explain in more detail some of the information in the financial statements. Additionally, to demonstrate compliance with state budget law, the District has included supplemental information consisting of a comparison of budgeted to actual revenue and expenses and including a reconciliation of budgetary basis revenues and expenses compared to the statement of revenues, expenses and changes in fund net position.



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

Required Financial Statements

The financial statements of the District report information using accounting methods similar to those used by private-sector companies. These statements provide both long-term and short-term information about the District's overall financial status. The annual audit report includes the following information:

- Statements of Net Position (Page 1)
- Statements of Revenues, Expenses, and Changes in Fund Net Position (Page 2)
- Statements of Cash Flows (Page 3)
- Notes to Financial Statements (Pages 4-14)
- Supplemental Information
 - Schedule of Revenues, Expenditures and Changes in Funds Available - Budget and Actual (Budgetary Basis) (Page 15)
 - Reconciliation of Budgetary Basis to Statement of Revenues, Expenses and Changes in Fund Net Position (Page 16)

The schedules provide information about the District's financial position as of December 31st with results of its operations, the resulting cash flows, and information comparing actual revenues and expenses with budgeted revenues and expenses for the year. Except for the Other Supplemental Information, these schedules are presented with current year and prior year comparison.

The Statement of Net Position presents information on all of the District's assets, liabilities and deferred inflows of resources, with the difference reported as net position. This statement provides information about the nature and the amounts of investments in resources owned by the District (assets) and the obligations owed to the District creditors (liabilities). It provides one way to measure the financial health of the District by providing the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. However, other non-financial factors should be considered, such as changes in economic conditions, population, growth, and the effects of new or changed government legislation.

The revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Position. This statement provides information about the components of the District's annual operating activities and how those activities affected net position.

The final required financial statement is the Statement of Cash Flows. This statement provides an analysis of the sources and uses of District cash during the year and how the operating, financing and investment activities affected the District's cash balances.

The Notes to the Financial Statements provide additional disclosures about the District, its accounting policies and practices, its financial position and operating activities, and other required information. The information included in these notes is essential to a full understanding of the information contained in the financial statements.

The Schedule of Revenues, Expenditures and Changes in Funds Available – Budget and Actual (Budgetary Basis), compares budgeted revenues and expenses with actual revenue and expense activities. The Reconciliation of Budgetary Basis to Statement of Revenue, Expenses



BEAR CREEK WATER AND SANITATION DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2013 and 2012**

and Changes in Fund Net Position provides a recapitulation of accounting activities that affect the Change in Net Position. Though these schedules are not required as part of the audited financial statements, they are added for review as Supplemental Information on Pages 15 and 16.

Condensed Comparative Financial Information

The following tables of Condensed Comparative Financial Information offer summaries of the financial information contained in the District's financial statements. For more information on the figures contained in these tables, a close review of the accompanying audited financial statements beginning on Page 1 is recommended.

Condensed Comparative Financial Information			
Statement of Net Position			
	2013	2012	2011
ASSETS			
Current Assets			
Cash and cash equivalents and investments	\$ 3,997,798	\$ 5,316,299	\$ 3,799,378
Other current assets	626,489	638,248	651,031
Total Current Assets	4,624,287	5,954,547	4,450,409
Noncurrent Assets			
Investments and restricted cash and cash equivalents	11,764,344	10,613,937	12,188,293
Capital assets, net	13,160,550	13,435,620	13,602,173
Other noncurrent assets	249,366	249,964	252,954
Total Noncurrent Assets	25,174,260	24,299,521	26,043,420
Total Assets	29,798,547	30,254,068	30,493,829
LIABILITIES			
Other current liabilities	162,320	169,914	169,914
Total Liabilities	162,320	169,914	169,914
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	579,774	567,399	564,062
Total Deferred Inflows of Resources	579,774	567,399	564,062
NET POSITION			
Investment in capital assets	13,160,550	13,435,620	13,602,173
Restricted for emergencies (TABOR)	24,569	24,239	23,331
Unrestricted	15,871,334	16,056,896	16,134,349
Total Net Position	\$ 29,056,453	\$ 29,516,755	\$ 29,759,853



BEAR CREEK WATER AND SANITATION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
Years Ended December 31, 2013 and 2012**

Condensed Comparative Financial Information			
Statement of Revenues, Expenses and Changes in Fund Net Position			
	2013	2012	2011
Operating Revenues	\$ 615,115	\$ 631,380	\$ 819,893
Less Operating Expenses	(1,376,371)	(1,354,998)	(1,522,037)
Less Depreciation	(428,229)	(430,098)	(435,538)
Net Loss from Operations	(1,189,485)	(1,153,716)	(1,137,682)
Nonoperating Revenue (Expenses)	724,523	887,328	1,103,273
Capital Contributions	4,660	23,290	17,120
Change in Net Position	(460,302)	(243,098)	(17,289)
Net Position - Beginning of Year	29,516,755	29,759,853	29,777,142
Net Position - End of Year	\$ 29,056,453	\$ 29,516,755	\$ 29,759,853

Analysis of Financial Position and Operating Results

2013 Financial Analysis

Cash, cash equivalents and investments of the District decreased from \$15,930,236 in 2012 to \$15,762,142 at December 31, 2013, representing 53 percent of the District’s total assets in both years respectively.

Net position decreased 1.56 percent over the course of 2013 by \$460,302 to a total of \$29,056,453 at December 31, 2013.

The District’s capital assets net of accumulated depreciation at December 31, 2013, totaled \$13,160,550, which represents 44.2 percent of the District’s total assets.

Total Operating Revenue decreased from \$631,380 in 2012 to \$615,115 in 2013, or by approximately 2.58 percent.

Sewage treatment charges paid to Metro Wastewater Reclamation District (MWRD) fluctuate from year to year. In the past, the District smoothed the fees to maintain an even level of annual charges billed to customers, balancing out the variance between amounts paid to MWRD and amounts billed to customers over time. Effective in 2010, the Board authorized billing actual expenses at a single rate for all customers.

Sanitary sewer use fees of \$606,778 were billed to cover sewage treatment charges and related costs of \$565,941 in 2013 plus \$13,959 that was under billed in 2012. Although these figures are usually closer, a temporary credit adjustment of \$150,000 was made to multi-family utility accounts in 2010 with reversal of \$76,235 in 2011 and a reversal of \$73,765 in 2012 to phase-in the higher multi-family rates to the single rate to be paid by residential, commercial and multi-family customers. This transition was approved by the Board subject to multi-family customer rates not increasing per year in excess of 35 percent.

General Property Tax and Specific Ownership Tax increased by about 0.77 percent from \$603,264 in 2012 to \$607,903 in 2013.



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

Investment income decreased from \$294,462 in 2012 to \$128,772 in 2013, or 56.3 percent. This significant reduction resulted from retention of liquid funds in the District's operating account where interest credits are applied towards bank fees. Also, more securities matured at higher interest rates and were reinvested at lower rates available in fixed income markets. Although eligible investments of the District's funds are statutorily defined, the District's investment policy is more restrictive.

Tap permit fees collected for water and sanitary sewer connections are used for capital improvements, such as replacement of lines and appurtenances to the public water and sanitary sewer systems. These fees are included in contributed capital assets in the financial reports. Tap permit fees collected for water and sanitary sewer connections decreased from \$23,290 in 2012 to \$4,660 in 2013. This reduction indicates the continued economic slowdown in construction. Tap permit sales have been negligible over the past few years. The sale of only ten water and ten sanitary sewer tap permits are included in the budget each year which goal has not been achieved since 2009.

Expenses for 2013 operation, preventative maintenance and repair of public water and sanitary sewer systems decreased from \$200,335 in 2012 to \$198,743 in 2013. The District has a proactive, preventative and predictive operations and maintenance program. The entire public water system and a third of the public sanitary sewer system are inspected annually. Depending on the age, condition of the public systems, and number of components in each area of the District, the total expenses for this activity can fluctuate from year to year.

Salaries, wages and contract services and associated payroll expense totaled \$390,302 which is approximately 6.9 percent higher than in 2012. These costs constitute approximately 21.6 percent of the District's \$1,804,600 total Operating Expenses for 2013. Administration costs, including payroll, commonly represent a significant portion of Special District costs of operation.

For more information about these changes in net position and the operating activities, please review the accompanying audited financial statements beginning on Page 1.

2012 Financial Analysis

Cash, cash equivalents and investments of the District decreased from \$15,987,671 in 2011 to \$15,930,236 at December 31, 2012, representing 53 percent of the District's total assets for each year.

Net position decreased less than one percent over the course of 2012 by \$243,098 to a total of \$29,516,755 at December 31, 2012.

The District's capital assets net of accumulated depreciation at December 31, 2012, totaled \$13,435,620 which represents 44.4 percent of the District's total assets.

Total Operating Revenue decreased from \$819,893 in 2011 to \$631,380 in 2012, or by approximately 23 percent.

Sewage treatment charges paid to Metro Wastewater Reclamation District (MWRD) fluctuate from year to year. In the past, the District smoothed the fees to maintain an even level of annual charges billed to customers, balancing out the variance between amounts paid to MWRD and



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

amounts billed to customers over time. Effective in 2010, the Board authorized billing actual expenses at a single rate for all customers.

Sanitary sewer use fees of \$608,201 were billed to cover sewage treatment charges and related costs of \$532,040 in 2012. Although these figures are usually closer, a temporary credit adjustment of \$150,000 was made to multi-family utility accounts in 2010 with the reversal of \$76,235 in 2012 and \$73,765 in 2012 to phase-in the higher multi-family rates to the single rate to be paid by residential, commercial and multi-family customers. This transition was approved by the Board subject to multi-family customer rates not increasing per year in excess of 35 percent, which was the case.

General Property Tax and Specific Ownership Tax decreased by about 4.1 percent from \$629,116 in 2011 to \$603,264 in 2012.

Investment income decreased from \$484,230 in 2011 to \$294,462 in 2012, or approximately 39.2 percent. This significant reduction resulted from retention of liquid funds in the District's operating account where interest credits are applied towards bank fees. Also, more securities matured at higher interest rates and were reinvested at lower rates available in fixed income markets. Although eligible investments of the District's funds are statutorily defined, the District's investment policy is more restrictive.

Tap permit fees collected for water and sanitary sewer connections are used for capital improvements, such as replacement of lines and appurtenances to the public water and sanitary sewer systems. These fees are included in contributed capital assets in the financial reports. Tap permit fees collected for water and sanitary sewer connections increased from \$17,120 in 2011 to \$23,290 in 2012. This slight increase does not necessarily indicate an improvement in the economy since the previous year or a significant increase in construction.

Expenses for 2012 operation, preventative maintenance and repair of public water and sanitary sewer systems decreased from \$234,782 in 2011 to \$200,335 in 2012. The District has a proactive, preventative and predictive operations and maintenance program. The entire public water system and a third of the public sanitary sewer system are inspected annually. Depending on the age, condition of the public systems, and number of components in each area of the District, the total expenses for this activity can fluctuate from year to year.

Salaries, wages and contract services and associated payroll expense totaled \$365,070 which is approximately 5.25 percent higher than in 2011. These costs constitute approximately 20.45 percent of the District's \$1,785,096 total Operating Expenses for 2012. Administration costs, including payroll, commonly represent a significant portion of the costs of operating Special Districts.

For more information about these changes in net position and the operating activities, please review the accompanying audited financial statements beginning on Page 1.



BEAR CREEK WATER AND SANITATION DISTRICT

**MANAGEMENT’S DISCUSSION AND ANALYSIS
Years Ended December 31, 2013 and 2012**

Analysis of the Schedule of Revenues, Expenditures and Changes in Funds Available - Budget and Actual (Budgetary Basis), for Year Ended December 31, 2013 (Page 15)

Like amounts of \$3,577,754 were budgeted for 2013 anticipated total revenue (including the use of reserves) and expenditures. In addition to the anticipated revenue of \$2,067,957 use of a reserves amount of \$1,509,797 was planned to accomplish budgeted expenses. Actual revenues of \$1,356,450 were under budget by \$711,507 and actual expenditures of \$1,541,682 were under budget by \$2,036,072.

An amount of \$156,046 was expended for 2013 capital water and sanitary sewer projects in accordance with the District’s Master Plan. Capital funds are collected and reserved over time by the Water and Wastewater Activity Enterprise for replacement of capital water and sanitary sewer lines and other capital projects.

Approximately \$2 Million of operating and capital expense budgets were not spent in 2013. There are several capital projects that are scheduled to be done when determined necessary, upon receipt of easements, or when the projects can be coordinated with other governmental entities. These projects are included in the capital budget each year in the event they can be accomplished.

A notable difference between the 2013 official budget and actual amounts collected was an unrealized \$47,220 of tap fee revenue. Anticipated tap permit fee income was based on the sale of ten water and ten sewer tap permits. Although this is a conservative estimate, sales still fell short of the anticipated permits due to the continued decline in the construction industry.

Investment Income of \$128,772 was significantly lower than the budgeted amount of \$326,510 in 2013. The overall effective rate of return on investments dropped from 2.046 percent at the end of 2012 to 1.606 percent by the end of 2013. This reduction in the return on investments is mostly due to lower interest rates in fixed income markets

Significant Capital Asset Activity

	<u>2011</u>	<u>Changes</u>	<u>2012</u>	<u>Changes</u>	<u>2013</u>
Capital Assets					
Land and Land Improvements	\$ 133,562	\$ -	\$ 133,562	\$ -	\$ 133,562
Construction in Progress	50,489	(24,255)	26,234	1,907	28,141
Water System	12,215,269	197,459	12,412,728	10,114	12,422,842
Sewer System	7,390,997	57,697	7,448,694	81,762	7,530,456
Building and Improvements	689,235	8,546	697,781	(3,421)	694,360
Office Furniture, Fixtures and Equipment	46,973	(3,954)	43,019	(1,830)	41,189
Information Management Systems	414,654	24,519	439,173	62,263	501,436
Total Capital Assets	<u>20,941,179</u>	<u>260,012</u>	<u>21,201,191</u>	<u>150,795</u>	<u>21,351,986</u>
Accumulated Depreciation	(7,339,006)	(426,565)	(7,765,571)	(425,865)	(8,191,436)
Total Capital Assets, Net	<u>\$ 13,602,173</u>	<u>\$ (166,553)</u>	<u>\$ 13,435,620</u>	<u>\$ (275,070)</u>	<u>\$ 13,160,550</u>



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

For more information about capital asset activity, please review Notes 2 and 4 of the Notes to Financial Statements beginning on Pages 5-6 and 10-11.

2013 Capital Asset Analysis

The District has an inventory of its public water and sanitary sewer systems and a Master Plan is in effect for the future replacement of its infrastructure. In 2013, \$156,046 was spent for capital improvements to the existing public water and sanitary sewer systems and appurtenances thereto.

Public water and sanitary sewer lines serving properties in the District are generally constructed by developers and contributed to the District. The District takes ownership upon acceptable completion of construction and inspection, followed by a warranty period. The District then assumes responsibility for maintenance, repair and replacement of those lines. No public water or sanitary sewer systems were constructed for contribution to the District in 2013.

Capital Assets were reduced in 2013 by net amounts of \$73,362 from Construction in Progress, \$3,421 from Building and Improvements and \$1,830 from Office Furniture, Fixtures and Equipment. Increases to Capital Assets included \$10,114 to Water Systems and \$81,762 to Sewer Systems. Also, \$62,263 in capital assets were added to Information Management Systems, mostly for the water and sewer operations and maintenance data systems.

2012 Capital Asset Analysis

The District has an inventory of its public water and sanitary sewer systems and a Master Plan is in effect for the future replacement of its infrastructure. In 2012, \$263,966 was spent for capital improvements to the existing public water and sanitary sewer systems and appurtenances thereto and other capital asset improvements.

Typically, the public water and sanitary sewer lines serving properties in the District are constructed by developers and contributed to the District. In 2012, no public water or sanitary sewer systems were constructed for contribution to the District.

The effort to upgrade the sewer utility billing system continued into 2012 to adapt to Denver Water's new Customer Information System from which the District obtains water consumption data for calculating sewer utility billing rates.

A GIS/GPS system is used to map the District's boundaries, public water and sanitary sewer systems and appurtenances thereto. The operations and maintenance activities are tracked on a custom database program. Upgrading the tracking program began in late 2012 and will continue into 2013. Updating the GIS/GPS program is a continuous effort.

Depreciation of Assets

The District depreciates its capital assets, except for land. Please refer to the Notes to Financial Statements—Summary of Significant Accounting Policies - Capital Assets: Note 2 on Pages 5-6 and Note 4 on Pages 10-11.



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

Long Term Debt

On December 1, 1999, the District redeemed all Outstanding General Obligation Water Refunding Bonds, Series 1992. The District has forecasted cash-funded capital improvements and replacements of public water and sanitary sewer systems for the next twenty years and beyond, during which time the District does not anticipate the need for bonding, notes or borrowings.

Known Present and Future Effects on District's Financial Condition

Water is provided to District customers under a Water Service Agreement with Denver Water (see Note 8). No revenue is realized by the District from water sales. In 2012, Denver Water adopted a new methodology for calculating water rates. Although there is no direct financial impact on the District, representatives have been involved in related meetings with Denver Water staff, the Board of Water Commissioners, Denver Water's rate consultant, as well as the Rates and Fees Technical Advisory Committee and its consultant. Water customers of the District will be billed by Denver Water based on the new rate methodology.

Wastewater flows from the District to Metro Wastewater Reclamation District for sewage treatment. Bear Creek bills its sanitary sewer customers to offset the sewage treatment expense plus the cost of billing. The final of three adjustments was made to transition multi-family customers into the single rate for all sanitary sewer utility customers.

Notification was received from Metro Wastewater Reclamation District in 2013 that the annual sewage treatment charges for 2014 would be \$1,271,089, which represents an increase of more than 130 percent of the prior year charges. The increase was unexpected and unpredictable since neither the District's service area nor population had grown in the past several years. Three main factors were identified as responsible for the extraordinary increase:

- Credits issued against flows and loadings used to calculate treatment charges over the prior two years were reversed
- The rates for flows and loadings increased
- The trending methodology was no longer used by Metro Wastewater Reclamation District.

The Board of Directors, at their regular meeting held in September, 2013, adopted a plan to mitigate the unexpectedly high 2014 sewage treatment charges and to manage unpredictable future annual charges, smoothing the sewer utility fees charged to the District's customers, and eventually establishing a fund to ensure against the volatility of future sewage treatment charges, which became effective in November 2013. Implementation of this plan includes a 20 percent increase in the rate per thousand gallons of winter water consumed by each customer and a 15 percent increase in the minimum bills. These percentages of increase may be modified by the Board from year to year, as the plan develops. Advances from Water and Wastewater Activity Enterprise Reserves will cover funds needed to pay annual sewage treatment charges not covered by customer billings. The plan will continue until a sufficient amount of supplemental funds has been generated in the Assigned Reserves Account to cover the unpredictability of sewage treatment charges from year to year, which amount is to be determined retrospectively.



BEAR CREEK WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended December 31, 2013 and 2012

General Property taxes are subject to a 5.5 percent statutory limit under Colorado Revised Statutes §29-1-301, as well as revenue and mill levy rate limitations under Article X, Section 20 of the Colorado State Constitution, known as the Taxpayers' Bill of Rights (TABOR) Amendment. The most restrictive of those three limitations is applicable to property tax and General Government spending. TABOR also limits administrative expenses and the amount of local, state and federal grants to enterprises.

Upon the passage of TABOR, the Board of Directors declared a Water and Wastewater Activity Enterprise, under the enterprise provisions of TABOR and as provided by Colorado Revised Statutes §37-45.1 (aka, Senate Bill 93-130). Therefore, the Water and Wastewater Enterprise is generally exempt from TABOR. General Government revenue is paid to the Water and Wastewater Activity Enterprise for services rendered in the operations and maintenance of public water and sanitary sewer systems.

Property taxes are affected by the 1982 Gallagher Amendment which limits the property tax burden to 45 percent for residential and 55 percent for commercial or industrial property. The District is comprised of mostly residential property.

The combination of the TABOR and Gallagher Amendments has effected a slow but steady spiraling down of the District's general property taxes. At this time, property tax is still the preferable method of assessing operation costs rather than increasing fees and charges.

Request for Information

This financial report is designed to provide a general overview of the Bear Creek Water and Sanitation District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the attention of Sandra M. Boster, District Manager, Bear Creek Water and Sanitation District at 2517 South Flower Street, Lakewood, CO 80227-2912 or by Email to bearcreekwater@bearcreekwater.org.

General information about the District is available at the Bear Creek Water and Sanitation District Website <http://www.bearcreekwater.org/>.

**Prepared by: Sandra M. Boster, District Manager and
Secretary, Board of Directors
Bear Creek Water and Sanitation District
2517 South Flower Street
Lakewood, CO 80227-2912
SandraBoster@BearCreekWater.org**

**OUR MISSION IS TO PROVIDE PUBLIC WATER AND SANITARY SEWER SERVICES
TO THE TAXPAYERS AND RATEPAYERS OF BEAR CREEK WATER AND SANITATION
DISTRICT IN A SAFE, EFFICIENT, COST-EFFECTIVE AND SUSTAINABLE MANNER,
WHILE MEETING ALL STATUTORY AND REGULATORY REQUIREMENTS.**

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BASIC FINANCIAL STATEMENTS

BEAR CREEK WATER AND SANITATION DISTRICT
STATEMENTS OF NET POSITION
December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,863,198	\$ 2,267,588
Investments:		
Certificates of deposit	2,134,600	3,048,711
Due from county treasurer	3,602	3,157
Accounts receivable	13,795	29,617
Property taxes receivable	579,774	567,399
Accrued interest receivable	24,648	30,205
Prepaid expenses	4,670	7,870
Total current assets	4,624,287	5,954,547
NONCURRENT ASSETS		
Investments:		
Certificates of deposit	5,074,579	5,704,275
U.S. Government Obligations and GSEs	6,689,765	4,909,662
Prepaid conduit participation fees	249,366	249,964
Total noncurrent assets	12,013,710	10,863,901
CAPITAL ASSETS		
Capital assets, not being depreciated	161,703	159,796
Capital assets, being depreciated	21,190,283	21,041,395
	21,351,986	21,201,191
Less accumulated depreciation and amortization	(8,191,436)	(7,765,571)
Total capital assets	13,160,550	13,435,620
TOTAL ASSETS	\$ 29,798,547	\$ 30,254,068
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 37,413	\$ 45,007
Deposits held for future capital projects	62,236	62,236
Imprest and KEMO deposits held	62,671	62,671
Total current liabilities	162,320	169,914
DEFERRED INFLOWS OF RESOURCES		
Deferred property taxes	579,774	567,399
Total deferred inflows of resources	579,774	567,399
NET POSITION		
Investment in capital assets	13,160,550	13,435,620
Restricted for emergencies	24,569	24,239
Unrestricted	15,871,334	16,056,896
Total net position	29,056,453	29,516,755
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 29,798,547	\$ 30,254,068

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

BEAR CREEK WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
Years Ended December 31, 2013 and 2012

	2013	2012
OPERATING REVENUE		
Service fees	\$ 606,778	\$ 608,201
Fees and permits	4,520	2,650
Reimbursements	3,817	20,529
Total operating revenue	615,115	631,380
OPERATING EXPENSES		
Sewage treatment	562,050	532,040
Repairs and maintenance - water and sewer systems	198,743	200,335
Repairs and maintenance - building and grounds	17,492	18,492
Salaries, wages and contract services	289,993	272,282
Payroll taxes and employee benefits	100,309	92,788
Engineering	108,155	113,488
Conferences, training, and public relations	13,816	20,122
Legal	9,178	8,626
Memberships, dues, and miscellaneous	8,142	8,162
Election	-	490
Bank service charges	3,641	8,107
Insurance	12,985	13,282
Telephone and utilities	13,872	13,145
Office supplies and expenses	18,028	8,556
Directors' fees	7,000	5,900
Audit expense	6,203	6,100
Billing expense	3,891	18,929
Reimbursable expenses	2,873	14,154
Depreciation and amortization	428,229	430,098
Total operating expenses	1,804,600	1,785,096
Net loss from operations	(1,189,485)	(1,153,716)
NONOPERATING REVENUE (EXPENSES)		
Property taxes and specific ownership taxes	607,903	603,264
Net investment income	128,772	294,462
County treasurer's fees	(9,265)	(9,977)
Connection fees - MWRD/Lakehurst	-	21,795
Reimbursements - MWRD/Lakehurst	-	(21,795)
Loss on disposal of capital assets	(2,887)	(421)
Total nonoperating revenue (expenses)	724,523	887,328
LOSS BEFORE CAPITAL CONTRIBUTIONS	(464,962)	(266,388)
CAPITAL CONTRIBUTIONS		
Tap fees	4,660	23,290
Total capital contributions	4,660	23,290
CHANGE IN NET POSITION	(460,302)	(243,098)
NET POSITION - BEGINNING OF YEAR	29,516,755	29,759,853
NET POSITION - END OF YEAR	\$ 29,056,453	\$ 29,516,755

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

BEAR CREEK WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 630,937	\$ 623,675
Cash paid to vendors	(992,634)	(993,214)
Cash paid to employees	(388,131)	(365,315)
Net cash required by operating activities	(749,828)	(734,854)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital asset purchases	(156,046)	(263,966)
Prepaid conduit participation fees reimbursed	598	2,990
Change in imprest and KEMO deposits held	-	(300)
Tap and participation fees collected	4,660	23,290
Connection fees received - MWRD/Lakehurst	-	21,795
Connection fees remitted - MWRD/Lakehurst	-	(21,795)
Net cash required by capital financing activities	(150,788)	(237,986)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes and specific ownership taxes received	607,458	603,117
County treasurer's fees	(9,265)	(9,977)
Net cash provided by noncapital financing activities	598,193	593,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,549,223)	(5,040,500)
Maturity of investments	5,180,000	5,628,000
Interest received	267,256	347,502
Net cash provided (required) by investing activities	(101,967)	935,002
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(404,390)	555,302
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,267,588	1,712,286
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,863,198	\$ 2,267,588
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net Loss from operations	\$ (1,189,485)	\$ (1,153,716)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	428,229	430,098
Effects of changes in operating assets and liabilities:		
Receivables	15,822	(7,705)
Prepaid expenses	3,200	(3,831)
Accounts payable and accrued expenses	(9,765)	545
Payroll liabilities and accrued expenses	2,171	(245)
Net cash required by operating activities	\$ (749,828)	\$ (734,854)
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Fair value (decrease) on investments	\$ (108,280)	\$ (25,237)

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

BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1 – DEFINITION OF REPORTING ENTITY

Bear Creek Water and Sanitation District (District) was created on August 2, 1962, as a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Jefferson County, Colorado. The District's purpose is to provide public water and sanitary sewer services to the citizens of the District. The District's primary revenues are property taxes, investment income and sewage treatment service fees. The District is governed by an elected Board of Directors and managed by a full-time District Manager.

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

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

As of December 31, 2013 and 2012, the District had no authorized but unissued debt.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets, and redemption 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.

Operating Revenues and Expenses

The District distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. Operating revenues consist of charges to customers for service provided. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and

BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Restricted resources

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

Budgets

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

Cash Equivalents

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

Prepaid Expenses

Certain payments to vendors for goods or services reflect costs applicable to future accounting periods are recorded as prepaid items in the financial statements.

Investments

Investments are stated at fair value and are classified as current or non-current based on their maturity date.

Capital Assets

Capital assets are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution.

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 exceeding \$5,000 are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. The District has recorded purchased capacity, which are water lines purchased or constructed by the District that are property of the Denver Water Board, but in which the District has capacity.

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

**BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Water system	50 years
Sewer system	50 years
Building and improvements	20-40 years
Office furniture, fixtures and equipment	5-10 years
Information management systems	5-50 years

Vacation, Sick Leave, and Other Compensated Absences

Vacation leave is accrued as an expense when earned by employees. Sick leave benefits and other compensated absences are not accrued in the financial statements because they do not vest or accumulate.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Tap Fees and Contributed Lines

Tap fees are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at estimated fair market value when received.

NOTE 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>
Cash and cash equivalents	\$ 1,863,198	\$ 2,267,588
Current assets:		
Certificates of deposit	2,134,600	3,048,711
Noncurrent assets:		
Certificates of deposit	5,074,579	5,704,275
U.S. Government Obligations and GSEs	6,689,765	4,909,662
	<u>\$ 15,762,142</u>	<u>\$ 15,930,236</u>

**BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 3 - CASH AND INVESTMENTS (continued)

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

	<u>2013</u>	<u>2012</u>
Deposits with financial institutions	\$ 9,072,377	\$ 11,020,574
Investments	6,689,765	4,909,662
	<u>\$ 15,762,142</u>	<u>\$ 15,930,236</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 equal to 102% of the aggregate uninsured deposits.

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

At December 31, 2012, the District had cash deposits with a bank balance of \$9,072,842 and a carrying balance of \$9,072,377. At December 31, 2012, the District had cash deposits with a bank balance of \$11,023,193 and a carrying balance of \$11,020,574.

Investments

The District has adopted an investment policy, which is more restrictive than Colorado State Statutes, that specifies investment instruments meeting defined rating and risk criteria in which the District may invest which include:

- . United States Obligations – Treasury notes, bills and bonds
- . Government-Sponsored Agencies (GSEs) – Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association
- . Certificates of deposit in Colorado PDPA approved banks or savings banks (for financial statement presentation purposes these are reported in cash deposits)
- . Interest-bearing bank accounts
- . Colorado Local Government Liquid Asset Fund (COLOTRUST) Prime Account

**BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 3 - CASH AND INVESTMENTS (continued)

Interest Rate Risk

The District's investment policy specifies that the maturity for any investment shall be consistent with the non-cash requirements of the District, except for liquid investments for which the average duration shall not exceed three years and the maximum duration shall not exceed five years. In addition to liquid investments, time deposit investments and obligations of the U. S. Government shall be laddered to ensure regular flow of maturing proceeds each month.

The District held the following investments as of December 31, 2013:

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>
Federal Home Loan Bank	\$ 1,117,482	\$ -	\$ -	\$ 1,117,482
Federal National Mortgage Association	2,272,534	-	1,190,400	1,082,134
Federal Home Loan Mortgage Corporation	990,162	-	599,406	390,756
Federal Farm Credit Bureau	992,398	-	598,848	393,550
US Treasury Notes	1,317,189	-	925,283	391,906
	<u>\$ 6,689,765</u>	<u>\$ -</u>	<u>\$ 3,313,937</u>	<u>\$ 3,375,828</u>

The District held the following investments as of December 31, 2012:

<u>Investment Type</u>	<u>Total Fair Value</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>
Federal Home Loan Bank	\$ 200,589	\$ -	\$ -	\$ 200,589
Federal National Mortgage Association	2,513,590	-	504,570	2,009,020
Federal Home Loan Mortgage Corporation	1,054,427	-	250,468	803,959
Federal Farm Credit Bureau	200,973	-	-	200,973
US Treasury Notes	940,083	-	-	940,083
	<u>\$ 4,909,662</u>	<u>\$ -</u>	<u>\$ 755,038</u>	<u>\$ 4,154,624</u>

**BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 3 - CASH AND INVESTMENTS (continued)

Concentration of Credit Risk

The District's policy regarding the concentration of credit risk limits the District from investing more than 40% of its portfolio government-sponsored agencies or more than \$750,000 in high yield public fund interest bearing accounts. Investments in U.S. Treasury Obligations, certificates of deposit, and COLOTRUST are not limited. Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosures* (GASB 40) requires the District to disclose investments in single issuers that exceed five percent (5%) of the District's entire investment portfolio.

At December 31, 2013 and 2012, the District had the following cash and investment portfolio:

Investment Type	2013		2012	
	Fair Value	Percent of Total Portfolio	Fair Value	Percent of Total Portfolio
Cash deposits and cash on hand	\$ 1,863,198	11.8%	\$ 2,267,588	14.2%
Certificates of Deposit	7,209,179	45.7%	8,752,986	54.9%
Federal Home Loan Bank	1,117,482	7.1%	200,589	1.3%
Federal National Mortgage Association	2,272,534	14.4%	2,513,590	15.8%
Federal Home Loan Mortgage Corporation	990,162	6.3%	1,054,427	6.6%
Federal Farm Credit Bureau	992,398	6.3%	200,973	1.3%
US Treasury Notes	1,317,189	8.4%	940,083	5.9%
Total US Government Obligations and GSEs	<u>6,689,765</u>	42.4%	<u>4,909,662</u>	30.8%
Total cash and investment portfolio	<u>\$ 15,762,142</u>		<u>\$ 15,930,236</u>	

At December 31, 2013 and 2012, the District had the following investment concentrations as defined by GASB 40.

Investment Type	2013		2012	
	Fair Value	Percent of Total Portfolio	Fair Value	Percent of Total Portfolio
Federal Home Loan Bank	1,117,482	16.7%	200,589	4.1%
Federal National Mortgage Association	2,272,534	34.0%	2,513,590	51.2%
Federal Home Loan Mortgage Corporation	990,162	14.8%	1,054,427	21.5%
Federal Farm Credit Bureau	992,398	14.8%	200,973	4.1%
US Treasury Notes	1,317,189	19.7%	940,083	19.1%
Total investment portfolio	<u>\$ 6,689,765</u>		<u>\$ 4,909,662</u>	

BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at December 31, 2012</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Balance at December 31, 2013</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 133,562	\$ -	\$ -	\$ 133,562
Construction in progress	26,234	75,269	(73,362)	28,141
Total capital assets, not being depreciated	<u>159,796</u>	<u>75,269</u>	<u>(73,362)</u>	<u>161,703</u>
Capital assets, being depreciated:				
Water system	12,412,728	10,114	-	12,422,842
Sewer system	7,448,694	81,762	-	7,530,456
Building and improvements	697,781	-	(3,421)	694,360
Office furniture, fixtures and equipment	43,019	-	(1,830)	41,189
Information management systems	439,173	62,263	-	501,436
Total capital assets being depreciated	<u>21,041,395</u>	<u>154,139</u>	<u>(5,251)</u>	<u>21,190,283</u>
Less accumulated depreciation for:				
Water system	(4,687,947)	(247,334)	-	(4,935,281)
Sewer system	(2,722,287)	(149,010)	-	(2,871,297)
Building and improvements	(142,051)	(16,768)	534	(158,285)
Office furniture, fixtures and equipment	(35,265)	(5,798)	1,830	(39,233)
Information management systems	(178,021)	(9,319)	-	(187,340)
Total accumulated depreciation	<u>(7,765,571)</u>	<u>(428,229)</u>	<u>2,364</u>	<u>(8,191,436)</u>
Total capital assets being depreciated, net	<u>13,275,824</u>	<u>(274,090)</u>	<u>(2,887)</u>	<u>12,998,847</u>
Total capital assets, net	<u>\$ 13,435,620</u>	<u>\$ (198,821)</u>	<u>\$ (76,249)</u>	<u>\$ 13,160,550</u>

BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 4 - CAPITAL ASSETS (continued)

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

	<u>Balance at December 31, 2011</u>	<u>Additions</u>	<u>Disposals/ Retirements</u>	<u>Balance at December 31, 2012</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 133,562	\$ -	\$ -	\$ 133,562
Construction in progress	50,489	-	(24,255)	26,234
Total capital assets, not being depreciated	<u>184,051</u>	<u>-</u>	<u>(24,255)</u>	<u>159,796</u>
Capital assets, being depreciated:				
Water system	12,215,269	197,459	-	12,412,728
Sewer system	7,390,997	57,697	-	7,448,694
Building and improvements	689,235	8,546	-	697,781
Office furniture, fixtures and equipment	46,973	-	(3,954)	43,019
Information management systems	414,654	24,519	-	439,173
Total capital assets being depreciated	<u>20,757,128</u>	<u>288,221</u>	<u>(3,954)</u>	<u>21,041,395</u>
Less accumulated depreciation for:				
Water system	(4,443,348)	(244,599)	-	(4,687,947)
Sewer system	(2,574,320)	(147,967)	-	(2,722,287)
Building and improvements	(125,165)	(16,886)	-	(142,051)
Office furniture, fixtures and equipment	(32,379)	(6,419)	3,533	(35,265)
Information management systems	(163,794)	(14,227)	-	(178,021)
Total accumulated depreciation	<u>(7,339,006)</u>	<u>(430,098)</u>	<u>3,533</u>	<u>(7,765,571)</u>
Total capital assets being depreciated, net	<u>13,418,122</u>	<u>(141,877)</u>	<u>(421)</u>	<u>13,275,824</u>
Total capital assets, net	<u>\$ 13,602,173</u>	<u>\$ (141,877)</u>	<u>\$ (24,676)</u>	<u>\$ 13,435,620</u>

NOTE 5 - NET POSITION

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

Investment in capital assets, consists of capital assets, net of accumulated depreciation and if applicable, 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, the District had invested in capital assets of \$13,160,550 and \$13,435,620, respectively, equal to its net capital assets as the District has no outstanding debt.

BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 5 - NET POSITION (continued)

Restricted net position includes amounts that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position of \$24,569 and \$24,239 as of December 31, 2013 and 2012, respectively, as required by Article X, Section 20 of the Constitution of the State of Colorado (See Note 9).

NOTE 6 - PENSION

The District participates in the Colorado County Officials and Employees Retirement Association (CCOERA) retirement plan and provides pension benefits for all of its qualified employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All employees are qualified unless the employee customarily works less than twenty hours a week or less than five months in any calendar year. Employees are eligible to participate upon date of hire.

The plan requires that each employee contribute 6% of compensation under a deferred compensation agreement. The District is required to match that contribution each year. Voluntary contributions by the employee are allowed to a maximum of 10% of compensation. Employee required and voluntary contributions cannot exceed \$7,500 or 25% of gross compensation, whichever is less. Effective in 2000, the District matches voluntary contributions up to 3%. During the year ended December 31, 2013, the employees contributed \$23,810 and the District contributed \$24,759. During the year ended December 31, 2012, the employees contributed \$25,274 and the District contributed \$23,256. The District's contributions for each employee (and earnings allocated to these contributions) are vested 20% for each twelve full months of participation in the plan.

Employees are fully vested after five years of service. Employee required and voluntary contributions (and earnings allocated to these contributions) are fully vested at all times. District contributions for, and earnings forfeited by, employees who leave employment prior to full vesting are used to reduce the District's subsequent contributions requirements. As of December 31, 2013 and 2012, the District had five employees participating in the plan.

NOTE 7 - RISK MANAGEMENT

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

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2013. 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 District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool

**BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 7 - RISK MANAGEMENT (continued)

determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Service Contract - Metro Wastewater Reclamation District (MWRD)

The District has an agreement with MWRD for final treatment and disposal of the District's sewage. The agreement provides for annual estimated charges that are assessed through the application of a predetermined formula. Adjustments to the estimated charge will be based on meter flows, content, and actual costs. The adjustments are billed or credited to the District during the two succeeding years. The District retains responsibility for the maintenance and future construction costs of all public sanitary sewer lines and retains title to all public sanitary sewer lines in the District.

The composition of the charges for 2013 and 2012 is as follows:

	2013	2012
Estimate for current year	\$ 706,598	\$ 732,617
Adjustments (positive) negative:		
Final second preceding year estimate to actual	(78,838)	(98,487)
Preliminary preceding year estimate to actual	(74,178)	(109,839)
Total annual charges	\$ 553,582	\$ 524,291

The 2014 sewer treatment estimate is \$925,130. The total net annual charge for 2014 is expected to be \$1,271,089 which includes an unfavorable 2012 final adjustment of \$166,225 and an unfavorable 2013 preliminary adjustment of \$179,734.

In addition, the District collects MWRD tap connection fees for new connections, which are remitted to MWRD quarterly. In 2013 and 2012, the tap connection fees were \$0 and \$21,795, respectively.

Service Contract - Denver Board of Water Commissioners (DBWC)

The District has a water service agreement with DBWC. Under this agreement, DBWC provides water services to the District's citizens. Water services include meter reading, billing, and collections. These amounts are not reflected in the financial statements for the years ended December 31, 2013 and 2012.

The District retains title and responsibility for the maintenance and future construction costs of all public water distribution lines in the District. Also, the District has reserved capacity in line owned by DBWC, either purchased from or constructed and contributed to DBWC by the District.

BEAR CREEK WATER AND SANITATION DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)

Future Replacements and Resources

The District is accumulating funds to replace the public water and sanitary sewer lines and develop future water resources to preserve the future of the District. The Board projects that the District will need all unexpended reserves for these purposes. The funds are not restricted or set aside in any manner and are available for the general use of the District.

Prepaid Water Participation Fees

During 2001, the District paid \$418,600 to Denver Water for participation charges as provided by a Conduit Participation Agreement. Prepayment of the participation charges secured an additional 700 single family residential equivalent water tap capacity without having to participate in construction of additional facilities. During 2013 and 2012, \$598 and \$2,990, respectively, was collected which reduced the prepaid asset to \$249,366 and \$249,964, respectively.

NOTE 9 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations 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. The District established a Water Activity Enterprise in 1993, which conducts the business of water and sanitary sewer operations, and invests and reinvests the District's reserve funds.

TABOR establishes 1992 as the initial base for spending and revenue limits. Future spending and tax revenue limits can be adjusted for inflation and local growth without voter approval. TABOR requires the establishment of emergency reserves of at least 3% of spending, excluding bonded debt service.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing taxes or spending above the limits prescribed above, increasing a mill levy, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government. Multiple-fiscal year debt requires voter approval except for bond refinancing at lower interest rates or adding employees to existing pension plans.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and many of the provisions, including the calculation of fiscal year spending limits, growth factors, and qualification as an Enterprise, may require judicial interpretation.

The District management believes that it is in compliance with Colorado Statute 29-1-301 which provides for a 5.5% limitation on tax levy increases.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

BEAR CREEK WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2013

	Original and Final Budgeted Amounts	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Service fees	\$ 592,050	\$ 606,778	\$ 14,728
Property taxes and specific ownership taxes	597,399	607,903	10,504
Net investment income	326,510	128,772	(197,738)
Fees and permits	5,418	4,520	(898)
KEMO construction and supplementary fees	427,600	-	(427,600)
Reimbursements	24,000	3,817	(20,183)
Connection fees - MWRD/Lakehurst	43,100	-	(43,100)
Tap fees	51,880	4,660	(47,220)
Total Revenues	<u>2,067,957</u>	<u>1,356,450</u>	<u>(711,507)</u>
EXPENDITURES			
Sewage treatment	562,050	562,050	-
Repairs and maintenance - water and sewer systems	367,000	198,743	168,257
Repairs and maintenance - building and grounds	16,500	17,492	(992)
Salaries, wages and contract services	274,111	289,993	(15,882)
Employee benefits and pension	83,062	76,798	6,264
Payroll taxes	21,928	23,511	(1,583)
Engineering	143,500	108,155	35,345
Conferences, training, and public relations	15,000	13,816	1,184
Legal	12,500	9,178	3,322
Memberships, dues, and miscellaneous	11,713	8,142	3,571
Bank service charges	6,300	3,641	2,659
Insurance	15,000	12,985	2,015
Telephone and utilities	14,025	13,872	153
Office supplies and expenditures	26,300	18,028	8,272
Directors' fees	7,000	7,000	-
Audit expense	6,200	6,203	(3)
Billing	30,000	3,891	26,109
Reimbursable expenditures	24,000	2,873	21,127
County treasurer's fees	9,000	9,265	(265)
MWRD/Lakehurst tap fees paid	43,100	-	43,100
Capital outlay:			
Office furniture and fixtures	32,250	-	32,250
Building and grounds improvements	6,576	-	6,576
Water capital improvements	91,350	10,114	81,236
Sewer capital improvements	93,720	83,669	10,051
Engineering and special studies	280,000	62,263	217,737
General water and sewer	959,400	-	959,400
KEMO capital and engineering	401,600	-	401,600
TABOR contingency	24,569	-	24,569
Total Expenditures	<u>3,577,754</u>	<u>1,541,682</u>	<u>2,036,072</u>
REVENUES OVER (UNDER) EXPENDITURES	(1,509,797)	(185,232)	1,324,565
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>15,979,906</u>	<u>16,081,135</u>	<u>101,229</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 14,470,109</u>	<u>\$ 15,895,903</u>	<u>\$ 1,425,794</u>

Funds available is computed as follows:

Current assets	\$ 4,624,287
Noncurrent assets	12,013,710
Current liabilities	(162,320)
Deferred inflows of resources	(579,774)
	<u>\$ 15,895,903</u>

**BEAR CREEK WATER AND SANITATION DISTRICT
RECONCILIATION OF BUDGETARY BASIS TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Year Ended December 31, 2013**

Revenue (budgetary basis)	<u>\$ 1,356,450</u>
Revenues per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>1,356,450</u>
Expenditures (budgetary basis)	1,541,682
Depreciation and amortization	428,229
Loss on disposal of capital assets	2,887
Capital outlay	<u>(156,046)</u>
Expenses per Statement of Revenues, Expenses and Changes in Fund Net Position	<u>1,816,752</u>
Change in net position per Statement of Revenues, Expenses and Changes in Fund Net Position	<u><u>\$ (460,302)</u></u>