

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY (ACWWA)
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2011 and 2010

TABLE OF CONTENTS

	PAGE
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT	I
MANAGEMENT’S DISCUSSION AND ANALYSIS	III
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets	1
Statements of Revenues, Expenses and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	6
SUPPLEMENTARY INFORMATION	24
Schedule of Revenues, Expenditures and Funds Available	
Budget and Actual (Budgetary Basis)	25
Reconciliation of Budgetary Basis (Actual) to Statement of	
Revenues, Expenses and Changes in Net Assets	26
Schedule of Debt Service Requirements to Maturity	27



Independent Auditor's Report

To the Board of Directors
Arapahoe County Water and Wastewater Authority
Arapahoe County, Colorado

We have audited the accompanying basic financial statements of the Arapahoe County Water and Wastewater Authority, Colorado, (ACWWA), a component unit of Arapahoe County, Colorado, as of and for the years ended December 31, 2011 and 2010, which collectively comprise ACWWA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of ACWWA's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACWWA's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ACWWA, as of December 31, 2011 and 2010 and the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require management's discussion and analysis on pages III through X, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise ACWWA's basic financial statements. The schedule of revenues, expenditures and funds available budget and actual (budgetary basis) and the schedule of debt service requirements to maturity are presented for purposes of additional analysis and are not a

I
www.eidebailly.com

required part of the financial statements. The schedule of revenues, expenditures and funds available budget and actual (budgetary basis) and the schedule of debt service requirements to maturity are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 presented in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Eide Bailly LLP

Greenwood Village, Colorado
June 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Arapahoe County Water and Wastewater Authority (ACWWA) offers the readers of ACWWA's financial statements this narrative overview and analysis of the financial activities of ACWWA for the years ended December 31, 2011 and 2010.

Financial Highlights

- Net assets increased from \$57,712,756 as of the end of 2010 to \$60,749,267 as of the end of 2011, or \$3,036,511.
- Operating revenue was \$17,327,857 in 2011 compared to \$15,294,613 in 2010, an increase of \$2,033,244.
- Operating expenses increased \$2,012,828 in 2011 while component changes in 2011 compared to 2010 consisted of an increase in salary and benefits of \$177,733; a decrease in professional services of \$125,056 due to staff performing some of the work previously outsourced; an decrease in repair and maintenance of \$216,443; an increase in utilities of \$740,002 and an increase in office and other supplies and expenses of \$942,390 both related to the water treatment facility coming on-line during 2011; an increase in depreciation and depletion of \$481,257 related to the addition of water rights, equipment, and infrastructure and a net increase in all other component items of \$12,945.
- Non-operating revenues and expenses consisted of interest and fiscal charges in the amount of \$7,940,490, BABs interest subsidy of \$2,014,866; a net loss on disposal of capital assets of \$86,548 and interest income of \$78,550. The net effect of these changes is a decrease in net assets of \$5,933,622.
- Tap fees and extra-territorial fees decreased \$198,246 in 2011, compared to 2010.
- Capital assets, net of depreciation and depletion, increased \$39,890,917, from \$128,444,477 in 2010 to \$168,335,394 in 2011, consisting primarily to the acquisition of water rights in the amount of \$40,008,390.

Overview of the Financial Statements

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

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

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

The Statements of Revenues, Expenses and Changes in Net Assets present information that reflects how ACWWA's net assets changed during the past year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs. Thus, revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows.

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

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

The supplemental information provides budget and actual information and debt service requirements.

Statement of Net Assets

	December 31,		
	2011	2010	2009
Current assets	\$ 19,852,504	\$ 33,627,929	\$ 21,587,257
Restricted and other assets	7,714,027	36,603,010	84,068,167
Capital assets	168,335,394	128,444,477	90,743,870
Total assets	<u>195,901,925</u>	<u>198,675,416</u>	<u>196,399,294</u>
Current liabilities	4,496,752	7,890,513	3,970,236
Long-term obligations	130,655,906	133,072,147	134,317,927
Total liabilities	<u>135,152,658</u>	<u>140,962,660</u>	<u>138,288,163</u>
Net assets:			
Invested in capital assets, net of related debt	40,899,135	25,926,991	35,945,765
Unrestricted	19,850,132	31,785,765	22,165,366
Total net assets	<u>\$ 60,749,267</u>	<u>\$ 57,712,756</u>	<u>\$ 58,111,131</u>

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

Certain of ACWWA's assets represent resources that are restricted as to how they must be used. Restricted cash as of December 31, 2011 was \$6,709,859 compared to \$35,537,029 in 2010, a decrease of \$28,827,170. This decrease is related to the use of restricted cash toward the acquisition of water rights and an investment in related water system infrastructure. Restricted cash consists of escrow accounts, debt reserves, and funds restricted for capital projects.

Current, restricted and other assets decreased by \$42,664,408 in 2011 to \$27,566,531 from \$70,230,939 in 2010. This decrease is primarily the net result of transactions related to operations; debt service and the acquisition of water rights in the amount of \$40,008,390.

Capital assets increased \$39,890,917 in 2011 to \$168,335,394 from \$128,444,477 in 2010 primarily due to the net result of the acquisition of water rights of \$40,008,390; a net investment in infrastructure of \$2,223,701 and an increase in accumulated depreciation and depletion of \$2,341,174 to \$16,759,363 in 2011 from \$14,418,189 in 2010.

Current liabilities decreased by a net amount of \$3,393,761 due to decreases in accounts payable and accrued expenses of \$4,856,015 in 2011 to \$716,235 from \$5,572,250 in 2010 as a result of the decrease in construction activity and the related payables; an increase in the current portion of revenue obligation bonds payable of \$1,230,000 and a net increase in the various other current liabilities of \$232,254 from \$943,263 in 2010 to \$1,175,517 in 2011.

Long-term obligations decreased by a net amount of \$2,416,241 in 2011 to \$130,655,906 in 2011 from \$133,072,147 in 2010 due to the paying down of debt. More detailed information about ACWWA's long-term debt and other liabilities is presented in Note 5 to the basic financial statements.

Change in Net Assets

	December 31,		
	2011	2010	2009
Revenues			
Operating revenue			
Water charges	\$ 10,637,445	\$ 9,583,597	\$ 6,764,238
Sewer charges	4,895,956	4,959,925	4,800,891
Fees for services	684,718	519,700	245,629
RO plant revenue	868,834	-	-
Other revenue	240,904	231,391	466,932
Total operating revenues	<u>17,327,857</u>	<u>15,294,613</u>	<u>12,277,690</u>
Nonoperating revenues			
Net investment income	78,550	148,293	174,825
Interest subsidy	2,014,866	1,930,913	-
Contributions			
Tap and Extra-Territorial fees	969,314	1,167,560	2,330,701
Transfer of capital assets to SEMSWA	-	(1,357,295)	-
Water shortage revenue	2,500,000	-	-
Total revenues	<u>22,890,587</u>	<u>17,184,084</u>	<u>14,783,216</u>
Expenses			
Operating expenses			
Salaries and benefits	3,651,391	3,473,658	3,969,381
Office expense	440,575	282,359	270,026
Professional services	646,657	771,713	963,548
Insurance	183,881	189,024	168,126
Operational	18,673	15,745	41,034
Contractual services	112,033	96,873	123,315
Repairs and maintenance	677,583	894,026	755,161
Utilities	1,887,352	1,147,350	914,601
Depreciation and depletion	2,553,548	2,072,291	1,899,074
Other supplies and expense	1,655,345	871,171	603,464
Total operating expenses	<u>11,827,038</u>	<u>9,814,210</u>	<u>9,707,730</u>
Nonoperating expense			
Interest and fiscal charges	7,940,490	7,525,039	2,497,627
Loss on disposal of capital assets	86,548	243,210	-
Total expenses	<u>19,854,076</u>	<u>17,582,459</u>	<u>12,205,357</u>
Changes in net assets	3,036,511	(398,375)	2,577,859
Net Assets - Beginning of year	57,712,756	58,111,131	55,533,272
Net Assets - End of year	<u>\$ 60,749,267</u>	<u>\$ 57,712,756</u>	<u>\$ 58,111,131</u>

ACWWA's financial position as measured by the change in net assets increased from \$57,712,756 as of the end of 2010 to \$60,749,267 as of the end of 2011, or \$3,036,511. The major components of this increase are explained as follows:

Operating revenues increased \$2,033,244 to \$17,327,857 in 2011 from \$15,294,613 in 2010. This is primarily due to an increase in fire line revenue of \$255,440 which is reported as a component of water revenue; revenue generated from the reverse osmosis (RO) treatment plant of \$868,834, a rate increase of 3.0%, and the net increase of \$908,970 in all other operating revenue items.

Operating expenses increased \$2,012,828 in 2011 to \$11,827,038 from \$9,814,210 in 2010. Component changes consisted of an increase in salaries and benefits of \$177,733; a decrease in professional services of \$125,056 due to staff performing some of the work previously outsourced; a decrease in repairs and maintenance of \$216,443; an increase in utilities of \$740,002 due to rising utility costs to operate the plants; an increase in office and other supplies and expense of \$942,390 related to the start up of the RO treatment plant; an increase in depreciation and depletion of \$481,257 related to the addition of water rights, equipment and infrastructure; and a net increase in all other component items of \$12,945.

Non-operating revenues and expenses consisted of an increase in debt service of \$415,451; an increase of the BABs interest subsidy of \$83,953; a net loss on disposal of capital assets of \$86,548 and an interest income decrease of \$69,743. The net effect of these changes is an increase in non-operating expenses of \$244,579 in 2011.

Tap and extra-territorial fees decreased \$198,246 in 2011 compared to 2010 due to the continued downturn in the development market.

Budgetary Highlights

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

Capital Assets

The activity related to capital assets during 2011, 2010 and 2009 is as follows:

Capital Assets Activity

	December 31, 2010	Net Changes	December 31, 2011
Land and land improvements	\$ 2,063,196	\$ -	\$ 2,063,196
Water rights, net of depletion	81,462,818	39,939,011	121,401,829
Construction in progress	2,642,582	(836,656)	1,805,926
Water system	38,789,373	1,477,055	40,266,428
Sewer system	13,572,795	1,524,569	15,097,364
Buildings and projects	3,185,282	58,733	3,244,015
Total assets	141,716,046	42,162,712	183,878,758
Accumulated depreciation	(13,271,569)	(2,271,795)	(15,543,364)
Net capital assets	<u>\$ 128,444,477</u>	<u>\$ 39,890,917</u>	<u>\$ 168,335,394</u>
	December 31, 2009	Net Changes	December 31, 2010
Land and land improvements	\$ 2,063,196	\$ -	\$ 2,063,196
Water rights, net of depletion	64,956,695	16,506,123	81,462,818
Construction in progress	2,035,241	607,341	2,642,582
Water system	15,500,092	23,289,281	38,789,373
Sewer system	13,423,303	149,492	13,572,795
Stormwater system	1,203,504	(1,203,504)	-
Buildings and projects	2,959,305	225,977	3,185,282
Total assets	102,141,336	39,574,710	141,716,046
Accumulated depreciation	(11,397,466)	(1,874,103)	(13,271,569)
Net capital assets	<u>\$ 90,743,870</u>	<u>\$ 37,700,607</u>	<u>\$ 128,444,477</u>

	<u>December 31, 2008</u>	<u>Net Changes</u>	<u>December 31, 2009</u>
Land and land improvements	\$ 2,063,196	\$ -	\$ 2,063,196
Water rights, net of depletion	39,164,981	25,791,714	64,956,695
Construction in progress	995,252	1,039,989	2,035,241
Water system	11,485,905	4,014,187	15,500,092
Sewer system	13,095,626	327,677	13,423,303
Stormwater system	903,504	300,000	1,203,504
Buildings and projects	2,421,761	537,544	2,959,305
Total assets	<u>70,130,225</u>	<u>32,011,111</u>	<u>102,141,336</u>
Accumulated depreciation	<u>(9,647,618)</u>	<u>(1,749,848)</u>	<u>(11,397,466)</u>
Net capital assets	<u>\$ 60,482,607</u>	<u>\$ 30,261,263</u>	<u>\$ 90,743,870</u>

The net additions to the capital assets in the amount of \$39,890,787 in 2011 resulted in the net amount of completed and capitalized items, net of disposals, in the amount in 2011 of \$2,223,701 in depreciable assets, mostly related to the ACWWA Flow Project, and an increase of accumulated depreciation of \$2,271,925; and \$39,939,011 in 2011 of water rights, net of depletion.

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

Debt Administration

All scheduled debt service payments were made timely during 2011 and 2010.

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

Economic and Other Factors

ACWWA continues to emphasize three key areas for the 2012 year: capital improvement project needs, proactive maintenance of the water and wastewater infrastructure, and operating costs required in sustaining and enhancing service levels. ACWWA's emphasis will allow the system to continue providing high quality and reliable water and wastewater services at reasonable rates while also maintaining a healthy financial position. ACWWA has made efforts to ensure that rates remain affordable for its customers while ensuring the continued stability of the system and the ability to meet the needs related to future growth.

Request for Information

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

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

BASIC FINANCIAL STATEMENTS

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,990,423	\$ 31,507,658
Receivables	1,822,176	1,946,544
Prepaid expenses and other	39,905	173,727
Total current assets	<u>19,852,504</u>	<u>33,627,929</u>
RESTRICTED ASSETS		
Cash and cash equivalents	6,709,859	35,537,029
Total restricted assets	<u>6,709,859</u>	<u>35,537,029</u>
CAPITAL ASSETS, NET	<u>168,335,394</u>	<u>128,444,477</u>
OTHER ASSETS		
Non-current receivables	97,454	90,087
Deferred charges	906,714	975,894
Total other assets	<u>1,004,168</u>	<u>1,065,981</u>
 TOTAL ASSETS	 <u><u>\$ 195,901,925</u></u>	 <u><u>\$ 198,675,416</u></u>

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 716,235	\$ 5,572,250
Accrued payroll	50,490	50,358
Meter deposits	38,000	30,000
Escrowed development funds	391,317	255,858
Accrued interest payable	635,443	522,793
Compensated absences payable, current portion	60,267	84,254
Revenue bonds payable, current portion	2,605,000	1,375,000
Total current liabilities	<u>4,496,752</u>	<u>7,890,513</u>
LONG-TERM OBLIGATIONS		
Compensated absences payable, long-term portion	228,961	163,553
Revenue bonds payable, long-term portion	130,426,945	132,908,594
Total long-term liabilities	<u>130,655,906</u>	<u>133,072,147</u>
NET ASSETS		
Invested in capital assets, net of related debt	40,899,135	25,926,991
Unrestricted	19,850,132	31,785,765
Total net assets	<u>60,749,267</u>	<u>57,712,756</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 195,901,925</u>	<u>\$ 198,675,416</u>

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Water revenue	\$ 10,637,445	\$ 9,583,597
Sewer revenue	4,895,956	4,959,925
Fees for services	684,718	519,700
RO plant revenue	868,834	-
Other revenue	240,904	231,391
Total operating revenues	<u>17,327,857</u>	<u>15,294,613</u>
OPERATING EXPENSES		
Salaries and benefits	3,651,391	3,473,658
Office expense	440,575	282,359
Professional services	646,657	771,713
Insurance	183,881	189,024
Operational	18,673	15,745
Contractual services	112,033	96,873
Repairs and maintenance	677,583	894,026
Utilities	1,887,352	1,147,350
Depreciation and depletion	2,553,548	2,072,291
Other supplies and expense	1,655,345	871,171
Total operating expenses	<u>11,827,038</u>	<u>9,814,210</u>
OPERATING INCOME	<u>5,500,819</u>	<u>5,480,403</u>
NONOPERATING REVENUES		
Net investment income	78,550	148,293
Interest subsidy	2,014,866	1,930,913
Total nonoperating revenues	<u>2,093,416</u>	<u>2,079,206</u>
NONOPERATING EXPENSES		
Loss on disposal of capital assets	86,548	243,210
Interest and fiscal charges	7,940,490	7,525,039
Total nonoperating expenses	<u>8,027,038</u>	<u>7,768,249</u>
(LOSS) BEFORE CONTRIBUTIONS	<u>(432,803)</u>	<u>(208,640)</u>
CAPITAL CONTRIBUTIONS		
Tap and extra-territorial fees	969,314	1,167,560
Transfer of capital assets to SEMSWA	-	(1,357,295)
Water capacity exchange	2,500,000	-
Total capital contributions	<u>3,469,314</u>	<u>(189,735)</u>
CHANGE IN NET ASSETS	3,036,511	(398,375)
TOTAL NET ASSETS - BEGINNING OF YEAR	<u>57,712,756</u>	<u>58,111,131</u>
TOTAL NET ASSETS - END OF YEAR	<u>\$ 60,749,267</u>	<u>\$ 57,712,756</u>

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 17,604,345	\$ 15,459,768
Payments to suppliers	(6,344,539)	(3,481,243)
Payments to employees and related expenses	(3,609,838)	(463,404)
Net cash provided (required) by operating activities	<u>7,649,968</u>	<u>11,515,121</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net tap and extra-territorial fees	969,314	1,167,560
Principal payments on bonds	(1,375,000)	(985,000)
Interest paid on revenue bonds	(7,635,312)	(7,467,538)
Subsidy received on bond interest	2,014,866	1,930,913
Payments for capital acquisitions	(44,040,783)	(92,998,334)
Proceeds from sales of capital assets	10,020	51,624,931
Payments to developers	-	(188,086)
Net cash provided (required) by capital and related financing activities	<u>(50,056,895)</u>	<u>(46,915,554)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	62,522	148,293
Net cash provided (required) by investing activities	<u>62,522</u>	<u>148,293</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(42,344,405)	(35,252,140)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>67,044,687</u>	<u>102,296,827</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 24,700,282</u></u>	<u><u>\$ 67,044,687</u></u>

(Continued)

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010
(Continued)

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income (loss) to net cash provided (required) by operating activities		
Operating income:	\$ 5,500,819	\$ 5,480,403
Provided (required) by operating activities		
Depreciation and amortization	2,553,548	2,072,291
(Increase) decrease in:		
Accounts receivable	133,029	171,155
Prepaid expenses	133,822	(32,462)
Increase (decrease) in:		
Accounts payable and accrued expenses	(814,709)	3,829,734
Deposits	143,459	(6,000)
Net cash provided (required) by operating activities	<u>\$ 7,649,968</u>	<u>\$ 11,515,121</u>
NON-CASH TRANSACTIONS	<u>\$ 2,500,000</u>	<u>\$ (1,357,295)</u>
Water capacity exchange 2011		
Transfer of capital assets to SEMSWA 2010		

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 - DEFINITION OF REPORTING ENTITY

Arapahoe County Water and Wastewater Authority (ACWWA) was organized pursuant to Colorado State Statutes (29-1-204.2 CRS) by an Intergovernmental Agreement (IGA) between Arapahoe County (County) and Arapahoe Water and Sanitation District (District) in 1988. ACWWA is governed by a nine-member Board of Directors appointed by the Arapahoe County Board of Commissioners. One of the five County Commissioners currently serves on ACWWA's Board of Directors. ACWWA does not have taxing powers.

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

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

ACWWA follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting of ACWWA. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)

organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

ACWWA has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 have not been applied.

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

Basis of Accounting

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

Operating Revenues and Expenses

ACWWA distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

with ACWWA's purpose of providing water and wastewater services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Budgets

In accordance with the State Budget Law, ACWWA's Board of Directors holds 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. ACWWA's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

During the year ended December 31, 2011, supplementary appropriations approved by ACWWA modified the appropriations from \$28,761,877 to \$65,877,446.

Cash Equivalents

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

Investments

Investments are carried at fair value.

Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Tap Fees and Contributed Lines

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

Water Rights

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

Amortization

Debt issue costs or bond premiums are amortized over the respective terms of the debt using the straight line method which approximates the effective interest method.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The deferred cost of refunding is being amortized using the straight line method which approximates the effective interest method over the life of the bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a reduction of bonds payable.

Compensated Absences

ACWWA's employees are entitled to certain compensated absences, in the form of vacation and sick leave benefits, and are accrued based on their length of employment. Compensated absences are accrued when incurred in the financial statements. At December 31, 2011, accrued vacation benefits are capped at 240 hours per employee. Sick leave benefits are accrued using the termination payment method. When terminations are made, employees are allowed up to 50% of their allowable 480 hours of accrued benefit. ACWWA has accrued \$289,227 and \$247,807 as of December 31, 2011 and 2010, respectively, for future payment of this earned leave.

Reimbursement Agreements

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

Reclassifications

For comparability, certain 2010 amounts have been reclassified where appropriate to conform with the 2011 financial statement presentation.

NOTE 3 - CASH AND INVESTMENTS

Cash and investments as of December 31, 2011 and 2010 are classified in the accompanying financial statements as follows:

	<u>2011</u>	<u>2010</u>
Statement of net assets:		
Cash and cash equivalents	\$ 17,990,423	\$ 31,507,658
Cash and investments - Restricted	<u>6,709,859</u>	<u>35,537,029</u>
Total cash and investments	<u>\$ 24,700,282</u>	<u>\$ 67,044,687</u>

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and investments as of December 31, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Deposits with financial institutions	\$ 19,360,888	\$ 21,752,948
Investments	<u>5,339,394</u>	<u>45,291,739</u>
Total cash and investments	<u>\$ 24,700,282</u>	<u>\$ 67,044,687</u>

Deposits with Financial Institutions

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

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

At December 31, 2011 and 2010, ACWWA's cash deposits had a bank balance of \$19,484,930 and \$21,911,523, respectively, and a carrying balance of \$19,212,788 and \$21,752,948, respectively.

Investments

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

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

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

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

As of December 31, 2011 and 2010, ACWWA had the following investments:

Investment	Maturity	Fair Value	
		2011	2010
Colorado Liquid Asset Trust (Colotrust)	Weighted average under 60 days	\$ 5,339,394	\$ 45,291,739
		<u>\$ 5,339,394</u>	<u>\$ 45,291,739</u>

COLOTRUST

ACWWA invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. Colotrust is rated AAAM by Standard & Poor's.

NOTE 4 - CAPITAL ASSETS

An analysis of the changes in capital assets for the years ended December 31, 2011 and 2010 follows:

	2011		
	Balance at December 31, 2010	Increases	Decreases
			Balance at December 31, 2011
Capital assets, not being depreciated:			
Land	\$ 2,063,196	\$ -	\$ -
Water rights	82,609,438	40,008,390	-
Less: depletion	(1,146,620)	(69,379)	-
Net water rights	81,462,818	39,939,011	-
Construction in progress	2,642,582	3,984,452	4,821,108
Total capital assets, not being depreciated	86,168,596	43,923,463	4,821,108
Capital assets, being depreciated:			
Water system	38,789,373	5,522,539	4,045,484
Sewer system	13,572,795	1,787,779	263,210
Buildings, equipment, and projects	3,185,282	58,733	-
Total capital assets, being depreciated	55,547,450	7,369,051	4,308,694
Less accumulated depreciation for:			
Water system	4,667,205	1,531,494	50,433
Sewer system	7,125,677	574,830	161,941
Buildings, equipment, and projects	1,478,687	377,845	-
Total accumulated depreciation	13,271,569	2,484,169	212,374
Total capital assets, being depreciated, net	42,275,881	4,884,882	4,096,320
Capital assets, net	\$ 128,444,477	\$ 48,808,345	\$ 8,917,428
			\$ 168,335,394

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	2010			
	Balance at December 31, 2009	Increases	Decreases	Balance at December 31, 2010
Capital assets, not being depreciated:				
Land	\$ 2,063,196	\$ -	\$ -	\$ 2,063,196
Water rights	66,033,372	68,236,001	51,659,935	82,609,438
Less: depletion	(1,076,677)	(69,943)	-	(1,146,620)
Net water rights	64,956,695	68,166,058	51,659,935	81,462,818
Construction in progress	2,035,241	24,430,514	23,823,173	2,642,582
Total capital assets, not being depreciated	69,055,132	92,596,572	75,483,108	86,168,596
Capital assets, being depreciated:				
Water system	15,500,092	23,313,946	24,665	38,789,373
Sewer system	13,423,303	166,769	17,277	13,572,795
Stormwater system	1,203,504	358,691	1,562,195	-
Buildings, equipment, and projects	2,959,305	231,986	6,009	3,185,282
Total capital assets, being depreciated	33,086,204	24,071,392	1,610,146	55,547,450
Less accumulated depreciation for:				
Water system	3,790,884	976,840	100,519	4,667,205
Sewer system	6,496,189	657,803	28,315	7,125,677
Stormwater system	321,380	40,182	361,562	-
Buildings, equipment, and projects	789,013	327,523	(362,151)	1,478,687
Total accumulated depreciation	11,397,466	2,002,348	128,245	13,271,569
Total capital assets, being depreciated, net	21,688,738	22,069,044	1,481,901	42,275,881
Capital assets, net	\$ 90,743,870	\$ 114,665,616	\$ 76,965,009	\$ 128,444,477

Depreciation and depletion expense for the year ended December 31, 2011 and 2010 was charged to the following:

	2011	2010
Water	\$ 1,600,873	\$ 1,046,783
Sewer	574,830	657,803
Stormwater	-	40,182
Buildings, equipment and projects	377,845	327,523
	<u>\$ 2,553,548</u>	<u>\$ 2,072,291</u>

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in ACWWA's long-term obligations for the years ended December 31, 2011 and 2010:

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Amounts Due Within One Year
Series 2006					
Revenue Bonds	\$ 21,855,000	\$ -	\$ 575,000	\$ 21,280,000	\$ 600,000
Bond premium	353,441	-	22,090	331,351	-
Cost of refunding	(1,934,606)	-	113,800	(1,820,806)	-
Series 2007					
Revenue Bonds	17,340,000	-	450,000	16,890,000	465,000
Cost of refunding	(591,236)	-	34,779	(556,457)	-
Series 2009A					
Revenue Bonds	91,545,000	-	-	91,545,000	-
Series 2009B					
Revenue Bonds	5,625,000	-	350,000	5,275,000	1,540,000
Premium	90,995	-	3,138	87,857	-
Total bonds payable	134,283,594	-	1,548,807	133,031,945	2,605,000
Compensated absences	247,807	41,421	-	289,228	60,267
Total long-term obligations	<u>\$ 134,531,401</u>	<u>\$ 41,421</u>	<u>\$ 1,548,807</u>	<u>\$ 133,321,173</u>	<u>\$ 2,665,267</u>
	Balance December 31, 2009	Additions	Reductions	Balance December 31, 2010	Amounts Due Within One Year
Series 2006					
Revenue Bonds	\$ 22,410,000	\$ -	\$ 555,000	\$ 21,855,000	\$ 575,000
Bond premium	375,531	-	22,090	353,441	-
Cost of refunding	(2,048,406)	-	(113,800)	(1,934,606)	-
Series 2007					
Revenue Bonds	17,770,000	-	430,000	17,340,000	450,000
Cost of refunding	(626,015)	-	(34,779)	(591,236)	-
Series 2009A					
Revenue Bonds	91,545,000	-	-	91,545,000	350,000
Series 2009B					
Revenue Bonds	5,625,000	-	-	5,625,000	-
Premium	94,133	-	3,138	90,995	-
Total bonds payable	135,145,243	-	861,649	134,283,594	1,375,000
Compensated absences	262,808	225,757	240,758	247,807	84,254
Total long-term obligations	<u>\$ 135,408,051</u>	<u>\$ 225,757</u>	<u>\$ 1,102,407</u>	<u>\$ 134,531,401</u>	<u>\$ 1,459,254</u>

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

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

Series 2006 Refunding Bonds

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

Revenue Refunding and Improvement Bonds, Series 2007

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

Series 2009A Revenue Bonds

On December 8, 2009, ACWWA issued \$91,545,000 in Taxable Water and Wastewater Revenue Direct Pay Build America Bonds (BAB) with interest rates ranging from 3.61% to 6.68%. The revenue refunding and improvement bonds are due in annual principal and interest installments of \$5,516,894 to \$15,804,642 until December 2039. ACWWA is eligible to receive a 35% interest subsidy credit on its interest payments for these bonds subject to Section 6431 of the Internal Revenue Code. To receive BAB credits, ACWWA must file a form 8038-CP between 45 and 90 days prior to the corresponding interest payment date. Such credits, if received by ACWWA, are required under the bond resolution to be deposited to the Build America Bond Interest account of the Build America Bond Fund. There is no assurance, however, that ACWWA will receive all or any of the BAB credits which it expects to receive. ACWWA will be required to pay interest on the 2009A bonds regardless of whether BAB payments are received. ACWWA received interest subsidies in the amounts of \$2,014,866 and \$1,930,913, during 2011 and 2010, respectively.

Series 2009B Revenue Bonds

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

ACWWA's debt will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,605,000	\$ 7,625,310	\$ 10,230,310
2013	2,675,000	7,551,910	10,226,910
2014	3,320,000	7,472,297	10,792,297
2015	2,855,000	7,367,561	10,222,561
2016	2,945,000	7,264,297	10,209,297
2017-2021	16,435,000	34,157,908	50,592,908
2022-2026	19,930,000	29,717,369	49,647,369
2027-2031	24,585,000	23,745,915	48,330,915
2032-2036	30,625,000	15,830,730	46,455,730
2037-2040	29,015,000	4,401,786	33,416,786
Total payments	<u>\$134,990,000</u>	<u>\$145,135,083</u>	<u>\$280,125,083</u>

Pledged Revenue and Debt Coverage Requirements

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

NOTE 6 - NET ASSETS

ACWWA has net assets consisting of two components - invested in capital assets, net of related debt and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2011 and 2010, ACWWA had invested in capital assets, net of related debt calculated as follows:

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6 - NET ASSETS (CONTINUED)

	<u>2011</u>	<u>2010</u>
Invested in capital assets, net of related debt:		
Capital assets, net	\$ 168,335,394	\$ 128,444,477
Debt reserves	4,688,972	4,936,813
Unspent bond proceeds	-	25,853,401
Cost of refunding	2,377,263	2,525,842
Bond premium	(419,208)	(444,436)
Bond issuance	906,714	975,894
Capital related debt	(134,990,000)	(136,365,000)
Invested in capital asset, net of related debt	<u>\$ 40,899,135</u>	<u>\$ 25,926,991</u>

ACWWA's unrestricted net assets as of December 31, 2011 and 2010 are \$19,850,132 and \$31,785,765, respectively.

NOTE 7 - INTERGOVERNMENTAL AGREEMENTS

Cherry Creek Project Water Authority

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

Southeast Metro Stormwater Authority (SEMSWA)

ACWWA participates in the Southeast Metro Stormwater Authority (SEMSWA). The purpose of SEMSWA is to plan, fund, construct, acquire, operate, and maintain drainage and flood control facilities within its boundaries. In 2010, ACWWA transferred assets with the net book value of \$1,357,295 to SEMSWA according to the original agreement.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 7 - INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Town of Castle Rock

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

State of Colorado Department of Transportation (CDOT)

In 2009, ACWWA entered into an agreement with the State of Colorado Department of Transportation (CDOT), whereby a CDOT highway project will require the adjustment/relocation of ACWWA's facilities. CDOT assumes responsibility for the cost of ACWWA's adjustment/relocation activities, while ACWWA assumes responsibility for the cost of facility improvement activities, which are to be reimbursed to CDOT by ACWWA. The projects will be completed in conjunction with one another to minimize cost.

Cottonwood Water and Sanitation District

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

East Cherry Creek Valley Water and Sanitation District

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 7 - INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

Compark Business Campus Metropolitan District

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

Inverness Water and Sanitation District

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

Joint Water Purification Plant

In February 2002, ACWWA entered into an agreement with the PID (see Note 1) with respect to the construction and operation of public improvements. In June 2003, ACWWA entered into an agreement with CWSD concerning the construction of water treatment facilities (now known as the Joint Water Purification Plant or JWPP). The 2003 agreement, among other things, assigns responsibility to ACWWA for the overall management and operations of the JWPP. Under the terms of the agreement, ACWWA is to be the manager and operator of the JWPP. In exchange for operating the plant, pursuant to a lease dated April 2002 and amended in April 2002, the PID has leased and will transfer its assets in the JWPP to ACWWA for a nominal amount at the final payment of the last PID bonds issued pursuant to the 2001 bond authorization. In June 2010, the JWPP was placed into service and began operations. On December 6, 2010, ACWWA received a Notice of Violation/Cease and Desist Order as a result of an alleged permit violation from the Colorado Department of Public Health and Environment, Division of Administration, Water Quality Control Division (CDPHE) related to excess discharge of selenium in the waste product of the JWPP which allegedly violated a Federal Environmental Protection Agency standard. The

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 7 - INTERGOVERNMENTAL AGREEMENTS (CONTINUED)

CDPHE order contains, among other things, a potential fine of \$10,000 a day until the violation is cured. ACWWA is currently working with staff, outside engineers, CWSD, and CDPHE to meet the terms of the CDPHE Order. As a result, the JWPP is scheduled to move to microfiltration in July 2012 while it continues to work on a longer-term solution that is compatible with the original construction design.

ACWWA is also a party to several other agreements with other governmental entities. These agreements do not have a material effect on the financial statements.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Construction Commitments

ACWWA has entered into various contracts and agreements with contractors for the improvement and upgrading of facilities. Total commitments with such contractors for 2011 and 2010 totaled approximately \$554,752 and \$1,089,786, respectively.

NOTE 9 - PENSION AND BENEFIT PLANS

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

ACWWA's mandatory contributions are 12.4% of employee compensation. Discretionary employer contributions are decided on an annual basis at the time of budget approval for the following budget year. Historically, each year ACWWA's Board has approved a discretionary additional contribution of 5% of employee compensation, which is matched by a 5% pre-tax salary reduction by the employees, making the entire discretionary contribution 10% of employee compensation. Under the Plan document and the Internal Revenue Code, the entire discretionary contribution is considered an employer contribution. Total Plan contributions for the years ending December 31, 2011 and 2010 were \$573,729 and \$624,553, respectively. Total payroll was \$2,561,288 and \$2,788,182, respectively, for the years ended December 31, 2011 and 2010; total employer contributions represent 22.4% and 22.4% of total compensation for the years ended December 31, 2011 and 2010, respectively. An employee is not fully vested until the completion of four complete years of service. Vesting is 0% for less than 1 year, 25% for 1-2 years, 50% for 2-3 years, 75% for 3-4 years, and 100% for over four years.

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 10 - RELATED PARTY TRANSACTIONS

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

NOTE 11 - CONFLICT OF INTEREST

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

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

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

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

A board member has an interest in a company that purchases and sells homes, certain of which properties may be in ACWWA's service area.

A board member has a relative who is an engineer employed by Anadarko Petroleum.

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

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 12 - RISK MANAGEMENT

ACWWA is exposed to various risks of losses, including general liability (limited under the Colorado Governmental Immunity Act to \$150,000 per person and \$600,000 per occurrence), property damage, and employee life, medical, dental and accidental benefits. ACWWA has a risk management program, which includes commercial property insurance for catastrophic losses, including floods and earthquakes, for the operating plant. ACWWA also carries commercial insurance for employee life, health, accident and worker's compensation.

ACWWA is also a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2011. The Pool is an organization created by intergovernmental agreement to provide property, liability, public official's liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

ACWWA pays annual premiums to the Pool for liability, property and public official's coverage which are recorded as expenditures. In the event the aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from Pool members. Any excess funds that the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

NOTE 13 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations that apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. ACWWA's management believes a significant portion of its operations qualifies for this exclusion.

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

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

SUPPLEMENTARY INFORMATION

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
SCHEDULE OF REVENUES, EXPENDITURES AND FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Budget Positive (Negative)</u>
REVENUES				
Water revenue	\$ 4,571,141	\$ 4,574,311	\$ 4,868,351	\$ 294,040
Fire lines	750,000	950,000	1,020,078	70,078
Sewer revenue	5,668,980	4,658,500	4,895,956	237,456
Water investment fee	2,134,416	2,219,971	2,127,977	(91,994)
Backflow revenue	45,240	52,823	67,430	14,607
Pretreatment revenue	4,050	50,000	-	(50,000)
RO Plant revenue	1,329,508	1,334,948	868,834	(466,114)
Irrigation revenue	1,771,560	2,435,590	2,553,609	118,019
Other user fees	-	-	208,886	208,886
Net investment income	307,906	61,375	78,550	17,175
Interest subsidy	2,014,866	2,014,866	2,014,866	-
Radio read meters	3,700	2,700	-	(2,700)
Miscellaneous	100,000	223,458	716,736	493,278
Tap fee revenue	3,018,817	832,663	969,314	136,651
Water capacity exchange	-	2,500,000	2,500,000	-
Total revenues	<u>21,720,184</u>	<u>21,911,205</u>	<u>22,890,587</u>	<u>979,382</u>
EXPENSES				
Salaries and benefits	3,901,575	3,634,644	3,651,391	(16,747)
Office expense	392,519	186,900	440,575	(253,675)
Professional services	1,013,200	761,666	646,657	115,009
Insurance	212,844	200,000	183,881	16,119
Operational	54,841	41,550	18,673	22,877
Contractual services	183,697	101,185	112,033	(10,848)
Repairs and maintenance	1,078,759	690,445	677,583	12,862
Utilities	1,389,736	1,397,871	1,887,352	(489,481)
Other supplies and expense	2,418,397	2,250,722	1,655,345	595,377
Loss on disposal of capital assets	-	-	86,548	(86,548)
Acquisition of water rights	-	40,000,000	40,008,390	(8,390)
Debt service	9,048,309	9,048,309	9,160,958	(112,649)
Funding for depreciation	1,060,500	-	-	-
Projects	7,832,500	4,849,154	3,984,452	864,702
Miscellaneous	100,000	140,000	-	140,000
Water capacity exchange	-	2,500,000	2,500,000	-
Capital outlay	75,000	75,000	47,941	27,059
Total non-operating revenues (expenses)	<u>28,761,877</u>	<u>65,877,446</u>	<u>65,061,779</u>	<u>815,667</u>
CHANGE IN NET ASSETS (BUDGETARY BASIS)	<u>\$ (7,041,693)</u>	<u>\$ (43,966,241)</u>	<u>\$ (42,171,192)</u>	<u>\$ 163,715</u>

**ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended December 31, 2011**

Change in Net Assets (Budgetary Basis)	\$ (42,171,192)
Depreciation, depletion and amortization	(2,708,080)
Capital outlay	44,040,783
Water capacity exchange	2,500,000
Bond payments	<u>1,375,000</u>
Change in Net Assets	3,036,511
Net Assets, Beginning of Year	<u>57,712,756</u>
Net Assets, End of Year	<u><u>\$ 60,749,267</u></u>

ARAPAHOE COUNTY WATER AND WASTEWATER AUTHORITY
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2011

December 31,	\$22,940,000 Variable Rate Revenue Refunding Bonds, Series 2006 Dated December 28, 2006 Variable Interest Rate Principal and Interest Due December 1		\$18,760,000 Variable Rate Water and Wastewater Revenue Bonds, Series 2007 Dated August 23, 2007 Variable Interest Rate Principal and Interest Due December 1		\$91,545,000 Variable Rate Taxable Water and Wastewater Revenue Refunding Bonds, Series 2009A Dated December 8, 2009 Variable Interest Rate Principal and Interest Due December 1	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 600,000	\$ 951,463	\$ 465,000	\$ 796,825	\$ -	\$ 5,756,759
2013	625,000	927,464	485,000	778,225	-	5,756,759
2014	645,000	902,463	505,000	758,825	-	5,756,759
2015	675,000	873,439	530,000	737,363	1,650,000	5,756,759
2016	705,000	846,438	545,000	714,838	1,695,000	5,703,021
2017	740,000	811,189	570,000	691,675	1,740,000	5,627,599
2018	775,000	774,188	600,000	663,175	1,790,000	5,546,775
2019	805,000	743,189	630,000	637,675	1,845,000	5,459,155
2020	840,000	710,988	650,000	608,550	1,915,000	5,364,230
2021	875,000	677,389	680,000	579,300	1,980,000	5,262,831
2022	915,000	637,388	710,000	548,700	2,050,000	5,155,020
2023	950,000	598,770	750,000	515,862	2,120,000	5,040,322
2024	995,000	556,738	780,000	481,175	2,200,000	4,918,528
2025	1,035,000	514,450	820,000	445,100	2,285,000	4,788,838
2026	1,080,000	470,464	860,000	404,100	2,380,000	4,641,913
2027	1,125,000	424,563	900,000	363,250	2,480,000	4,488,879
2028	1,175,000	376,750	940,000	320,500	2,585,000	4,329,414
2029	1,225,000	326,813	990,000	273,500	2,690,000	4,163,199
2030	1,275,000	274,750	1,040,000	224,000	2,805,000	3,990,232
2031	1,340,000	211,000	1,090,000	172,000	2,925,000	3,807,065
2032	1,405,000	144,000	1,145,000	117,500	3,050,000	3,616,063
2033	1,475,000	73,750	1,205,000	60,250	3,175,000	3,416,898
2034			-	-	6,125,000	3,209,571
2035			-	-	6,385,000	2,809,608
2036			-	-	6,660,000	2,383,090
2037			-	-	6,950,000	1,938,202
2038			-	-	7,250,000	1,473,942
2039			-	-	14,815,000	989,642
Total	\$ 21,280,000	\$ 12,827,646	\$ 16,890,000	\$ 10,892,388	\$ 91,545,000	\$ 121,151,073

**\$5,625,000 Variable Rate
Water and Wastewater
Revenue Refunding Bonds,
Series 2009B
Dated December 8, 2009
Variable Interest Rate
Principal and Interest
Due December 1**

Due December 1		Total Debt Service Requirements		
Principal	Interest	Principal	Interest	Total
\$ 1,540,000	\$ 120,263	\$ 2,605,000	\$ 7,625,310	\$ 10,230,310
1,565,000	89,462	2,675,000	7,551,910	10,226,910
2,170,000	54,250	3,320,000	7,472,297	10,792,297
-	-	2,855,000	7,367,561	10,222,561
-	-	2,945,000	7,264,297	10,209,297
-	-	3,050,000	7,130,463	10,180,463
-	-	3,165,000	6,984,138	10,149,138
-	-	3,280,000	6,840,019	10,120,019
-	-	3,405,000	6,683,768	10,088,768
-	-	3,535,000	6,519,520	10,054,520
-	-	3,675,000	6,341,108	10,016,108
-	-	3,820,000	6,154,954	9,974,954
-	-	3,975,000	5,956,441	9,931,441
-	-	4,140,000	5,748,388	9,888,388
-	-	4,320,000	5,516,477	9,836,477
-	-	4,505,000	5,276,692	9,781,692
-	-	4,700,000	5,026,664	9,726,664
-	-	4,905,000	4,763,512	9,668,512
-	-	5,120,000	4,488,982	9,608,982
-	-	5,355,000	4,190,065	9,545,065
-	-	5,600,000	3,877,563	9,477,563
-	-	5,855,000	3,550,898	9,405,898
-	-	6,125,000	3,209,571	9,334,571
-	-	6,385,000	2,809,608	9,194,608
-	-	6,660,000	2,383,090	9,043,090
-	-	6,950,000	1,938,202	8,888,202
-	-	7,250,000	1,473,942	8,723,942
-	-	14,815,000	989,642	15,804,642
<u>\$ 5,275,000</u>	<u>\$ 263,975</u>	<u>\$ 134,990,000</u>	<u>\$ 145,135,082</u>	<u>\$ 280,125,082</u>