

## **DENVER SOUTHEAST SUBURBAN WATER AND SANITATION DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of Denver Southeast Suburban Water and Sanitation District (the District) offers the readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017.

### **District Operations**

The composition of District staff increase by one FTE in 2017 to begin the creation of an in-house maintenance crew. Over time the District intends to reduce its reliance on contracted labor for routine and preventative maintenance. This crew will expand by an additional member (one new FTE) in 2018. The FTE count at the end of 2017 was eighteen full time employees and one part-time employee. The Board of Directors has also approved an additional FTE for 2018 to bolster the District's in-house SCADA and Instrumentation abilities. The District continued to grow slowly, selling only 36 water and sewer taps to new homes. That is a 36% decrease over the amount of taps sold in 2016 (56).

The District completed an update to the District Rates and Fees Study. While most of the previous rate structure (inclining block) remained consistent, the Board decided to expand the first tier threshold from 3,000 gallons to 5,000 gallons in one month.

The total precipitation and pattern of precipitation in 2017 was dry. 2017 saw a dry spring until May, when the area received over 70% more precipitation than average. That was followed by several weeks of hot dry weather. Late summer and fall began with some needed moisture and then finished up hot and dry. Total precipitation experienced in the area in 2017 was only 11.7 inches, 8.4 inches less than 2015, 1.1 less than in 2016 and 5.4 inches less than the annual average.

Customers' water usage in 2017 was slightly down from the demand in 2016. The main factor is that although there was less total precipitation in 2017, it was timed better, especially in late summer/early fall so that it helped reduce irrigation demands. By the end of 2017, total gallons pumped (year-to-date) was approximately 972 million gallons, 2.3% less than water pumped in 2016.

In 2016, the District settled a multi-year dispute with Hydro Resources by executing an agreement for a replacement of Well A-16. In 2017, Hydro along with the District completed the construction of the new well facility. This new water supply facility adds almost 300 acre-feet per year to the District's operating water supply.

In 2004, the District entered into an agreement for wholesale wastewater treatment service for the Canyons property. The Developer agreed to pay the principal amount of \$3,100,000 over 20 years (until 2024). In 2017, the Developer paid the remaining balance of the original \$3.1 million commitment (\$1,674,781). This along with the years' previous payments secured a total of 973 single-family equivalents of treatment capacity in the District's wastewater treatment plant.

Through a low interest loan from the Colorado Water Resources and Power Development Authority, the District began construction in 2016 of a new pump station to replace the original Pump Station #1 (47 years old). The new facility was completed in August 2017. Also funded through this loan was the Chloramine Conversion project. As part of the WISE project and through these new facilities, the District will convert its disinfection system from free chlorine to chloramines. The construction of those facilities was completed in fall 2017. The actual conversion will take place in March 2018.

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The District continued to work on long-term regional water supply projects through its membership in the Cherry Creek Project Water Authority and the South Metro WISE Authority. The South Metro WISE Authority made significant progress on the water delivery project and 5 of the 10 members are now receiving WISE water delivered through the core and local infrastructure. The District is one of five WISE project members participating in the Ridgeway Pipeline project (local infrastructure) and the construction finished in 2017. The District began engineering design on a pipeline to connect the District to Parker Water and Sanitation District local infrastructure to wheel the WISE water from the core infrastructure to the District's service area. The District will be online to receive WISE water in May 2018.

The Cherry Creek Project Water Authority is monitoring a purchase agreement with Meritage Homes to purchase property owned by the Authority. Meritage Homes is finalizing the planning and entitlement efforts with the Town of Parker to develop the property. The closing was expected at the end of 2017 but has been pushed due to schedule expansion in the review process with the Town of Parker. Closing on the property is now expected in April 2018. Meritage will pay the Authority for the property and the Authority will distribute the proceeds to the members.

Other capital projects included the continued maintenance of the water distribution system to replace valves, curb stops, fire hydrants, air-vac valves and meter pits. The District continued its maintenance program on the sewer collection system to decrease infiltration and prolong the life of its assets.

### **Financial Highlights**

- Net position increased \$2,384,007 while revenues increased 4.89% and expenses increased 6.85%.
- The net operating profit of \$424,097 was an increase of \$26,947 from last year. Excluding depreciation, the net operating income was \$4,044,323.
- Operating revenues increased 3.90% from the prior year.
- Operating expenses exclusive of depreciation decreased 3.87% from the prior year.
- Customers on line for water service at year end increased by 26 single-family residential equivalent units to 4,384 at year end.
- Funds available (current assets plus other assets less current liabilities exclusive of the current portion of long-term obligations) increased \$2,854,584 to \$12,091,379 at December 31, 2017.

### **Overview of the Financial Statements**

Management's discussions and analysis is intended to serve as an introduction to the District'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 and continuing disclosure annual financial information in addition to the basic financial statements themselves.

The Financial Statements of the District are presented as a special purpose government engaged only in business type activities - providing water and sewer utility services.

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

The statement of revenues, expenses and changes in net position presents information that reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenue and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows reports the District's cash flows from operating, noncapital financing, capital and investing activities.

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

The supplemental information contained in this report provides a schedule of revenues, expenses and change in net position, budget and actual information, and debt service requirements.

The continuing disclosure annual financial information is information required by the Series 2002A and 2005A bond covenants, including mill levy, assessed valuation and property tax information, annual operating data, historical actual and budget financial statements, statistical information within the area and debt coverage information.

The District's net position increased \$2,384,007 in 2017. Current assets increased \$2,067,328 and capital assets increased \$5,222,755.

**Statement of Net Position**

	<b>December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Current assets	\$ 12,903,315	\$ 10,835,987	\$ 8,415,057
Other assets	315,231	315,231	1,518,057
Capital assets	104,421,939	99,199,184	95,609,529
Total assets	<u>117,640,485</u>	<u>110,350,402</u>	<u>105,542,643</u>
Current liabilities	2,854,263	3,608,611	2,911,132
Long-term liabilities	22,754,950	17,094,526	15,405,729
Total liabilities	<u>25,609,213</u>	<u>20,703,137</u>	<u>18,316,861</u>
Net position invested in capital assets	79,939,892	80,410,470	78,549,825
Restricted net position	3,306,472	3,296,055	3,290,603
Unrestricted net position	8,784,908	5,940,740	5,385,354
Total net position	<u>\$ 92,031,272</u>	<u>\$ 89,647,265</u>	<u>\$ 87,225,782</u>

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**Review of Change in Net Position**

	December 31,		
	2017	2016	2015
Revenues			
Operating revenue			
Water services	\$ 5,762,506	\$ 5,582,882	\$ 4,968,957
Sewer services	2,362,852	2,237,631	2,085,750
Total operating revenue	<u>8,125,358</u>	<u>7,820,513</u>	<u>7,054,707</u>
Nonoperating revenue			
Investment income	63,639	23,925	14,188
Other	209,738	194,529	200,652
Contributions			
Tap fees, net of cost recovery payments	1,293,746	1,905,526	2,859,025
Contributed facilities	1,045,949	-	-
Other	122,417	410,334	72,431
Total other revenue	<u>2,735,489</u>	<u>2,534,314</u>	<u>3,146,296</u>
Total revenue	<u>10,860,847</u>	<u>10,354,827</u>	<u>10,201,003</u>
Expenses			
Operating expenses			
Water	1,882,748	2,080,589	1,988,424
Sewer	941,046	856,914	924,753
	<u>2,823,794</u>	<u>2,937,503</u>	<u>2,913,177</u>
General and administrative	1,257,241	1,350,554	1,310,217
Depreciation	3,620,226	3,135,306	2,700,890
Total operating expenses	<u>7,701,261</u>	<u>7,423,363</u>	<u>6,924,284</u>
Nonoperating expenses	<u>775,579</u>	<u>509,981</u>	<u>205,139</u>
Total expenses	<u>8,476,840</u>	<u>7,933,344</u>	<u>7,129,423</u>
Change in net position	2,384,007	2,421,483	3,071,580
Net position - Beginning	<u>89,647,265</u>	<u>87,225,782</u>	<u>84,154,202</u>
Net position - Ending	<u>\$ 92,031,272</u>	<u>\$ 89,647,265</u>	<u>\$ 87,225,782</u>

Operating revenue increased by \$304,845. Revenue from the sale of tap fees, net of cost recovery payments decreased \$611,780. Additionally, water services increased \$179,624 primarily due to the increase in water sales and irrigation fees in 2017.

Total operating expenses increased \$277,898 in 2017.

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**Budgetary Highlights**

The District 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. This budgetary accounting is required by State statutes. Additionally, the budget includes the separation of the enterprise and general government activities within the District.

Actual revenue of the District was below the budgeted revenue by \$6,178,528 due to \$9,500,000 of loan proceeds and \$6,160,000 of developer contributions being budgeted for 2017 when actual loan proceeds came in at \$7,387,521 and developer contributions came in at \$1,045,949. Without this variance, actual revenue was above budgeted revenue by \$1,048,002 primarily as a result of more water and sewer charges.

Total actual expenditures of the District were less than the appropriation by \$9,790,689, which includes a positive variance of \$9,105,353 for capital expenditures, of which \$5,114,051 was related to developer contributions which did not occur due to delays in project approvals and commencement.

**Capital Assets Activity**

The activity related to capital assets is as follows:

	<u>December 31, 2016</u>	<u>Net Changes</u>	<u>December 31, 2017</u>
Land and easements	\$ 827,262	\$ -	\$ 827,262
Construction in process	6,112,867	2,505,703	8,618,570
Water system			
Water rights	12,177,082	-	12,177,082
Water facilities	65,973,071	5,504,457	71,477,528
Bingham Lake and Dam	542,502	-	542,502
Sewer system			
Sewer facilities	34,141,501	48,556	34,190,057
Wastewater treatment plant	13,799,079	654,072	14,453,151
Buildings	1,813,702	-	1,813,702
Equipment and vehicles	1,175,812	130,193	1,306,005
Total capital assets	<u>136,562,878</u>	<u>8,842,981</u>	<u>145,405,859</u>
Accumulated depreciation	<u>(37,363,694)</u>	<u>(3,620,226)</u>	<u>(40,983,920)</u>
Net capital assets	<u>\$ 99,199,184</u>	<u>\$ 5,222,755</u>	<u>\$ 104,421,939</u>

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The 2017 activity relating to capital assets reflects costs incurred by the District relating to the construction of water wells, sewer lines, replacement of equipment at the wastewater treatment plant, and capitalization of net interest expense on water projects.

Additional information on the District's capital assets can be found in Note 5 of this report.

	<b>December 31, 2015</b>	<b>Net Changes</b>	<b>December 31, 2016</b>
Land and easements	\$ 827,262	\$ -	\$ 827,262
Construction in process	10,916,544	(4,803,677)	6,112,867
Water system			
Water rights	11,849,384	327,698	12,177,082
Water facilities	54,887,523	11,085,548	65,973,071
Bingham Lake and Dam	542,502	-	542,502
Sewer system			
Sewer facilities	34,056,945	84,556	34,141,501
Wastewater treatment plant	13,784,285	14,794	13,799,079
Buildings	1,813,702	-	1,813,702
Equipment and vehicles	1,159,770	16,042	1,175,812
Total capital assets	<u>129,837,917</u>	<u>6,724,961</u>	<u>136,562,878</u>
Accumulated depreciation	<u>(34,228,388)</u>	<u>(3,135,306)</u>	<u>(37,363,694)</u>
Net capital assets	<u>\$ 95,609,529</u>	<u>\$ 3,589,655</u>	<u>\$ 99,199,184</u>
	<b>December 31, 2014</b>	<b>Net Changes</b>	<b>December 31, 2015</b>
Land and easements	\$ 827,262	\$ -	\$ 827,262
Construction in process	9,783,806	1,132,738	10,916,544
Water system			
Water rights	11,492,515	356,869	11,849,384
Water facilities	49,721,676	5,165,847	54,887,523
Bingham Lake and Dam	542,502	-	542,502
Sewer system			
Sewer facilities	34,016,133	40,812	34,056,945
Wastewater treatment plant	13,694,675	89,610	13,784,285
Buildings	1,813,702	-	1,813,702
Equipment and vehicles	1,099,211	60,559	1,159,770
Total capital assets	<u>122,991,482</u>	<u>6,846,435</u>	<u>129,837,917</u>
Accumulated depreciation	<u>(31,547,754)</u>	<u>(2,680,634)</u>	<u>(34,228,388)</u>
Net capital assets	<u>\$ 91,443,728</u>	<u>\$ 4,165,801</u>	<u>\$ 95,609,529</u>

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**Long-Term Debt**

All scheduled payments of principal and interest on the District's outstanding debt were paid as required during 2017.

Additional detail on the District's debt is in Note 6 of this report.

**Economic Factors and Next Year's Budgets and Rates**

For 2018, the District has budgeted revenue from water and sewer charges of \$7,566,500, which is \$282,300 higher compared with 2017 budgeted figures. The District has also budgeted \$690,000 of water project fees that are intended to help fund the construction of future water improvement projects. \$3,870,000 of loan proceeds has been budgeted to fund planned capital outlay in 2018. 2018 operating expenses are budgeted at \$4,236,440, which is \$611,790 higher compared with 2017 budget amounts.

The majority of the District's debt is in the form of revenue notes. The revenues pledged to pay this debt include fees for service (water and sewer bills) and fees charged for new development (tap fees). To the extent that one of the revenue sources is less than projected, then revenue from other sources is required to make the debt service payments.

**Request for Information**

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

Denver Southeast Suburban Water and Sanitation District  
5242 Old Schoolhouse Road  
Parker, Colorado 80134  
<http://pinerywater.com>

**DENVER SOUTHEAST SUBURBAN WATER AND SANITATION DISTRICT  
OTHER SUPPLEMENTARY INFORMATION**

**December 31, 2017**

(Continued)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>OPERATING REVENUE</b>						
Water and sewer charges	\$ 6,368,129	\$ 5,985,580	\$ 6,013,065	\$ 6,391,305	\$ 6,892,915	\$ 7,156,561
Irrigation, hydrant fees and other	739,855	578,821	579,629	663,402	927,598	968,797
Total operating revenue	<u>7,107,984</u>	<u>6,564,401</u>	<u>6,592,694</u>	<u>7,054,707</u>	<u>7,820,513</u>	<u>8,125,358</u>
<b>OPERATING EXPENSES</b>						
Depreciation	2,377,368	2,460,197	2,582,588	2,700,890	3,135,306	3,620,226
Auto expenses/vehicle maintenance	58,647	58,922	45,508	35,702	33,920	34,588
Salaries and wages	1,110,895	1,126,288	1,112,022	1,192,309	1,241,697	1,268,799
Payroll taxes	80,880	85,269	83,605	89,004	94,368	95,914
Employee benefits	304,469	335,316	347,035	356,787	370,222	370,539
Utilities	864,296	829,288	735,541	787,259	771,736	795,899
Outside services	21,171	14,928	142,355	126,401	91,558	130,556
Maintenance and supplies	505,566	519,845	614,826	560,976	525,089	499,115
Professional fees	414,205	517,151	344,473	454,231	571,893	249,697
Other operating expenses	167,170	222,218	187,945	234,984	236,180	226,946
Office expense	18,714	15,809	18,812	16,747	16,216	17,901
Insurance	82,074	85,836	88,069	106,806	108,686	113,658
Directors' fees	5,500	7,800	7,400	5,900	5,800	6,900
Sludge disposal	54,261	71,227	66,170	57,249	58,815	69,298
CCWPA assessment	108,592	34,148	40,978	40,978	20,489	20,489
CCPWA water purchase	-	10,467	-	-	-	7,935
WISE participation - operations	-	47,331	52,318	106,278	141,388	172,801
Total operating expenses	<u>6,173,808</u>	<u>6,442,040</u>	<u>6,469,645</u>	<u>6,872,501</u>	<u>7,423,363</u>	<u>7,701,261</u>
Income (loss) from operations	<u>934,176</u>	<u>122,361</u>	<u>123,049</u>	<u>182,206</u>	<u>397,150</u>	<u>424,097</u>
<b>NONOPERATING REVENUE</b>						
Net investment income	27,077	17,314	13,859	14,188	23,925	63,639
Miscellaneous other income	168,145	209,367	135,257	119,979	132,913	138,310
Ready to serve fees	69,444	53,058	63,756	70,083	61,616	52,928
Gain (loss) on disposition of assets	31,152	22,165	19,360	10,590	-	18,500
Contributions in aid of construction	515,871	768,014	3,121,593	2,931,456	2,315,860	2,462,112
Total nonoperating revenue	<u>811,689</u>	<u>1,069,918</u>	<u>3,353,825</u>	<u>3,146,296</u>	<u>2,534,314</u>	<u>2,735,489</u>
<b>NONOPERATING EXPENSES</b>						
Interest and paying agent fees	291,415	234,703	596,039	205,139	509,981	775,579
Amortization	104,478	-	-	-	-	-
Loan issue cost	-	-	39,548	51,783	-	-
Total nonoperating expenses	<u>395,893</u>	<u>234,703</u>	<u>635,587</u>	<u>256,922</u>	<u>509,981</u>	<u>775,579</u>
<b>NET INCOME (LOSS)/</b>						
<b>CHANGE IN NET POSITION</b>	<u>\$ 1,349,972</u>	<u>\$ 957,576</u>	<u>\$ 2,841,287</u>	<u>\$ 3,071,580</u>	<u>\$ 2,421,483</u>	<u>\$ 2,384,007</u>