

Report
On The Audit Of

EAST BOULDER COUNTY
WATER DISTRICT
Boulder, Colorado

December 31, 2004

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INDEPENDENT AUDITOR'S REPORT

May 9, 2005

Board of Directors
East Boulder County Water District
Boulder, Colorado

We have audited the accompanying basic financial statements of the East Boulder County Water District as of and for the years ended December 31, 2004 and 2003, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the East Boulder County Water District at December 31, 2004 and 2003, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements. The financial supplemental information listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 7 to the financial statements, East Boulder County Water District has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of December 31, 2004.

Respectfully submitted,

A handwritten signature in cursive script that reads "Watkins & Schommer, Inc.".

Watkins & Schommer, Inc.
Certified Public Accountants

**East Boulder County Water District
Management Discussion and Analysis
For the Year Ended December 31, 2004**

The discussion and analysis is designed to provide an analysis of the District's financial condition and operating results and to also inform the reader on District financial issues and activities.

The Management Discussion and Analysis (MD&A) should be read in conjunction with the District's basic financial statement (beginning on page 10).

2004 Highlights - Business-Type Activities

- In 2004, net assets were \$1,546,919 or an increase of \$66,878 (4.52%) when compared to 2003.
- Total operating revenues increased to \$86,152 during 2004, which was \$3,711 or 4.50% more when compared to 2003.
- Total operating expenses were \$82,555 or an decrease of \$4,790 (5.48%) in 2004 when compared to 2003.
- Net capital assets were \$(528,873) in 2004 compared to \$(590,410) in 2003 for an increase of \$61,537 or 10.42%.
- Long-term debt decreased to \$1,875,000 during 2004, which was \$45,000 or 2.34% less when compared to 2003.

Using this Annual Report

The financial statements included in this annual report are those of a quasi-municipal corporation and a political subdivision of the State of Colorado engaged only in a business-type activity. As an enterprise fund, the District's basic financial statements include:

Statement of Net Assets - reports the District's current financial resources (short-term spendable resources) with capital assets and long-term obligations. (See pages 10-11).

Statement of Revenues, Expenses and Changes in Fund Net Assets - reports the District's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions. (See page 12).

Statement of Cash Flows - reports the District's cash flows from operating activities, investing, capital and non-capital activities. (See pages 13-14).

Statement of Net Assets

| Year Ending December 31 | 2004 | 2003 |
|---|------------------|------------------|
| Current Assets | 527,973 | 487,865 |
| Capital Assets | 1,346,127 | 1,329,590 |
| Other Assets | 1,763,514 | 1,767,303 |
| <u>Total Assets</u> | <u>3,637,614</u> | <u>3,584,758</u> |
| Current Liabilities | 270,695 | 229,717 |
| Long-Term Debt | 1,820,000 | 1,875,000 |
| <u>Total Liabilities</u> | <u>2,090,695</u> | <u>2,104,717</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | (528,873) | (590,410) |
| Restricted: | | |
| Debt Services | 3,718 | 2,980 |
| Storage Tank | 101,700 | 67,800 |
| TABOR Emergency Reserve | 2,721 | 2,601 |
| Unrestricted | 1,967,653 | 1,997,070 |
| <u>Total Net Assets</u> | <u>1,546,919</u> | <u>1,480,041</u> |

The net assets of the District increased to \$1,546,919 during 2004, a \$66,878 increase over 2003. Capital assets increased 2004 over 2003 due to cost related to the work on the new water tank. Long-term debt decreased primarily as a result of the retirement of \$45,000 of bond principal on the 2000 General Obligation Bonds.

Review of Revenues

| Year Ending December 31 | 2004 | 2003 |
|--------------------------------|----------------|----------------|
| Operating Revenues | | |
| Water-Treated | 84,871 | 81,787 |
| Other Income | 1,281 | 654 |
| <u>Subtotal</u> | <u>86,152</u> | <u>82,441</u> |
| Non-Operating Revenues | | |
| Property Taxes | 167,453 | 159,527 |
| Specific Ownership Taxes | 12,017 | 12,860 |
| Earnings on Investments | 4,557 | 4,260 |
| <u>Subtotal</u> | <u>184,027</u> | <u>176,647</u> |
| <u>Total Revenues</u> | <u>270,179</u> | <u>259,088</u> |

Water sales were \$84,871 or 98.87% of budget and a increase of \$3,159 compared to 2003. Earnings on investments were fairly equal to 2003 amounts. Total revenues were up \$11,091 from 2003 primarily due to a slight increase in water revenues and approximately a \$7,000 increase in tax revenues.

Review of Expense

| Year Ending December 31 | 2004 | 2003 |
|-------------------------------------|---------------|---------------|
| Operating Expenses | | |
| Operating Expenses | 42,837 | 49,312 |
| Administrative and General Expenses | 13,121 | 11,436 |
| Depreciation | 26,597 | 26,597 |
| <u>Total</u> | <u>82,555</u> | <u>87,345</u> |

Total District expenditures were 37.96% under budget and down 1.70% from the previous year (\$350,598). Operating expenses decreased 5.48% in 2004 compared to 2003. Budget constraints held many costs even with the previous year or were down slightly. Total expenses decreased by \$5,972 from 2003 levels.

Capital Contributions and Transfers

| Year Ending December 31 | 2004 | 2003 |
|--------------------------------|-----------------|-----------------|
| Capital Contributions | 83,175 | 75,675 |
| Reimbursement of Contributions | <u>(77,175)</u> | <u>(69,675)</u> |
| <u>Net Contributions</u> | <u>6,000</u> | <u>6,000</u> |

Tap sales were \$83,175 or 60.00% of budget and up \$7,500 from 2003.

Capital Assets (Net of Depreciation) and Debt Administration

| Year Ending December 31 | 2004 | 2003 |
|-------------------------------------|------------------|------------------|
| Transmission and Distribution Lines | 1,242,677 | 1,269,274 |
| Construction in Progress | <u>103,450</u> | <u>60,316</u> |
| <u>Total</u> | <u>1,346,127</u> | <u>1,329,590</u> |

Major additions in 2004 were:

Acquisition of easements and engineering for the storage tank project.

Debt and Other Financial Obligations

The District long-term debt was \$1,875,000 and \$1,920,000 in 2004 and 2003, respectively. The decrease was primarily due to the retirement of \$45,000 of the 2000 General Obligation Bonds. (see pages 19-20).

Customer Classification, Water Rates, Revenue and Consumption

The District currently provides water service to 101 taps, 100% of which are residential. All water service is metered and read electronically. The following table is a breakdown of water consumption and revenue collected by customer class in 2004.

Customer Classification

| Classification | 2004 Water Consumption | Percent of Total | Total Revenue Collected in 2004 | Percent of Total |
|-----------------------|-------------------------------|-------------------------|--|-------------------------|
| Residential | 10,428,000 | 100% | 12,273,451 | 100% |

Basic Service Fees, Rates and Changes

The District has established a schedule of rates, fees and charges for the connection to and use of District facilities. State law provides that, until paid, all such rates, fees, tolls and charges constitute a perpetual lien on and against the property served. User charges are billed according to customer classification and usage. Each customer is subject to a minimum monthly charge, which begins when the meter is set. If the meter is not set within 12 months after purchase of the tap, a monthly charge is assessed.

In establishing the current rate schedule, it was determined that the rate must both pay for increasing operating costs, including debt service, and allow for some system deferred maintenance funds while not overburdening District customers on the lower end of the usage scale with excessive rates. The follow table is a comparison of basic service fees for a residential tap (5/8"). The overall increase in the monthly minimum residential rates from 2003 to 2005 is 2.74%.

Comparative Residential System User Charges 2003-2005

| | February 1, 2003 | February 1, 2004 | February 1, 2005 |
|-----------------------------|-------------------------|-------------------------|-------------------------|
| Monthly Minimum (MM) | 47.06 | 48.35 | 48.35 |
| Usage (Gallons): | | | |
| 0 - 5,000 | | | |
| 5001 - 10,000 | MM+2.89/thou | MM+3.06/thou | MM+3.24/thou |
| 10,001 - 15,000 | MM+3.47/thou | MM+3.70/thou | MM+3.94/thou |
| 15,001 - 20,000 | MM+4.29/thou | MM+4.59/thou | MM+4.91/thou |
| 20,001 - 80,000 | MM+5.47/thou | MM+5.87/thou | MM+6.31/thou |
| Over 80,000 | MM+5.47/thou | MM+5.87/thou | MM+7.31/thou |

Tap Fees

The District charges tap fees, most of which are passed on to the City of Lafayette under terms of the District's Intergovernmental Agreement (IGA) with Lafayette. The District retains \$2,000 of the tap fee payment to cover operations and maintenance. A tap fee is a one-time charge that must be paid by a new customer before connection to the system.

The following table sets forth a summary of the District's capital projects completed between 2001 and 2004 and proposed capital projects for 2004 through 2010.

Capital Projects Summary (Funded Projects) 2001-2004

| | Year | Cost |
|---|------|------------------|
| Construction of District Water Infrastructure | 2001 | 1,289,466 |
| Pump Station Improvements | 2002 | 40,412 |
| <u>Grand Total</u> | | <u>1,329,878</u> |

Proposed Capital Project Plan for Future Years (in thousands)

| Project | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------|------------|----------|----------|----------|----------|-----------|----------|----------|-----------|----------|----------|----------|------------|
| Water Storage Tank | 239 | - | - | - | - | - | - | - | - | - | - | - | - |
| Paragon Loop | - | - | - | - | - | 56 | - | - | - | - | - | - | - |
| Empire-Spring Loop | - | - | - | - | - | - | - | - | 82 | - | - | - | - |
| Panora-Spring Loop | - | - | - | - | - | - | - | - | - | - | - | - | 120 |
| <u>Total</u> | <u>239</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>56</u> | <u>-</u> | <u>-</u> | <u>82</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>120</u> |

Contracts and Agreements

The District is a party to several contracts and cooperative agreements concerning the financing, acquisition, construction, operation, maintenance, and use of certain water facilities. According to the general counsel for the District, to the best of his knowledge, with the exception of the contracts and agreements referenced hereafter or set forth below, there are no contracts or agreements in effect which would potentially have a material, pecuniary adverse effect on the District.

City of Lafayette Agreement - Pursuant to a declaration of understanding with the City of Lafayette, Colorado, executed in May 2000, and amended in December, 2000, the City will provide the District with potable water via a master meter arrangement. The District will pay per tap for water taps pursuant to the Lafayette City Code and will pay in-city rates for water used through the master meter. The agreement provides for the City to withdraw from the agreement only after a lengthy Notice Period. The District may include additional properties and the City will provide water for them, provided they are within the boundaries of the original service area as described in the IGA. The original service area contains approximately 125 properties and is entirely residential single-family (or vacant land zone for such use). The December 2000 amendment specifies certain improvements the District will undertake and a schedule for those improvements. The improvements include additional storage tank capacity and the construction of some line connection loops.

Economic and Other Factors

Overall, the District has shown minor fluctuations in water revenues as a result of weather and economic demand. Water taps have been sold where new homes are constructed or infill inclusions are processed. The District's water rate structure is primarily organized on the principle of sufficiently marking up Lafayette's water rates so as to ensure the District will continue as a financially sound entity. Operating expenses have been consistent over the last few years and reflect only limited increases. Construction costs are primarily driven by the need to meet the aforementioned demands of the Lafayette IGA as well as to ensure stability of domestic and emergency supply.

Financial Contract

The District's financial statements are designed to present users (customers, citizens, creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions about the report or need additional financial information please contact the District at East Boulder County Water District, 7526 Spring Drive, Boulder, Colorado 80303.

BASIC FINANCIAL STATEMENTS

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Net Assets
December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--------------------------------|------------------|------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets</u> | | |
| Cash and Cash Equivalents | 241,849 | 314,382 |
| Investments | 100,537 | - |
| Accounts Receivable | 7,014 | 4,572 |
| Property Taxes Receivable | 176,206 | 168,279 |
| Prepaid Expenses | 2,367 | 632 |
| | <u>527,973</u> | <u>487,865</u> |
| <u>Total Current Assets</u> | | |
| <u>Non-Current Assets</u> | | |
| <u>Capital Assets</u> | | |
| Construction in Progress | 103,451 | 60,317 |
| Distribution System | 1,329,877 | 1,329,877 |
| Less: Accumulated Depreciation | (87,201) | (60,604) |
| | <u>1,346,127</u> | <u>1,329,590</u> |
| <u>Total Capital Assets</u> | | |
| <u>Other Assets</u> | | |
| System Inclusion Fee | 1,693,757 | 1,693,757 |
| Bond Issuance Costs - Net | 68,515 | 70,159 |
| Revegetation Escrow | 1,242 | - |
| Organization Costs - Net | - | 3,387 |
| | <u>1,763,514</u> | <u>1,767,303</u> |
| <u>Total Other Assets</u> | | |
| <u>Total Assets</u> | <u>3,637,614</u> | <u>3,584,758</u> |

The accompanying notes are an integral part of these financial statements.

Exhibit 1

| | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|
| <u>LIABILITIES</u> | | |
| <u>Current Liabilities</u> | | |
| Current Portion of Long-Term Liabilities | 55,000 | 45,000 |
| Accounts Payable | 29,760 | 6,500 |
| Accrued Interest Payable | 9,729 | 9,938 |
| Deferred Revenue | 176,206 | 168,279 |
| | <hr/> | <hr/> |
| <u>Total Current Liabilities</u> | 270,695 | 229,717 |
| <u>Non-Current Liabilities</u> | | |
| General Obligation Bonds Payable | 1,820,000 | 1,875,000 |
| | <hr/> | <hr/> |
| <u>Total Liabilities</u> | 2,090,695 | 2,104,717 |
| | <hr/> | <hr/> |
| <u>NET ASSETS</u> | | |
| <u>Net Assets</u> | | |
| Invested in Capital Assets, Net of Related Debt | (528,873) | (590,410) |
| Restricted | | |
| TABOR Emergency Reserve | 2,721 | 2,601 |
| Storage Tank | 101,700 | 67,800 |
| Debt Service | 3,718 | 2,980 |
| Unrestricted | 1,967,653 | 1,997,070 |
| | <hr/> | <hr/> |
| <u>Total Net Assets</u> | 1,546,919 | 1,480,041 |
| | <hr/> | <hr/> |

Exhibit 1

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|
| <u>Operating Revenues</u> | | |
| Water Sales | 84,871 | 81,787 |
| Other Income | 1,281 | 654 |
| | <hr/> | <hr/> |
| <u>Total Operating Revenues</u> | 86,152 | 82,441 |
| | <hr/> | <hr/> |
| <u>Operating Expenses</u> | | |
| Operating Expenses | 42,837 | 49,312 |
| Administrative and General Expenses | 13,121 | 11,436 |
| Depreciation | 26,597 | 26,597 |
| | <hr/> | <hr/> |
| <u>Total Operating Expenses</u> | 82,555 | 87,345 |
| | <hr/> | <hr/> |
| <u>Operating Income (Loss)</u> | 3,597 | (4,904) |
| | <hr/> | <hr/> |
| <u>Nonoperating Revenues (Expenses)</u> | | |
| Property Taxes | 167,453 | 159,527 |
| Specific Ownership Taxes | 12,017 | 12,860 |
| Earnings on Investments | 4,557 | 4,260 |
| Interest Expense | (119,045) | (121,020) |
| County Treasurer Fees | (2,520) | (2,410) |
| Paying Agent Fees | (150) | (150) |
| Amortization | (5,031) | (4,665) |
| | <hr/> | <hr/> |
| <u>Total Nonoperating Revenues(Expenses)</u> | 57,281 | 48,402 |
| | <hr/> | <hr/> |
| <u>Income Before Contributions</u> | 60,878 | 43,498 |
| | <hr/> | <hr/> |
| <u>Capital Contributions</u> | 6,000 | 6,000 |
| | <hr/> | <hr/> |
| <u>Change in Net Assets</u> | 66,878 | 49,498 |
| | <hr/> | <hr/> |
| <u>Net Assets at Beginning of Year</u> | 1,480,041 | 1,430,543 |
| | <hr/> | <hr/> |
| <u>Net Assets at End of Year</u> | 1,546,919 | 1,480,041 |
| | <hr/> | <hr/> |

The accompanying notes are an integral part of these financial statements.

Exhibit 2

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|------------------|------------------|
| <u>Cash Flows From Operating Activities</u> | | |
| Cash Received From Customers | 82,429 | 82,021 |
| Cash Paid to Suppliers | (30,542) | (46,646) |
| Cash Paid to Employees | (5,343) | (9,237) |
| Other Operating Revenues | 1,281 | 654 |
| | <u>47,825</u> | <u>26,792</u> |
| <u>Net Cash Provided by Operating Activities</u> | | |
| <u>Cash Flows From Noncapital Financing Activities</u> | | |
| Taxes | 179,471 | 172,387 |
| County Treasurer Fees | (2,520) | (2,410) |
| | <u>176,951</u> | <u>169,977</u> |
| <u>Net Cash Provided by Noncapital Financing Activities</u> | | |
| <u>Cash Flows From Capital and Related Financing Activities</u> | | |
| Contributed Capital | 6,000 | 6,000 |
| Interest Expense | (119,045) | (121,020) |
| Principal Paid on Long-Term Debt | (45,000) | (35,000) |
| Acquisition of Capital Assets | (43,134) | (60,316) |
| Paying Agent Fees | (150) | (150) |
| | <u>(201,329)</u> | <u>(210,486)</u> |
| <u>Net Cash Used by Capital and Related Financing Activities</u> | | |
| <u>Cash Flows From Investing Activities</u> | | |
| Increase in Investments | (100,537) | - |
| Earnings on Investments | 4,557 | 4,260 |
| | <u>(95,980)</u> | <u>4,260</u> |
| <u>Net Cash Provided (Used) by Investing Activities</u> | | |
| <u>Net Change in Cash and Cash Equivalents</u> | (72,533) | (9,457) |
| <u>Cash and Cash Equivalents at Beginning of Year</u> | 314,382 | 323,839 |
| <u>Cash and Cash Equivalents at End of Year</u> | <u>241,849</u> | <u>314,382</u> |

Exhibit 3 (Continued)

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|---------------|---------------|
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</u> | | |
| Operating Income (Loss) | 3,597 | (4,904) |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities | | |
| Depreciation | 26,597 | 26,597 |
| Changes in Assets and Liabilities: | | |
| Receivables | (10,369) | (8,516) |
| Prepaid Expenses | (1,735) | 1,269 |
| Revegetation Escrow | (1,242) | - |
| Accounts Payable | 23,260 | 3,756 |
| Accrued Interest Payable | (210) | (160) |
| Deferred Revenue | 7,927 | 8,750 |
| <u>Net Cash Provided by Operating Activities</u> | <u>47,825</u> | <u>26,792</u> |

Noncash Investing, Capital, and Financing Activities:

The noncash financing activities for 2004 and 2003 represents the amortization of the District bond issuance costs and organization costs. The amount of the amortization was \$5,031 in 2004 and 4,665 in 2003.

The accompanying notes are an integral part of these financial statements.

Exhibit 3

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 1 - Summary of Significant Accounting Policies

The financial statements of East Boulder County Water District have been prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the District's accounting policies are described below.

Form of Organization

East Boulder County Water District (the District) is organized under the provisions of Section 32-1-305 (6) C.R.S. It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof which included the power to levy taxes against property within the District.

Financial Reporting Entity

For financial reporting purposes, management has considered all potential component units. The District meets the criteria of an "other stand alone government" as defined in GASB NO. 14.

Basis Financial Statements

The District is a special-purpose government engaged only in business-type activities. For these governments, only enterprise fund financial statements are presented.

Basic of Accounting

The District accounts for its financial operations as a proprietary fund recognizing assets, liabilities, revenues and expenses on the accrual basis of accounting. Accordingly, revenues and expenses are recognized in the period earned or incurred.

Budgets and Budgetary Accounting

An annual budget and appropriation resolution is adopted by the Board of Directors in accordance with the State Statutes. The budget is prepared on a basis consistent with generally accepted accounting principles except that capital asset additions and principal payments are budgeted as expenditures and debt proceeds are budgeted as revenues.

1. On or about October 15, the Water District staff submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at regular Board meetings to obtain taxpayer comments.
3. Prior to December 15, the budget is legally adopted by the Board of Directors.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Budgets and Budgetary Accounting (Continued)

4. Unused appropriations lapse at the end of each year.
5. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Board of Directors throughout the year. Following is a summary of the original budget, total revisions and revised budget for 2004:

| | <u>Original Budget</u> | <u>Total Revisions</u> | <u>Revised Budget</u> |
|---------------------------|----------------------------|----------------------------|---------------------------|
| Enterprise Fund | 202,155 | - | 202,155 |
| Capital Fund | 185,000 | - | 185,000 |
| Debt Service Fund | <u>168,359</u> | <u>-</u> | <u>168,359</u> |
| <u>District Total</u> | <u>555,514</u> | <u>-</u> | <u>555,514</u> |

The following is a reconciliation of GAAP basis Change in Net Assets to budget basis Change in Net Assets:

| | <u>2004</u> | <u>2003</u> |
|---|------------------|---------------------|
| <u>Change in Net Assets</u> | 66,878 | 49,498 |
| Add: Depreciation | 26,597 | 26,597 |
| Amortization of Organization Costs | 3,387 | 3,386 |
| Less: Capital Outlay | (43,134) | (60,316) |
| Debt Principal Paid | <u>(45,000)</u> | <u>(35,000)</u> |
| <u>Budget Basis Revenues Over</u> <u>Budget Basis Expenditures</u> | <u>8,728</u> | <u>(15,835)</u> |

Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

The District's investments are carried at fair value plus accrued interest with net appreciation or depreciation on investments included in earnings on investments.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost. Expenditures for maintenance and repairs are charged to operations as incurred. Property replacements and improvements, which extend the lives of assets, are capitalized and subsequently depreciated. Contributed assets are reported at their fair market value at the date received. Additions to capital assets during 2004 include no capitalized interest.

The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets. The lives used are as follows:

| | <u>Years</u> |
|---------------------|--------------|
| Distribution System | 50 |

Depreciation expense total \$26,597, and \$26,597 for the years ended December 31, 2004 and 2003, respectively.

Intangible Assets

Issuance costs and discounts related to the 2000 general obligation bonds have been capitalized and are being amortized over the life of the bonds using the straight-line method based upon the amount of principal retired each year. Amortization of such fees totaled \$1,645 and \$1,279 for the years ended December 31, 2004 and 2003 respectively. Organization costs are being amortized over five years on the straight-line method at \$3,386 per year.

Note 2 - Cash and Investments

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 is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

Investments

Colorado Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest:

Obligations of the United States and Certain U.S. government agency securities

Certain international agency securities

General obligation and revenue bonds of U.S. local government entities

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 2 - Cash and Investments (Continued)

- Banker's acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The District's cash accounts are categorized below to give an indication of the level of credit risk assumed by the District at year end. Category 1 includes cash accounts that are insured or registered or for which the securities are held by the entity or its agent in the District's name. Category 2 includes uninsured and unregistered cash accounts for which the securities are held by the pledging financial institution's trust department or agent in the District's name. Category 3 includes uninsured and unregistered cash accounts that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name. Cash accounts in local government investment pools or in money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The District's investments are categorized below to give an indication of the level of credit risk assumed by the District at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department of agent but not in the District's name. Investments in local government investment pools or in money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

| | <u>Category</u> | | | <u>Carrying</u> | <u>Market</u> |
|----------------------------|-----------------|------------|----------|-----------------|----------------|
| | <u>1</u> | <u>2</u> | <u>3</u> | <u>Amount</u> | <u>Value</u> |
| Checking | 55,346 | - | - | 55,346 | 55,346 |
| Certificate of Deposit | <u>100,000</u> | <u>537</u> | <u>-</u> | <u>100,537</u> | <u>100,537</u> |
| <u>Total</u> | <u>155,346</u> | <u>537</u> | <u>-</u> | 155,883 | <u>155,883</u> |
| Cash with County Treasurer | | | | 1,042 | |
| COLOTRUST | | | | <u>185,461</u> | |
| <u>Total</u> | | | | <u>342,386</u> | |

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 2 - Cash and Investments (Continued)

At December 31, 2004, the District has a cash balance of \$155,883 in financial institutions of which \$537 exceeds federal depository insurance limits.

At December 31, 2004, the District had invested \$185,461 in the Colorado Government Liquid Asset Trust (COLOTRUST, an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U. S. Treasury securities. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST and repurchase agreement collateral are held by the Federal Reserved Bank in the account maintained for the custodial bank. The Custodian's internal records identify the investment held by COLOTRUST.

Note 3 - Capital Assets

The following is a summary of Capital Assets as of December 31, 2004:

| | <u>Capital Assets 12/31/03</u> | <u>Additions</u> | <u>Deletions</u> | <u>Capital Assets 12/31/04</u> |
|--|--|------------------|------------------|--|
| Capital Assets, Not Being Depreciated: | | | | |
| Construction in Progress | 60,316 | 43,134 | - | 103,450 |
| Total Capital Assets, Not Being Depreciated | <u>60,316</u> | <u>43,134</u> | <u>-</u> | <u>103,450</u> |
| Capital Assets, Being Depreciated: | | | | |
| Distribution System | 1,329,878 | - | - | 1,329,878 |
| Total Capital Assets, Being Depreciated | <u>1,329,878</u> | <u>-</u> | <u>-</u> | <u>1,329,878</u> |
| Less Accumulated Depreciation for: | | | | |
| Distribution System | (60,604) | (26,597) | - | (87,201) |
| Total Accumulated Depreciation | <u>(60,604)</u> | <u>(26,597)</u> | <u>-</u> | <u>(87,201)</u> |
| Total Capital Assets, Being Depreciated, Net | <u>1,269,274</u> | <u>(26,597)</u> | <u>-</u> | <u>1,242,677</u> |
| Capital Assets, Net | <u>1,329,590</u> | <u>16,537</u> | <u>-</u> | <u>1,346,127</u> |

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 4 - Long-Term Debt

\$1,995,000 March 1, 2000, general obligation bonds due in installments of \$55,000 in 2005, increasing to \$190,000 in 2019. Interest varies from 5.00% to 6.50%.

Balance December 31, 2004 \$1,875,000

A summary of changes in debt is as follows:

| | <u>Balance</u> <u>12-31-03</u> | <u>Additions</u> | <u>Debt</u> <u>Retired</u> | <u>Balance</u> <u>12-31-04</u> | <u>Due Within</u> <u>One Year</u> |
|--------------------|-----------------------------------|------------------|-------------------------------|-----------------------------------|--------------------------------------|
| 2000 Revenue Bonds | 1,920,000 | - | 45,000 | 1,875,000 | 55,000 |

Future annual principal and interest requirements are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------|------------------|------------------|------------------|
| 2005 | 55,000 | 116,735 | 171,735 |
| 2006 | 70,000 | 113,628 | 183,628 |
| 2007 | 80,000 | 109,638 | 189,638 |
| 2008 | 95,000 | 105,038 | 200,038 |
| 2009 | 110,000 | 99,528 | 209,528 |
| 2010-2014 | 620,000 | 394,308 | 1,014,308 |
| 2015-2019 | <u>845,000</u> | <u>171,600</u> | <u>1,016,600</u> |
| <u>Total</u> | <u>1,875,000</u> | <u>1,110,475</u> | <u>2,985,475</u> |

Note 5 - Risk Management

The District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for all risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeds commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Notes to Financial Statements
December 31, 2004

Note 6 - TABOR Compliance

In November 1992, Colorado voter passed an amendment (Amendment One) to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the District under specified voting requirements by the entire electorate.

The amendment also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by the amendment, excludes economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The District has set aside \$2,721 for emergencies as defined by TABOR.

The District believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions will require judicial interpretation.

Note 7 - Changes in Accounting Principles

For the year ended December 31, 2004, the District implemented GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB 34) and other applicable GASB. This statement affects the manner in which the District records transactions and presents financial information.

State and local governments have traditionally used a financial reporting model substantially different from the one used to prepare private-sector financial reports. GASB 34 establishes new requirements and a new reporting model, much like private-sector financial reports, for the annual financial reports of state and local governments. The new format was developed to make annual reports of state and local governments easier to understand and more useful to users of governmental financial information.

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Schedule of Expenses
For the Years Ended December 31, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|--|---------------|---------------|
| <u>Operating Expenses</u> | | |
| Meter Reading | 2,100 | 1,550 |
| Miscellaneous | 168 | 746 |
| System Maintenance | 4,438 | 11,018 |
| Utilities | 1,972 | 1,621 |
| Water Purchased | <u>34,159</u> | <u>34,377</u> |
| <u>Total Operating Expenses</u> | <u>42,837</u> | <u>49,312</u> |
| <u>Administrative and General Expenses</u> | | |
| Audit | 2,250 | 2,250 |
| Bank Service Charges | 158 | 176 |
| Bookkeeping Fees | 4,103 | 3,200 |
| Due and Subscriptions | 413 | 398 |
| Election Expense | 192 | - |
| Insurance | 2,282 | 1,865 |
| Legal | 1,139 | 1,085 |
| Meeting Expense | 800 | 800 |
| Office Expense | 1,395 | 955 |
| Payroll Taxes | <u>389</u> | <u>707</u> |
| <u>Total Administrative and General Expenses</u> | <u>13,121</u> | <u>11,436</u> |

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Schedule of Budget Comparison (Non-GAAP Budgetary Basis)
Year Ended December 31, 2004
With Comparative Actual Amounts for the Year Ended December 31, 2003

| | <u>2004</u> | | | |
|------------------------------------|--|----------------|---|------------------------|
| | <u>Original and Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Positive (Negative)</u> | <u>2003 Actual</u> |
| <u>Water Enterprise Operations</u> | | | | |
| <u>Revenues</u> | | | | |
| Tap Fees | 138,625 | 83,175 | (55,450) | 75,675 |
| Standby Fee | 5,700 | 5,775 | 75 | 5,850 |
| Usage Charges | 80,000 | 79,096 | (904) | 75,937 |
| Other Fees and Charges | 180 | 1,281 | 1,101 | 654 |
| Interest Income | 1,200 | 4,354 | 3,154 | 2,939 |
| Other Tax Revenue | 8,500 | 12,017 | 3,517 | 13,978 |
| <u>Total Revenues</u> | <u>234,205</u> | <u>185,698</u> | <u>(48,507)</u> | <u>175,033</u> |
| <u>Expenditures</u> | | | | |
| Audit | 2,250 | 2,250 | - | 2,250 |
| Bank Charges | 250 | 158 | 92 | 176 |
| Bookkeeping | 3,600 | 4,103 | (503) | 3,200 |
| Dues and Subscriptions | 500 | 413 | 87 | 398 |
| Election Expense | 80 | 192 | (112) | - |
| Insurance | 2,000 | 2,282 | (282) | 1,865 |
| Legal | 1,500 | 1,139 | 361 | 1,085 |
| Maintenance | 15,000 | 4,438 | 10,562 | 11,018 |
| Meetings | 800 | 800 | - | 800 |
| Meter Reading | 1,800 | 2,100 | (300) | 1,550 |
| Miscellaneous | 100 | 168 | (68) | 746 |
| Office | 1,200 | 1,395 | (195) | 955 |
| Payroll Taxes | 950 | 389 | 561 | 707 |
| Tap Fees - Layfayette Share | 128,625 | 77,175 | 51,450 | 69,675 |
| Utilities | 3,500 | 1,972 | 1,528 | 1,621 |
| Water Purchase | 40,000 | 34,159 | 5,841 | 34,377 |
| <u>Total Expenditures</u> | <u>202,155</u> | <u>133,133</u> | <u>69,022</u> | <u>130,423</u> |
| <u>Excess of Water Enterprise</u> | | | | |
| <u>Operating Revenues Over</u> | | | | |
| <u>Water Enterprise</u> | | | | |
| <u>Operating Expenditures</u> | <u>32,050</u> | <u>52,565</u> | <u>20,515</u> | <u>44,610</u> |
| <u>Capital</u> | | | | |
| <u>Revenues</u> | | | | |
| Line Extension Charges | - | - | - | - |
| <u>Total Revenues</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

Schedule 2

EAST BOULDER COUNTY WATER DISTRICT
Boulder, Colorado
Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2004
With Comparative Actual Amounts For Year Ended December 31, 2003

| | <u>2004</u> | | Variance with Final Budget Positive (Negative) | <u>2003 Actual</u> |
|--|--|-----------------|---|------------------------|
| | <u>Original and Final Budget</u> | <u>Actual</u> | | |
| <u>Capital (Continued)</u> | | | | |
| <u>Expenditures</u> | | | | |
| Engineering | 17,500 | 10,945 | 6,555 | 10,652 |
| System Construction` | 167,500 | 32,189 | 135,311 | 49,664 |
| <u>Total Expenditures</u> | <u>185,000</u> | <u>43,134</u> | <u>141,866</u> | <u>60,316</u> |
| <u>Excess (Deficiency) of Capital Revenues Over Capital Expenditures</u> | <u>(185,000)</u> | <u>(43,134)</u> | <u>141,866</u> | <u>(60,316)</u> |
| <u>Debt Service</u> | | | | |
| <u>Revenues</u> | | | | |
| Taxes | 167,985 | 167,453 | (532) | 159,527 |
| Interest Income | 203 | 203 | - | 203 |
| <u>Total Debt Service Revenues</u> | <u>168,188</u> | <u>167,656</u> | <u>(532)</u> | <u>159,730</u> |
| <u>Expenditures</u> | | | | |
| Treasurer Fees | 2,520 | 2,520 | - | 2,410 |
| Paying Agent Fees | 150 | 150 | - | 150 |
| Amortization of Bond Issuance Costs | 1,644 | 1,644 | - | 1,279 |
| Interest Expense | 119,045 | 119,045 | - | 121,020 |
| Principal Paid | 45,000 | 45,000 | - | 35,000 |
| <u>Total Debt Service Expenditures</u> | <u>168,359</u> | <u>168,359</u> | <u>-</u> | <u>159,859</u> |
| <u>Excess of Debt Service Revenues Over Debt Service Expenditures</u> | <u>(171)</u> | <u>(703)</u> | <u>(532)</u> | <u>(129)</u> |
| <u>Total District Revenues</u> | <u>402,393</u> | <u>353,354</u> | <u>(49,039)</u> | <u>334,763</u> |
| <u>Total District Expenditures</u> | <u>555,514</u> | <u>344,626</u> | <u>210,888</u> | <u>350,598</u> |
| <u>Excess (Deficiency) of District Revenues Over District Expenditures</u> | <u>(153,121)</u> | <u>8,728</u> | <u>161,849</u> | <u>(15,835)</u> |

Schedule 2