

# East Boulder County Water District



**Financial Statements  
and Supplementary Information  
For the Year Ended December 31, 2011**



## Table of Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 6
<b><u>Basic Financial Statements:</u></b>	
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 15
<b><u>Other Supplementary Information:</u></b>	
Schedule of Expenses	16
Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis)	17 - 18



## INDEPENDENT AUDITORS= REPORT

Board of Directors  
East Boulder County Water District

We have audited the accompanying financial statements of the East Boulder County Water District (the "District") as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the East Boulder County Water District as of December 31, 2011, and the changes in financial position and cash flows thereof for the year 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 that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The schedule of expenses and schedule of revenues and expenditures - budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Anton Collins Mitchell LLP*

Greeley, Colorado  
July 9, 2012

**East Boulder County Water District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

The East Boulder County Water District ("EBCWD" or the "District") is hereby submitting its Annual Financial Report for the fiscal year ending December 31, 2011. The report has been prepared in compliance with Statements of the Governmental Accounting Standards Board No. 34, entitled "Basic Financial Statements – Management's Discussion and Analysis - For State and Local Governments" (hereafter "GASB 34"), and related standards. The accuracy, completeness and fairness of the report, including all disclosures, are the responsibility of the District. The District believes the report is complete and accurate in all material respects.

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

Management's Discussion and Analysis ("MD&A") should be read in conjunction with the District's basic financial statements (beginning on page 7).

**2011 Highlights - Business-Type Activities**

- As of December 31, 2011, net assets were \$2,414,230, an increase of \$150,949 or 6.7% when compared to 2010.
- Total operating revenues increased to \$134,343 during 2011, which was \$35,016 or (20.7%) less when compared to 2010.
- Total operating expenses were \$150,777, an increase of \$3,498 or 2.4% in 2011 when compared to 2010.
- Net capital assets were \$3,447,516 at December 31, 2011 compared to \$3,312,141 in 2010 for a increase of \$135,375 or 4.1%.
- Long-term debt decreased to \$1,445,000 during 2011, which was \$150,000 or (9.4%) less when compared to 2010.

**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 page 7).

**Statement of Revenues, Expenses and Changes in 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 8).

**Statement of Cash Flows** - reports the District's cash flows from operating, investing, capital and non-capital activities. (See page 9).

**East Boulder County Water District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Statements of Net Assets**

The net assets of the District increased to \$2,414,230 during 2011, a \$150,949 increase over 2010. Capital assets increased during 2011 from 2010 due to capital additions of \$175,051 and depreciation expense of \$39,676. Long-term debt decreased primarily as a result of the retirement of \$150,000 of principal related to the 2010 general obligation bonds.

<b>December 31</b>	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>Assets</b>		
Current assets	\$ 550,427	\$ 680,994
Capital assets	3,447,516	3,312,141
Other assets	45,039	53,910
	<u>4,042,982</u>	<u>4,047,045</u>
<b>Total assets</b>		
Current liabilities	307,116	325,709
Non-current liabilities	1,321,636	1,458,055
	<u>1,628,752</u>	<u>1,783,764</u>
<b>Total liabilities</b>		
<b>Net assets</b>		
Invested in capital assets, net of related debt	1,990,880	1,717,141
Restricted:		
Emergency reserve	5,653	5,653
Debt service	37,958	67,225
Unrestricted	379,739	473,262
	<u>379,739</u>	<u>473,262</u>
<b>Total net assets</b>		
	<u><u>\$ 2,414,230</u></u>	<u><u>\$ 2,263,281</u></u>

**East Boulder County Water District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Review of Revenues**

<b>Year ending, December 31</b>	<b>2011</b>	<b>2010</b>
<u>Operating revenues</u>		
Charges for services	\$ 134,343	\$ 169,359
<u>Non-operating revenues</u>		
Property and specific ownership taxes	175,273	219,529
Earnings on investments	674	3,695
Miscellaneous income	-	767
<u>Capital contributions</u>	45,976	-
<u>Total revenues</u>	<u>\$ 356,266</u>	<u>\$ 393,350</u>

Charges for services were \$134,343 or 105.3% of budget and a decrease of \$35,016 compared to 2010. Earnings on investments were down \$3,021 or (81.8%) when compared to 2011.

**Review of Expenses**

<b>Year ending, December 31</b>	<b>2011</b>	<b>2010</b>
<u>Operating expenses</u>		
Operating expenses	\$ 96,411	\$ 95,442
Administrative and general	14,690	16,951
Depreciation	39,676	34,886
<u>Subtotal</u>	<u>150,777</u>	<u>147,279</u>
Interest expense	51,670	189,641
County treasurer and paying agent fees	2,870	3,146
<u>Subtotal</u>	<u>54,540</u>	<u>192,787</u>
<u>Total expenses</u>	<u>\$ 205,317</u>	<u>\$ 340,066</u>

Operating expenses increased 2.4% in 2011 compared to 2010. Budget constraints held many costs even with the previous year or down slightly.

**East Boulder County Water District  
Management's Discussion and Analysis  
For the Year Ended December 31, 2011**

**Capital Assets (Net of Depreciation) and Debt Administration**

December 31,	2011	2010	% Change
Distribution system	1,753,759	1,618,384	8.4%
System inclusion fees	1,693,757	1,693,757	0.0%
<u>Total</u>	<u>3,447,516</u>	<u>3,312,141</u>	

During 2011 the District expended \$175,051 on line extension improvements.

**Debt and Other Financial Obligations**

The balance in the District's long-term debt was \$1,445,000 and \$1,595,000 as of December 31, 2011 and 2010, respectively. The decrease was due to the retirement of \$150,000 in principal on the 2010 general obligation bonds during 2011. (See page 14).

**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 Intergovernmental Agreement ("IGA")** - 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, P.O. Box 18641, Boulder, Colorado 80308.



## **BASIC FINANCIAL STATEMENTS**

**East Boulder County Water District  
Statement of Net Assets  
December 31, 2011**

ASSETS

<u>Current assets</u>	
Cash and cash equivalents	\$ 387,475
Accounts receivable	7,591
Property taxes receivable	154,998
Prepaid items	<u>363</u>
<u>Total current assets</u>	<u>550,427</u>
<u>Non-current assets</u>	
<u>Capital assets</u>	
Distribution system, net of accumulated depreciation	1,753,759
System inclusion fee	<u>1,693,757</u>
<u>Total capital assets</u>	3,447,516
<u>Other assets</u>	
Debt issuance costs	<u>45,039</u>
<u>Total non-current assets</u>	<u>3,492,555</u>
<u>Total assets</u>	<u>4,042,982</u>

LIABILITIES

<u>Current liabilities</u>	
Current portion of long-term liabilities	135,000
Accounts payable	13,720
Accrued interest payable	3,398
Deferred revenue	<u>154,998</u>
<u>Total current liabilities</u>	<u>307,116</u>
<u>Non-current liabilities</u>	
General obligation bond payable	<u>1,321,636</u>
<u>Total liabilities</u>	<u>1,628,752</u>

NET ASSETS

<u>Net assets</u>	
Invested in capital assets, net of related debt	1,990,880
Restricted	
Emergency reserve	5,653
Debt service	37,958
Unrestricted	<u>379,739</u>
<u>Total net assets</u>	<u>\$ 2,414,230</u>

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

**East Boulder County Water District**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended December 31, 2011**

<u>Operating revenues</u>	
Water sales	\$ 131,981
Other income	2,362
	134,343
<u>Total operating revenues</u>	
<u>Operating expenses</u>	
Operating expenses	96,411
Administrative and general expenses	14,690
Depreciation	39,676
	150,777
<u>Total operating expenses</u>	
<u>Operating loss</u>	(16,434)
<u>Non-operating revenues (expenses)</u>	
Property taxes	167,832
Specific ownership taxes	7,441
Earnings on investments	674
Interest expense	(51,670)
County treasurer fees	(2,520)
Paying agent fees	(350)
	121,407
<u>Total non-operating revenues (expenses)</u>	
<u>Income before contributions</u>	104,973
Capital contributions	45,976
<u>Change in net assets</u>	150,949
<u>Net assets at beginning of year</u>	2,263,281
<u>Net assets at end of year</u>	\$ 2,414,230

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

**East Boulder County Water District  
Statement of Cash Flows  
For the Year Ended December 31, 2011**

<u>Cash flows from operating activities</u>	
Cash received from customers	\$ 135,949
Cash paid to suppliers	(89,435)
Cash paid to employees	(10,182)
<u>Net cash flows from operating activities</u>	<u>36,332</u>
<u>Cash flows from non-capital financing activities</u>	
Taxes	175,273
County treasurer fees	(2,520)
<u>Net cash flows from non-capital financing activities</u>	<u>172,753</u>
<u>Cash flows from capital and related financing activities</u>	
Contributed capital	45,976
Interest expense	(44,532)
Principal paid on long-term debt	(150,000)
Acquisition of capital assets	(175,051)
Paying agent fees	(350)
<u>Net cash flows from capital and related financing activities</u>	<u>(323,957)</u>
<u>Cash flows from investing activities</u>	
Earnings on investments	674
<u>Net cash flows from investing activities</u>	<u>674</u>
<u>Net change in cash and cash equivalents</u>	(114,198)
<u>Cash and cash equivalents at beginning of year</u>	<u>501,673</u>
<u>Cash and cash equivalents at end of year</u>	<u>\$ 387,475</u>
<u>Reconciliation of operating loss to net cash flows from operating activities</u>	
Operating loss	\$ (16,434)
Adjustments to reconcile operating loss to net cash flows from operating activities	
Depreciation	39,676
Changes in assets and liabilities:	
Receivables	1,606
Prepaid Items	1,931
Accounts payable	9,553
<u>Net cash flows from operating activities</u>	<u>\$ 36,332</u>
<u>Non-cash investing, capital, and financing activities:</u>	
Amortization of bond issuance costs	\$ 8,871
Amortization of deferred loss on bond refunding	932
Amortization of bond premium	(3,350)

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

**East Boulder County Water District**  
**Notes to Financial Statements**  
**December 31, 2011**

Note 1 - Summary of Significant Accounting Policies

Form of Organization

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

Reporting Entity

For financial reporting purposes, management has considered all potential component units. The District meets the criteria of an "other stand alone government."

Basic Financial Statements

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

Basis of Accounting

Proprietary funds, which include enterprise funds, are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Therefore, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Revenues and expenses are recorded in the accounting period in which they are earned or incurred, and they become measurable. Total net assets are segregated into amounts invested in capital assets, net of related debt, restricted for emergencies, debt service, and loan reserves, and unrestricted net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net assets. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The District has elected to follow Governmental Accounting Standards Board ("GASB") pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989, are not applied.

Budgets and Budgetary Accounting

An annual budget and appropriation resolution is adopted by the Board of Directors (the "Board") in accordance with state statutes. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America ("GAAP") 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 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.
4. Unused appropriations lapse at the end of each year.

The total appropriated expenditures, original and final, for the District were \$759,390 for the year ended December 31, 2011.

Cash and Cash Equivalents

The District considers all highly liquid investments with original maturities of three months or less which are available for operating expenditures to be cash equivalents.

**East Boulder County Water District**  
**Notes to Financial Statements**  
**December 31, 2011**

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

The District's receivables are due from residential customers within the District service area. The District's policy for collections is limited to the right to discontinue service and to place liens on property. The District has determined that no allowance is necessary at December 31, 2011, based on historical collection experience.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed monthly on 30 day cycles.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the statement of revenues, expenses and changes in net assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water services to its customers. Operating revenues consist of charges to customers for services 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 non-operating revenues and expenses or capital contributions.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items, an asset, in the accompanying financial statements.

Capital Assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expensed.

Depreciation of capital assets is charged as an expense against operations. Depreciation of the distribution system has been provided over the estimated useful life of 50 years using the straight-line method.

Inclusion Fees

Included in other assets is \$1,693,757 which represents inclusion and system enhancement fees paid by the District to the City of Lafayette. This asset has an indefinite life and therefore is not being amortized by the District.

Debt Related Deferrals

Debt issuance costs, premiums, and deferred losses on refunding are capitalized and amortized to interest expense over the life of the debt using the effective interest method. Debt issuance costs are reported as other assets and the deferred loss on refunding and net premiums are presented as an adjustment to the face amount of the debt.

Accrued Compensated Absences Payable

Obligations associated with the District's vacation policy are recorded as a liability and expense when earned to the extent that such benefits vest to the employee. The amount of the accrued and unpaid balance due under this policy is considered a current liability.

The District has no liability for accrued compensated absences at December 31, 2011.

Contributions in Aid of Construction

Contributions of cash, transmission lines and water rights to the District by developers, customers or by agreements with others are treated as capital contributions on the District's statement of revenues, expenses and changes in net assets.

**East Boulder County Water District**  
**Notes to Financial Statements**  
**December 31, 2011**

Note 1 - Summary of Significant Accounting Policies (Continued)

Net Assets

Net assets are classified in the following categories:

***Invested in Capital Assets, Net of Related Debt*** – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

***Restricted Net Assets*** – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

***Unrestricted Net Assets*** – This category represents the net assets of the District, which are not restricted for any project or other purpose. A deficit will require future funding.

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash and Investments

Custodial Credit Risk - Deposits

Colorado state statutes govern the entity's deposits of cash. For deposits in excess of federally insured limits, C.R.S. requires the depository institution to maintain collateral on deposit with an official custodian (as authorized by the State Banking Board). The Colorado Public Deposit Protection Act ("PDPA") requires state regulators to certify eligible depositories for public deposit. PDPA requires the eligible depositories with public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation ("FDIC") to create a single institutional collateral pool of obligations of the State of Colorado or local Colorado governments and obligations secured by first lien mortgages on real property located in the State. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the assets in the pool must be at least 102% of the uninsured deposits. At December 31, 2011, all of the District's cash and cash equivalents were either insured by FDIC or collateralized under PDPA.

Investments

C.R.S. specifies investment instruments meeting defined rating and risk criteria in which special districts may invest which include:

- Certificates of deposit with an original maturity in excess of three months
- Certain obligations of the United States and U.S. Government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

District policy is to hold investments until maturity.

**East Boulder County Water District**  
**Notes to Financial Statements**  
**December 31, 2011**

Note 2 - Cash and Investments (Continued)

Interest Rate Risk

The District's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates is noted above. C.R.S. limit investment maturities to five years or less from the date of purchase. This limit on investments is a means of limiting exposure to fair value losses arising from increasing interest rates.

Local Government Investment Pools

At December 31, 2011, the District had invested \$359,133 in COLOTRUST, a local government investment pools established in Colorado to pool surplus funds for investment purposes. The fund operates similarly to a money market fund and each share is equal in value to \$1.00. The designated custodial bank of the pooled investments provides safekeeping and depository services in connection with the direct investment and withdrawal functions of the pooled investments. All securities owned by pooled investments are held by the Federal Reserve Bank in the account maintained for the custodial banks. Investments of pooled investments consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The final maturity of any and all securities purchased by pooled investments may not exceed one year. Pooled investments are rated AAAM by Standard & Poor's. The investment policy of COLOTRUST does not include investing in derivatives.

Cash deposits held by the District at December 31, 2011, were as follows:

Cash with county treasurer	\$	586
Bank deposits		27,756
Local government investment pool		359,133
		<u>387,475</u>
	<u>\$</u>	<u>387,475</u>

Note 3 - Capital Assets

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
System inclusion fee	\$ 1,693,757	\$ -	\$ -	\$ 1,693,757
Total capital assets, not being depreciated	<u>1,693,757</u>	<u>-</u>	<u>-</u>	<u>1,693,757</u>
Capital assets, being depreciated:				
Distribution system	1,905,167	175,051	-	2,080,218
Total capital assets, being depreciated	<u>1,905,167</u>	<u>175,051</u>	<u>-</u>	<u>2,080,218</u>
Less: accumulated depreciation for:				
Distribution system	(286,783)	(39,676)	-	(326,459)
Total accumulated depreciation	<u>(286,783)</u>	<u>(39,676)</u>	<u>-</u>	<u>(326,459)</u>
Total capital assets, being depreciated, net	<u>1,618,384</u>	<u>135,375</u>	<u>-</u>	<u>1,753,759</u>
Total capital assets, net	<u>\$ 3,312,141</u>	<u>\$ 135,375</u>	<u>\$ -</u>	<u>\$ 3,447,516</u>



**East Boulder County Water District**  
**Notes to Financial Statements**  
**December 31, 2011**

**Note 4 - Long-Term Debt**

\$1,645,000 general obligation refunding and improvement bonds, series 2010 were issued to refund the 2000 general obligation bonds and to finance improvements to the District's distribution system. Interest, with rates ranging from 2.25% to 3.25%, is payable semiannually through December 1, 2020. The bond is a general obligation of the District payable from ad valorem taxes in an amount necessary to pay the principal and interest of the bond.

On March 30, 2010, the District advance refunded the 2000 bond issue and issued \$1,645,000 in general obligation refunding and improvement bonds, with varying interest rates of 2.25% to 3.25%. The bonds were sold at a premium of \$20,359, with associated issuance costs of \$53,910. On March 30, 2010, \$1,458,695 was placed into an escrow account to provide for all future debt service payments on the refunded 2000 general obligation bonds. As a result, \$1,465,000 of the 2000 series bonds were considered to be defeased and the liability for those bonds were reduced by that amount. As of December 31, 2011, the total deferred charges on the general obligation refunding and improvement bonds are \$5,373, representing the amortized difference between the amounts placed in escrow, and the amount defeased.

A summary of changes in debt during the year ended December 31, 2011, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2010 general obligation bond	\$ 1,595,000	\$ -	\$ (150,000)	\$ 1,445,000	\$ 135,000
Current portion of long-term debt				(135,000)	
Net bond premiums				17,009	
Unamortized deferred loss on bond refunding				<u>(5,373)</u>	
Noncurrent portion of long-term debt				<u>\$ 1,321,636</u>	

The annual requirements to amortize debt outstanding as of December 31, 2011, are as follows

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 135,000	\$ 40,781	\$ 175,781
2013	150,000	37,744	187,744
2014	155,000	34,369	189,369
2015	150,000	30,881	180,881
2016	160,000	27,131	187,131
2017-2020	<u>695,000</u>	<u>55,181</u>	<u>750,181</u>
<u>Total</u>	<u>\$ 1,445,000</u>	<u>\$ 226,087</u>	<u>\$ 1,671,087</u>

**East Boulder County Water District  
Notes to Financial Statements  
December 31, 2011**

**Note 5 - Reconciliation of Budget Basis Accounting to GAAP Financial Statements**

The District prepares its annual budget on a non-GAAP basis of accounting. Below is a reconciliation of the budget basis accounting to GAAP basis:

Changes in net assets (GAAP basis)	\$	150,949
Add: depreciation		39,676
Less: capital outlay		(175,051)
principal paid		(150,000)
		(150,000)
<u>Deficiency of budget basis revenues over budget basis expenditures</u>	<u>\$</u>	<u>(134,426)</u>

**Note 6 - 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 covering specific and general risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage.

**Note 7 - TABOR Compliance**

In November 1992, Colorado voters passed an amendment (the "Amendment" or "TABOR") 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, exclude 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 \$5,653 as of December 31, 2011, 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 8 - Subsequent Events**

Management of the District has evaluated subsequent events through July 9, 2012, the date that the financial statements were available to be issued. No transactions or events that would require adjustment to or disclosure in the financial statements were identified.

**OTHER SUPPLEMENTARY INFORMATION**

**East Boulder County Water District  
Schedule of Expenses  
For the Year Ended December 31, 2011**

Operating expenses

Water purchases	\$ 72,070
System maintenance	6,721
Utilities	6,019
Maintenance labor	4,283
Meter reading	3,306
Miscellaneous	3,085
Water testing	927
	<hr/>

Total operating expenses \$ 96,411

Administrative and general expenses

Bookkeeping fees	\$ 4,585
Director's fees	2,950
Insurance	2,243
Office expense	1,705
Payroll taxes	801
Meeting expense	800
Accounting fees	550
IT consultant	525
Dues and subscriptions	478
Legal	53
	<hr/>

Total administrative and general expenses \$ 14,690

See accompanying Independent Auditors' Report.

**East Boulder County Water District**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**(Budgetary Basis)**  
**For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Water enterprise operations</u>				
<u>Revenues</u>				
Usage charges	\$ 125,000	\$ 125,000	\$ 131,981	\$ 6,981
Capital contributions	135,694	135,694	45,976	(89,718)
Other tax revenue	7,000	7,000	7,441	441
Standby fee	2,250	2,250	1,596	(654)
Other fees and charges	300	300	766	466
Earnings on investment	800	800	134	(666)
<u>Total revenues</u>	<u>271,044</u>	<u>271,044</u>	<u>187,894</u>	<u>(83,150)</u>
<u>Expenditures</u>				
Capital outlay	105,237	105,237	175,051	(69,814)
Water purchase	90,000	90,000	72,070	17,930
Maintenance	10,000	10,000	6,721	3,279
Utilities	6,500	6,500	6,019	481
Bookkeeping	5,000	5,000	4,585	415
Maintenance labor	3,500	3,500	4,283	(783)
Meter reading	3,600	3,600	3,306	294
Miscellaneous	500	500	3,085	(2,585)
Director's fees	3,000	3,000	2,950	50
Insurance	2,900	2,900	2,243	657
Office	1,500	1,500	1,705	(205)
Water testing	1,000	1,000	927	73
Payroll taxes	568	568	801	(233)
Meetings	800	800	800	-
Accounting fees	3,700	3,700	550	3,150
IT consultant	-	-	525	(525)
Dues and subscriptions	500	500	478	22
Legal	1,000	1,000	53	947
Systems operations backup	3,000	3,000	-	3,000
Contingency	289,619	289,619	-	289,619
Lafayette tap fees	28,457	28,457	-	28,457
<u>Total expenditures</u>	<u>560,381</u>	<u>560,381</u>	<u>286,152</u>	<u>274,229</u>
<u>Deficiency of enterprise revenues over expenditures</u>	<u>\$ (289,337)</u>	<u>\$ (289,337)</u>	<u>\$ (98,258)</u>	<u>\$ 191,079</u>

See accompanying Independent Auditors' Report.

**East Boulder County Water District**  
**Schedule of Revenues and Expenditures - Budget and Actual**  
**(Budgetary Basis)**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Debt service</u>				
<u>Revenues</u>				
Taxes	\$ 164,457	\$ 164,457	\$ 167,832	\$ 3,375
Earnings on investment	600	600	540	(60)
<u>Total revenues</u>	<u>165,057</u>	<u>165,057</u>	<u>168,372</u>	<u>3,315</u>
<u>Expenditures</u>				
Principal paid	150,000	150,000	150,000	-
Interest expense	46,341	46,341	51,670	(5,329)
Treasurer fees	2,467	2,467	2,520	(53)
Paying agent fees	150	150	350	(200)
Contingency	51	51	-	51
<u>Total expenditures</u>	<u>199,009</u>	<u>199,009</u>	<u>204,540</u>	<u>(5,531)</u>
<u>Deficiency of debt service revenues over expenditures</u>	<u>\$ (33,952)</u>	<u>\$ (33,952)</u>	<u>\$ (36,168)</u>	<u>\$ (2,216)</u>
<u>Total district revenues</u>	\$ 436,101	\$ 436,101	\$ 356,266	\$ (79,835)
<u>Total district expenditures</u>	<u>759,390</u>	<u>759,390</u>	<u>490,692</u>	<u>268,698</u>
<u>Deficiency of district revenues over expenditures</u>	<u>\$ (323,289)</u>	<u>\$ (323,289)</u>	<u>\$ (134,426)</u>	<u>\$ 188,863</u>

See accompanying Independent Auditors' Report.