

**Eagle River Water and Sanitation District
Vail, Colorado**

**Financial Statements
December 31, 2013**

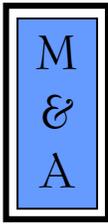


Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District
Financial Statements
December 31, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Eagle River Water and Sanitation District

We have audited the accompanying financial statements of the Eagle River Water and Sanitation District (the "District"), as of and for the year ended December 31, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Eagle River Water and Sanitation District as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Member: American Institute of Certified Public Accountants

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Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis in Section B 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 Management's Discussion and Analysis in Section B 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.

The budgetary comparison and debt service schedules in section E are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The budgetary comparison and debt service schedules have 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 statement 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The statistical data in Section F are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**McMahan and Associates, L.L.C.
July 29, 2014**

MANAGEMENT'S DISCUSSION AND ANALYSIS



Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013**

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

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the District's financial statements.

Financial Highlights

In 2013, overall net position decreased by approximately \$0.1 million. As part of the long term capital improvement program, the District spent cash on capital assets of \$9.3 million (capital outlay). This construction was partially funded by the 2012 bond proceeds. The remaining proceeds from the 2012 bonds are held as restricted cash and investments at December 31, 2013. In addition, the District's capital assets were depreciated \$7.6 million.

The District's 2013 financial activity generates a \$7.5 million increase in net position prior to the depreciation on capital assets. In accordance with Generally Accepted Accounting Principles (GAAP), \$7.6 million of capital asset depreciation is expensed, which does not represent cash funding for capital assets in the current period. The net result is an decrease in net position of \$0.1 million for 2013, compared to \$0.4 million increase in 2012.

In 2013, total revenues were \$26.5 million, which is an increase of \$0.3 million over 2012 levels. Service fees revenue increased \$0.8 million. This was a direct result of a planned increase in the service rates. Tap fees and other developer contributions declined \$0.3 million.

In 2013, total expenses increased \$0.8 million. The increase is largely attributable to the increase in interest expense associated with the new debt issued in 2012.

The water service rate structure is designed to encourage wise use of water and is based upon the customer's Single Family Equivalent (SFE) usage. Water service rates in 2013 were increased 3.7% from 2012 rates. The water service base rate is \$14.54 per SFE. The usage rates for tier one (0 to 10,999 gallons) is \$2.50 per 1,000 gallons. The usage rates for tier two (11,000 to 40,999 gallons) and tier three (41,000 and over) are \$4.25 and \$6.36 per 1,000 gallons, respectively. The Debt Service base rate is established to provide a reliable revenue source for repayment of the 2009 Water bonds. For 2013 this rate was established at \$7.23, decreased from the 2012 rate of \$7.27 per month per SFE.

Wastewater service rate for 2013 were increased 3.9% to \$5.06 per 1,000 gallons of treatment in the winter months. A 5,000 gallon per month minimum, per SFE, applies to all customers. A Debt Service base rate has been established to provide a reliable revenue source for repayment of the 2009 Wastewater bonds. For 2013 this rate was established at \$3.07 per month per SFE.

Overview of the Financial Statements

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.

The *Statements of Net Position* present information on all of the District's assets and liabilities, with the difference between the two 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 *Statements of Revenues, Expenses and Changes in Net Position* present 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

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013
(continued)**

timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, capital and related financing, and investing activities.

These financial statements distinguish functions of the District that will be principally supported by service charges and Taxes. The functions of the District include effective and economical operation of water and wastewater sanitation systems within the jurisdictional boundaries of the District. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION

	2013			2012		
	Water	Sanitation	Total	Water	Sanitation	Total
Assets:						
Current and other assets	\$ 14,792,034	44,182,960	58,974,994	16,432,053	47,697,938	64,129,991
Capital assets, net	35,504,927	103,013,230	138,518,157	34,378,544	102,206,450	136,584,994
Total Assets	50,296,961	147,196,190	197,493,151	50,810,597	149,904,388	200,714,985
Deferred Outflow of Resources:						
Deferred charge on refunding	600,178	-	600,178	643,184	-	643,184
Total Deferred Outflow of Resources	600,178	-	600,178	643,184	-	643,184
Liabilities:						
Other liabilities	486,842	3,486,106	3,972,948	412,830	3,228,859	3,641,689
Long-term liabilities	25,585,141	53,000,980	78,586,121	26,550,465	55,486,780	82,037,245
Total Liabilities	26,071,983	56,487,086	82,559,069	26,963,295	58,715,639	85,678,934
Deferred Inflow of Resources:						
Unavailable property tax revenue	1,333,760	1,864,222	3,197,982	1,373,329	1,873,671	3,247,000
Total Deferred Inflow of Resources	1,333,760	1,864,222	3,197,982	1,373,329	1,873,671	3,247,000
Net Position:						
Net investment in capital assets	12,116,260	68,304,835	80,421,095	12,439,024	70,749,199	83,188,223
Restricted:						
Debt	830,905	6,605,066	7,435,971	831,072	7,624,087	8,455,159
Unrestricted	10,544,231	13,934,981	24,479,212	9,847,061	10,941,792	20,788,853
Total Net Position	\$ 23,491,396	88,844,882	112,336,278	23,117,157	89,315,078	112,432,235

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$23.5 million and \$88.8 million for water and sanitation, respectively, as of December 31, 2013 and \$23.1 million and \$89.3 million for water and sanitation, respectively, as of December 31, 2012.

The largest portion of the District's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the District's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013
(continued)**

During 2013, overall net position decreased \$0.1 million.

Current and other assets decreased \$5.1 million. The major reason for this decrease is the \$9.3 million cash (capital outlay) spent on capital assets.

In 2013, total net capital assets are \$138.5 million, increased by \$1.9 million from the 2012 amount of \$136.6 million. Net capital assets increased \$1.9 million which consisted of an increase from net additions/disposals of \$9.5 million, offset by a decrease of \$7.6 million in depreciation expense.

Total liabilities decreased \$3.1 million. Long-term liabilities decreased \$3.4 million as a result of the regular scheduled debt service payments.

During 2012, overall net position increased \$0.4 million.

Current and other assets increased \$29.4 million. The major reason for this increase is the issuance of 2012 bonds in December of \$29 million. The bond proceeds from these 2012 issuance was held as cash at December 31, 2012 for capital construction projects in future years.

Net capital asset additions and deletions of \$7.6 million were part of the District's long term capital improvement program. These additions were offset by normal depreciation expense of approximately \$6.9 million.

Total liabilities increased \$30.4 million. Long-term liabilities increased \$30.5 million as a result of bond issues in 2012 for the long term capital program. In addition, the regular scheduled debt service payments were made and the 2004 general obligation bonds were refunded.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013
(continued)**

REVIEW OF REVENUES

	2013			2012		
	Water	Sanitation	Total	Water	Sanitation	Total
Revenues:						
Operating revenues:						
Service fees	\$ 4,701,357	11,301,360	16,002,717	4,407,946	10,807,864	15,215,810
Contract services	-	3,853,745	3,853,745	-	3,783,445	3,783,445
Meter sales and rentals	-	861,533	861,533	-	814,543	814,543
Other	138,205	538,923	677,128	91,052	594,525	685,577
Non-operating revenues:						
Property taxes	1,370,736	1,869,598	3,240,334	1,382,818	1,862,130	3,244,948
Specific ownership taxes	60,606	79,955	140,561	56,999	74,114	131,113
Investment income	9,640	52,821	62,461	15,620	30,623	46,243
Interest credit - Build						
America Bonds	-	319,688	319,688	-	347,298	347,298
Other	(2,880)	90,708	87,828	66,402	276,289	342,691
Capital contributions:						
Tap fees	309,134	887,676	1,196,810	308,895	492,998	801,893
Contributed assets	-	-	-	343,157	382,730	725,887
Other	60,000	4,000	64,000	-	55,796	55,796
Total Revenues	6,646,798	19,860,007	26,506,805	6,672,889	19,522,355	26,195,244

In 2013, total revenues were \$26.5 million, which is an increase of \$0.3 million over 2012 levels.

Service fees revenue increased \$0.8 million. This was a direct result of a planned increase in the service rates. Tap fees and other developer contributions declined \$0.3 million.

In 2012, total revenues were \$26.2 million, which is an increase of \$0.5 million over 2011 levels.

Service fees revenue increased \$0.3 million. This was a direct result of a planned increase in the service rates. Contract services, meter sales and other operations service programs generated an additional \$0.3 million as the demanded service levels to contracting parties increased. Tap fees and other developer contributions remained consistent to the 2011 levels.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013
(continued)**

REVIEW OF EXPENSES

	2013			2012		
	Water	Sanitation	Total	Water	Sanitation	Total
Expenses:						
Operating Expenses:						
Maintenance	704,030	2,147,329	2,851,359	764,734	2,174,858	2,939,592
Water operations	2,630,651	1,294,505	3,925,156	2,582,974	1,387,723	3,970,697
Wastewater treatment	-	8,429,871	8,429,871	-	8,024,138	8,024,138
Engineering	190,373	571,118	761,491	158,196	474,588	632,784
Laboratory	104,302	312,907	417,209	106,038	318,115	424,153
General and administrative	1,613,001	5,294,917	6,907,918	1,926,139	5,414,997	7,341,136
Non-operating expenses:						
Interest expense	988,993	2,223,333	3,212,326	1,047,355	1,309,408	2,356,763
Treasurer's fees	41,209	56,223	97,432	41,781	56,124	97,905
Total Expenses	6,272,559	20,330,203	26,602,762	6,627,217	19,159,951	25,787,168
Change in Net Position	374,239	(470,196)	(95,957)	45,672	362,404	408,076
Net Position - Beginning of Year	23,117,157	89,315,078	112,432,235	23,071,485	88,952,674	112,024,159
Net Position - End of Year	\$ 23,491,396	88,844,882	112,336,278	23,117,157	89,315,078	112,432,235

In 2013, total expenses increased \$0.8 million. The increase is largely attributable to the increase in interest expense associated with the new debt issued in 2012.

In 2012, total expenses increased \$1.6 million. The increase is related to staff, legal and engineering services for asset protection, procurement and construction and the cost to issue the 2012 bonds. In addition, consulting and engineering services increased as a result of studies required for upcoming changes in regulations for treatment standards.

For 2013, the District's combined operating activities, prior to depreciation expense, provided \$7.5 million increase in net position. This was offset by \$7.6 million in depreciation expense which led to a net position decrease from all activities of \$0.1 million.

For 2012, the District's combined operating activities, prior to depreciation expense, provided \$4.4 million increase in net position. This was offset by \$6.9 million in depreciation expense which led to a net position increase from all activities of \$0.4 million.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013
(continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets at December 31, 2013, 2012, and 2011 amounted to \$138.5 million, \$136.6 million and \$135.7 million (net of accumulated depreciation), respectively. This investment in capital assets includes land and easements, water rights, treatment plants, distribution systems, employee housing, computers, equipment and vehicles. Capital assets are shown on the Statement of Net Position at the cost on the day of acquisition.

Most of the water and storage rights currently used by the District were provided by previous government water providers at no cost to the District. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the District's Statement of Net Position at historic cost, totaling \$1.5 million. This cost represents mostly legal expenditures to establish the District's ability to use these rights to provide water to its customers and some additional acquisitions of new rights. Also in accordance with GASB, the investment in Eagle Park Reservoir Company Stock, which provides a valuable source of raw water supply, is not reflected in capital assets, but is shown in Other Assets at the historic cost of \$3.5 million. Management of the District believes the actual value of these water and storage rights used by the District to be much greater than historical cost at December 31, 2013. See the Schedule of Water and Storage Rights in the Statistical Section (page F11-14) for additional information.

The change in capital assets in 2013 is as follows:

	Water			Sanitation				
	1/1/13 Beginning Balance	Additions	Retirements	12/31/13 Ending Balance	1/1/13 Beginning Balance	Additions	Retirements	12/31/13 Ending Balance
Capital assets, not being depreciated:								
Water rights	\$ 1,496,416	-	-	1,496,416	-	-	-	-
Land and easements	-	-	-	-	3,530,480	-	-	3,530,480
Construction in progress	2,154,288	2,683,333	(4,468,955)	368,666	5,517,880	6,940,499	(7,059,469)	5,398,910
Total capital assets, not being depreciated	3,650,704	2,683,333	(4,468,955)	1,865,082	9,048,360	6,940,499	(7,059,469)	8,929,390
Capital assets, being depreciated:								
Treatment plants	2,561,408	1,967,102	(16,000)	4,512,510	96,609,070	5,834,237	(22,563)	102,420,744
Distribution systems	41,110,978	2,248,273	(135,366)	43,223,885	50,248,450	381,738	-	50,630,188
Computers, equipment and vehicles	1,589,934	244,785	(5,399)	1,829,320	4,769,803	734,354	(16,198)	5,487,959
Employee housing	-	-	-	-	7,781,035	25,220	-	7,806,255
Total capital assets being depreciated	45,262,320	4,460,160	(156,765)	49,565,715	159,408,358	6,975,549	(38,761)	166,345,146
Less accumulated depreciation for:								
Treatment plants	(1,209,446)	(155,477)	15,504	(1,349,419)	(43,836,978)	(4,083,929)	34,286	(47,886,621)
Distribution systems	(12,269,842)	(1,213,189)	109,654	(13,373,377)	(18,444,240)	(1,322,914)	-	(19,767,154)
Computers, equipment and vehicles	(1,055,193)	(152,865)	4,984	(1,203,074)	(3,165,580)	(458,593)	14,953	(3,609,220)
Employee housing	-	-	-	-	(803,470)	(194,841)	-	(998,311)
Total accumulated depreciation	(14,534,481)	(1,521,531)	130,142	(15,925,870)	(66,250,268)	(6,060,277)	49,239	(72,261,306)
Total capital assets, being depreciated, net	30,727,839	2,938,629	(26,623)	33,639,845	93,158,090	915,272	10,478	94,083,840
Total capital assets, net	\$ 34,378,543	5,621,962	(4,495,578)	35,504,927	102,206,450	7,855,771	(7,048,991)	103,013,230

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
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Analysis of changes in capital assets is as follows:

In 2013, total net capital assets are \$138.5 million, increased by \$1.9 million from the 2012 amount of \$136.6 million. Net capital assets increased \$1.9 million which consisted of an increase from net additions/disposals of \$9.5 million, offset by a decrease of \$7.6 million in depreciation expense.

In 2012, total net capital assets are \$136.6 million, increased by \$0.9 million from the 2011 amount of \$135.7 million. Net capital asset additions and deletions of \$7.6 million were offset by changes in accumulated depreciation for a net increase in capital assets of \$0.9 million.

Additional information on the District's capital assets can be found in Note III - G in the Notes to Financial Statements.

Long-term Debt

At December 31, 2013, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$4.6 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.3 million outstanding. Also, the Water General Obligation Bonds issued in 2004, 2011 and 2012 for water system improvements have an outstanding balance at December 31, 2012 of \$10.4 million. The 2009 Water District Revenue Bonds have principal outstanding of \$12.7 million. The 2009 and 2012 Sanitation District Revenue Bonds have principal outstanding of \$44.3 million. Other changes in debt in the current year are representative of scheduled reductions on long term obligations.

At December 31, 2012, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$6.6 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.4 million outstanding. Also, the Water General Obligation Bonds issued in 2004, 2011 and 2012 for water system improvements have an outstanding balance at December 31, 2012 of \$10.9 million. The 2009 Water District Revenue Bonds have principal outstanding of \$12.9 million. The 2009 and 2012 Sanitation District Revenue Bonds have principal outstanding of \$44.7 million. Other changes in debt in the current year are representative of scheduled reductions on long term obligations.

Additional detail on debt is in Note III-H in the Notes to Financial Statements.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2013
(continued)**

BUDGET VARIANCES AND FUTURE CONSIDERATIONS

Budget Variances

In 2013, Budgeted Revenues were \$25.4 million. Revenues exceeded budget expectations by \$1.1 million. The positive variance is mostly due to collection of tap fees from new development, which was not anticipated in this budget year. The expenditure budget was \$38.2 million, including \$13.3 million of capital additions. Actual Expenditures were \$6.2 million less than the budget, mainly due to \$4 million of multi-year capital project spending being completed in 2014.

2014 Budget Considerations

The District will continue to promote wise use of water and support a comprehensive water conservation program. Additionally, the Authority will explore opportunities to develop or acquire new water resources.

In 2014, the approved expenditure budget is \$46.3 million, including \$21.1 million of capital additions.

The 2014 water service rates are increased 3% from 2013 rates. The 2014 water service rates are \$14.97 service base rate per SFE, plus \$7.22 debt service base rate per SFE and tiered usage rates of \$2.58 per 1,000 gallons for tier one, \$4.39 per 1,000 gallons for tier two, and \$6.58 per 1,000 gallons for tier three. The Series 2009 Bonds Debt Service Base Rate is determined on an annual basis by dividing the net annual debt service requirements on the Series 2009 water bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2009 Bonds debt service is scheduled.

The 2014 Wastewater Service rates are not increased from 2013 rates. The Series 2009 Bonds Debt Service Base Rate is determined on an annual basis by dividing the net annual debt service requirements on the Series 2009 wastewater bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2009 Bonds debt service is scheduled. The 2014 Wastewater rates are \$5.06 per 1,000 gallons of winter water usage, with a 5,000 gallon allowance per SFE, plus the debt service base rate of \$3.23 per SFE per month, with a monthly minimum of \$28.53 per SFE.

Water tap fee rates and Wastewater tap fee rates will increase by 3%.

Property taxes were budgeted in the amount of \$1.4 million for water and \$1.9 million for sanitation.

REQUESTS 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: Becky Bultemeier, Director of Finance, Eagle River Water and Sanitation District, 846 Forest Road, Vail, Colorado 81657.

BASIC FINANCIAL STATEMENTS



Eagle River Water & Sanitation District

Eagle River Water and Sanitation District
Statement of Net Position
December 31, 2013
(With Comparative Totals for 2012)

	2013			2012
	Water	Sanitation	Total	Total
Assets:				
Current Assets:				
Cash and cash equivalents - Unrestricted	3,600,210	1,706,462	5,306,672	4,015,432
Cash and cash equivalents - Restricted	244,433	6,010,330	6,254,763	34,641,351
Investments - Unrestricted	9,281,492	7,097,334	16,378,826	8,852,869
Investments - Restricted	754,431	18,550,636	19,305,067	4,417,530
Due (to) from Water / Sanitation	(4,992,047)	4,992,047	-	-
Receivables, net of allowance for uncollectibles:				
Service	363,960	1,879,935	2,243,895	1,993,336
Property taxes	1,333,760	1,864,222	3,197,982	3,247,000
Current portion of notes receivable	-	26,679	26,679	20,376
Interest	10,576	114,514	125,090	92,907
Other	84,669	679,187	763,856	1,475,937
Inventory	222,496	197,026	419,522	423,502
Prepaid expenses	21,976	65,927	87,903	92,497
Total Current Assets	10,925,956	43,184,299	54,110,255	59,272,737
Non-current Assets:				
Other Assets:				
Notes receivable - Due in more than one year	-	607,877	607,877	654,671
Patronage dividend receivable	148,183	390,784	538,967	540,822
Other receivables	251,139	-	251,139	195,006
Investment in Eagle Park Reservoir Company	3,466,756	-	3,466,756	3,466,756
Total Other Assets	3,866,078	998,661	4,864,739	4,857,255
Capital Assets:				
Land and easements	-	3,530,480	3,530,480	3,530,480
Water rights	1,496,416	-	1,496,416	1,496,416
Construction in progress	368,666	5,398,910	5,767,576	7,672,168
Treatment plants	4,512,510	102,420,744	106,933,254	99,170,478
Distribution systems	43,223,885	50,630,188	93,854,073	91,359,428
Computers, equipment, and vehicles	1,829,320	5,487,959	7,317,279	6,359,737
Employee housing	-	7,806,255	7,806,255	7,781,035
Less: Accumulated depreciation	(15,925,870)	(72,261,306)	(88,187,176)	(80,784,749)
Total Capital Assets	35,504,927	103,013,230	138,518,157	136,584,993
Total Non-current Assets	39,371,005	104,011,891	143,382,896	141,442,248
Total Assets	50,296,961	147,196,190	197,493,151	200,714,985
Deferred Outflows of Resources:				
Deferred charge on refunding	600,178	-	600,178	643,184
Total Deferred Outflows of Resources	600,178	-	600,178	643,184
Total Assets and Deferred Outflows of Resources	50,897,139	147,196,190	198,093,329	201,358,169

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

Eagle River Water and Sanitation District
Statement of Net Position
December 31, 2013
(With Comparative Totals for 2012)
(Continued)

	2013			2012
	Water	Sanitation	Total	Total
Liabilities:				
Current Liabilities:				
Accounts payable	314,422	1,733,362	2,047,784	1,816,096
Service fees payable	-	1,207,961	1,207,961	1,132,533
Accrued payroll and related liabilities	70,110	214,917	285,027	308,151
Interest payable	102,310	297,434	399,744	357,143
Loans and bonds payable - Due within one year	903,955	2,051,396	2,955,351	3,253,747
Deposits	-	32,432	32,432	27,764
Total Current Liabilities	1,390,797	5,537,502	6,928,299	6,895,434
Non-current Liabilities:				
Compensated absences - Due in more than one year	112,228	336,685	448,913	439,084
Loans and bonds payable - Due in more than one year	24,568,958	50,612,899	75,181,857	78,344,416
Total Non-current Liabilities	24,681,186	50,949,584	75,630,770	78,783,500
Total Liabilities	26,071,983	56,487,086	82,559,069	85,678,934
Deferred Inflows of Resources:				
Unavailable property tax revenue	1,333,760	1,864,222	3,197,982	3,247,000
Total Deferred Inflows of Resources	1,333,760	1,864,222	3,197,982	3,247,000
Net Position:				
Net investment in capital assets	12,116,260	68,304,835	80,421,095	83,188,223
Restricted for:				
Debt	830,905	6,605,066	7,435,971	8,455,159
Unrestricted	10,544,231	13,934,981	24,479,212	20,788,853
Total Net Position	23,491,396	88,844,882	112,336,278	112,432,235

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

Eagle River Water and Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013			2012
	Water	Sanitation	Total	Total
Operating Revenues:				
Service fees	4,701,357	11,301,360	16,002,717	15,215,810
Contract services	-	3,853,745	3,853,745	3,783,445
Meter sales and rental income	-	861,533	861,533	814,543
Other charges for services	138,205	538,923	677,128	685,577
Total Operating Revenues	4,839,562	16,555,561	21,395,123	20,499,375
Operating Expenses:				
Maintenance	704,030	2,147,329	2,851,359	2,939,590
Water operations	2,630,651	1,294,505	3,925,156	3,970,697
Wastewater treatment	-	8,429,871	8,429,871	8,024,138
Engineering	190,373	571,118	761,491	632,784
Laboratory	104,302	312,907	417,209	424,153
General and administrative	1,621,070	5,294,917	6,915,987	6,959,891
Total Operating Expenses	5,250,426	18,050,647	23,301,073	22,951,253
Operating Income (Loss)	(410,864)	(1,495,086)	(1,905,950)	(2,451,878)
Non-operating Revenues (Expenses):				
Property taxes	1,370,736	1,869,598	3,240,334	3,244,948
Specific ownership taxes	60,606	79,955	140,561	131,113
Investment income	9,640	52,821	62,461	46,243
Interest credit - Build America Bonds	-	319,688	319,688	347,298
Gain (loss) on disposal of capital assets	(26,192)	11,772	(14,420)	175,399
Other non-operating revenues	23,312	78,936	102,248	167,291
Interest expense, net of amortization expense	(988,993)	(2,223,333)	(3,212,326)	(2,356,763)
Treasurer's fees	(41,209)	(56,223)	(97,432)	(97,905)
Bond issuance costs	8,069	-	8,069	(381,246)
Total Non-operating Revenues (Expenses)	415,969	133,214	549,183	1,276,378
Income (Loss) Before Capital Contributions	5,105	(1,361,872)	(1,356,767)	(1,175,500)
Capital Contributions:				
Tap fees	309,134	887,676	1,196,810	801,893
Contributed assets - physical assets	-	-	-	725,887
Fees in lieu of water and sewer lines	-	-	-	5,796
Contributed assets - cash	60,000	4,000	64,000	50,000
Total Capital Contributions	369,134	891,676	1,260,810	1,583,576
Change in Net Position	374,239	(470,196)	(95,957)	408,076
Net Position - Beginning of Year	23,117,157	89,315,078	112,432,235	112,024,159
Net Position - End of Year	23,491,396	88,844,882	112,336,278	112,432,235

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

Eagle River Water and Sanitation District
Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended 2012)

	2013			2012
	Water	Sanitation	Total	Total
Cash Flows From Operating Activities:				
Cash received from customers and others	4,971,757	16,828,756	21,800,513	19,727,159
Cash payments for goods and services	(1,773,306)	(4,866,969)	(6,640,275)	(7,136,606)
Cash payments to employees and for benefits	(1,828,470)	(6,888,905)	(8,717,375)	(8,669,990)
Cash transfers between Water and Sanitation	4,992,047	(4,992,047)	-	-
Net Cash Provided (Used) by Operating Activities	6,362,028	80,835	6,442,863	3,920,564
Cash Flows From Non-capital Financing Activities:				
Property taxes levied for operations, net	398,725	480,543	879,268	874,199
Specific ownership taxes received	18,176	21,188	39,364	36,455
Patronage dividend received	20,678	45,493	66,171	67,626
Other cash receipts	7,233	30,699	37,932	(471,849)
Net Cash Provided (Used) by Non-capital Financing Activities	444,812	577,923	1,022,735	506,431
Cash Flows From Capital and Related Financing Activities:				
Proceeds from bond issuance, including premium	-	-	-	40,391,327
Property taxes levied for debt service, net	930,802	1,332,831	2,263,633	2,272,845
Specific ownership taxes received	42,430	58,767	101,197	94,658
Cash received from tap fees	309,134	887,676	1,196,810	801,893
Proceeds from sale of capital assets	431	1,294	1,725	615,934
Interest subsidy payment received - Build America Bonds	-	290,747	290,747	318,357
Cash received (paid) related to capital asset deposit	-	4,668	4,668	3,680
Fees in lieu of water and sewer lines	60,000	4,000	64,000	55,796
Cash paid for principal on debt	(890,908)	(2,362,838)	(3,253,746)	(3,176,884)
Cash paid for interest on debt	(1,061,366)	(2,535,269)	(3,596,635)	(2,596,180)
Cash paid for debt issuance costs	8,069	-	8,069	(381,246)
Cash paid to refunded bond escrow agent to retire bond principal	-	-	-	(6,665,000)
Cash paid for capital acquisitions	(2,726,244)	(6,601,386)	(9,327,630)	(7,417,746)
Net Cash Provided (Used) by Capital and Related Financing Activities	(3,327,652)	(8,919,510)	(12,247,162)	24,317,434
Cash Flows From Investing Activities:				
Interest income received	103,358	269,771	373,129	71,773
Proceeds from sales and maturities of investments	73,130,205	186,842,085	259,972,290	6,187,265
Principal received on notes receivable	-	40,491	40,491	6,835
Purchase of investments	(79,466,128)	(203,233,566)	(282,699,694)	(16,805,437)
Issuance of notes receivable	-	-	-	(90,764)
Net Cash Provided (Used) by Investing Activities	(6,232,565)	(16,081,219)	(22,313,784)	(10,630,328)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,753,377)	(24,341,971)	(27,095,348)	18,114,101
Cash and Cash Equivalents - Beginning of Year	6,598,020	32,058,763	38,656,783	20,542,682
Cash and Cash Equivalents - End of Year	3,844,643	7,716,792	11,561,435	38,656,783
Represented by Balance Sheet captions:				
Cash and cash equivalents - Unrestricted	3,600,210	1,706,462	5,306,672	4,015,432
Cash and cash equivalents - Restricted	244,433	6,010,330	6,254,763	34,641,351
Cash and Cash Equivalents - End of Year	3,844,643	7,716,792	11,561,435	38,656,783

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

Eagle River Water and Sanitation District
Statement of Cash Flows
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended 2012)
(Continued)

	2013			2012
	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>	<u>Total</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	(410,864)	(1,495,086)	(1,905,950)	(2,451,878)
Adjustments:				
Depreciation	1,521,530	6,060,278	7,581,808	6,881,848
(Increase) decrease in due (to) from Water / Sanitation	4,992,047	(4,992,047)	-	-
(Increase) decrease in accounts receivable	132,194	273,195	405,389	(772,218)
(Increase) decrease in inventory	(40,709)	44,689	3,980	(27,762)
(Increase) decrease in prepaid expenses	1,148	3,446	4,594	196,839
Increase (decrease) in accounts payable	169,564	121,345	290,909	(197,095)
Increase (decrease) in service fees payable	-	75,428	75,428	(49,339)
Increase (decrease) in payroll liabilities	(5,339)	(17,785)	(23,124)	277,107
Increase (decrease) in accrued compensated absences	2,457	7,372	9,829	63,061
Total Adjustments	<u>6,772,892</u>	<u>1,575,921</u>	<u>8,348,813</u>	<u>6,372,442</u>
Net Cash Provided (Used) by Operating Activities	<u>6,362,028</u>	<u>80,835</u>	<u>6,442,863</u>	<u>3,920,564</u>
Non-cash Investing, Capital, and Financing Activities:				
Contribution of capital assets from developers	<u>-</u>	<u>-</u>	<u>-</u>	<u>725,887</u>
Unrealized gain (loss) on investments	<u>(88,303)</u>	<u>(225,607)</u>	<u>(313,910)</u>	<u>(48,381)</u>

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

NOTES TO THE FINANCIAL STATEMENTS



**Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013**

I. Summary of Significant Accounting Policies

Eagle River Water and Sanitation District (the "District") was formed July 1, 1996, pursuant to an agreement to consolidate the sanitation functions of the Upper Eagle Valley Consolidated Sanitation District and the water service functions of the Vail Valley Consolidated Water District, both of which are located in Eagle County, Colorado. The District, a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District was established to ensure a more effective and economical operation of water and sanitation systems within the jurisdictional boundaries of the District. Seven elected board members govern the District.

The 1996 consolidation of Upper Eagle Valley Consolidated Sanitation District and Vail Valley Consolidated Water District was accomplished pursuant to Colorado law which specifically provides that a separate ad valorem tax be levied against the area comprising the consolidating districts which, together with any other special rates, tolls, fees or charges for service within the consolidating District area, will be sufficient to pay the principal and interest on the consolidating Districts' outstanding bonds.

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established by GAAP used by the District are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity. Based upon these criteria, the District is not a component unit of any other government. The District has one blended component unit and while it is a legally separate entity it is in substance part of the District's operations:

Eagle River Water and Sanitation District Water Subdistrict - The Eagle River Water and Sanitation District Water Subdistrict (the "Water Subdistrict") was incorporated in 2002 and formed for the purpose of creating a separate taxing district pursuant to the Special District Act. The boundaries of the Subdistrict are generally identical to the boundaries of the Town, but include some properties which are not within the Town. The Subdistrict issued bonds in 2002, 2004, 2009, 2011 and 2012 for the construction of various facilities. The financial data of the Subdistrict is reported as part of the primary government because it is fiscally dependent upon the District and provides financing solely to the District. Although the Subdistrict is a separate legal entity, for financial reporting purposes, it is part of the District and is included in the Water Fund.

Wolcott Water and Sewer Subdistrict - During 2013, the District incorporated the Wolcott Water and Sewer Subdistrict (the "Wolcott Subdistrict") for the purpose of creating a separate taxing district pursuant to the Special District Act near the town of Wolcott, Colorado. Although the Subdistrict is a separate legal entity, for financial reporting purposes, it is part of the District and is included in the Sanitation Fund.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

I. Summary of Significant Accounting Policies (continued)

B. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its activities, providing water and wastewater treatment services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies

1. Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the District considers cash on hand, demand deposits, U.S. government obligations and other highly liquid with maturities of three months or less when purchased to be cash equivalents.

2. Investments

The investments for the District are reported at fair value.

3. Receivables

Receivables are reported net of an allowance for uncollectible accounts. An allowance for doubtful accounts in the amount of \$140,827 and \$150,377 had been established at December 31, 2013 and 2012, respectively, to estimate uncollectible accounts.

4. Property Taxes

Property taxes are assessed in one year as a lien on the property, but not collected by governmental units until the subsequent year. In accordance with GAAP, the assessed but uncollected property taxes have been recorded as a receivable and as unavailable property tax revenue.

5. Inventory

Inventory is determined at the lower of cost (determined on the first-in, first-out basis) or market.

6. Capital Assets

Capital assets, which include land and easements, water rights, construction in progress, treatment plants, distribution systems, computers, equipment, vehicles, and employee housing, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not depreciated. All other costs, including costs incurred for the protection of those rights, are expensed. See the Schedule of Water and Storage Rights in the Statistical Section (pages F11-F14) for additional information.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed, net of investment earnings on loan proceeds during the same period. During 2013, the District capitalized interest of \$262,706 as part of capital assets.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

6. Capital Assets (continued)

Treatment plants, distribution systems, computers, equipment, vehicles, and employee housing are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Treatment plants	5 - 40
Distribution systems	5 - 40
Computers, equipment, and vehicles	2 - 10
Employee housing	40

7. Net Position

Net position represents the difference between assets, liabilities, and deferred inflows (outflows) of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and increased by any unspent proceeds from related borrowings. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

8. Compensated Absences

Earned but unused vacation and sick leave benefits are accrued when incurred in the financial statements.

9. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in Statement of Net Position. Bond premiums and discounts are deferred and amortized over the respective life of the respective debt using a combination of the effective-interest and straight-line methods. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

The deferred cost on bond refunding is being amortized over the lesser of the life of the new bond or the remaining life of the refunded bonds using the straight-line method which approximates the effective interest method. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

10. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

11. Use of Estimates

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

12. Restricted and Unrestricted Resources

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.

13. Due (to) from Water / Sanitation

Balances at year-end between Water and Sanitation are reported as "due (to) from Water / Sanitation".

14. Comparative Data and Reclassifications

The financial statements include certain prior year comparative information in total, but not by segment. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2013, from which comparative totals were derived. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations for the ensuing year pursuant to the Colorado Local Budget Law. The budget is adopted on a non-GAAP basis and is reconciled to GAAP in Section E of this report. Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

As required by Colorado statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for 2013.

1. For the 2013 budget year, prior to August 25, 2012, the County Assessor sent to the District an assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10 only once by a single notification to the District.
2. The District submitted, on or before October 15, 2012, a recommended budget that detailed the necessary property taxes needed along with other available revenues to meet the District's operating requirements.
3. Prior to December 15, 2012, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2012 were collected in 2013 and taxes certified in 2013 will be collected in 2014. Taxes are due on January 1 in the year of collection; however, they may be paid in either one installment (no later than April 30) or two equal installments (not later than February 28 and June 15) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending.

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

The District believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits and qualification as an enterprise, will require judicial interpretation.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds

A. Deposits and Investments

The District's deposits are entirely covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures depositors up to \$250,000 for all accounts. Deposit balances over \$250,000 are collateralized as required by PDPA. The carrying amounts of the District's petty cash, demand deposits and investments were \$47,245,328 and \$51,927,183 as of December 31, 2013 and 2012, respectively.

At December 31, 2013, the District had the following cash and investments with the following maturities:

	Standard & Poors Rating	Carrying Amounts	Maturities	
			Less than one year	1 - 5 years
<i>Petty cash</i>	Not rated	1,881	1,881	-
<i>Deposits:</i>				
Checking	Not rated	2,165,205	2,165,205	-
Money market	Not rated	7,045,523	7,045,523	-
<i>Investment pool</i>	AAAm	2,348,826	2,348,826	-
<i>Investments:</i>				
United States Corporate	AA+	2,746,573	1,173,405	1,573,168
United States Treasury notes	AA+	6,774,167	6,774,167	-
Federal agency securities	AA+	26,163,153	15,914,527	10,248,626
Total		<u>47,245,328</u>	<u>35,423,534</u>	<u>11,821,794</u>

The investment pool represents investments in the Colorado Government Liquid Asset Trust ("COLOTRUST") which is a 2a7-like pool. The fair value of the pools is determined by the pool's share price. The District has no regulatory oversight for the pool.

Interest Rate Risk. As a means of limiting its exposure to interest rate risk, the District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. The investment policy also limits types of investments to specific maturity dates. Finally, the policy requires the District, at all times, to maintain 10% of its total investment portfolio in instruments maturing in 120 days or less.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Credit Risk. Colorado statutes specify instruments in which local governments may invest, including:

- Obligations of the U.S. and certain U.S. governmental agency securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local governmental entities
- Bankers 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 investment policy has further restricted the investment of District funds to U.S. Treasury obligations, Federal agency securities, commercial paper, eligible bankers acceptances, written repurchase agreements collateralized by certain authorized securities, local government investment pools, time certificates of deposit, and certain money market funds.

The District's investment policy requires all investments to be highly rated by nationally recognized statistical rating agencies as follows:

	Required Ratings
Federal agency securities	AAA
Commercial paper	A-1
United States Treasury notes	AAA
Eligible bankers acceptances	A-1
Local government investment pools	AAAm
Money market mutual funds	AAAm

In addition, the District's investment policy requires that approved counterparties to repurchase agreements have at least a short-term debt rating of A-1 and a long-term debt rating of A.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Concentration of Credit Risk. The District's investment policy requires its portfolio to be adequately diversified to avoid incurring unreasonable risks inherent in overinvesting in specific instruments, individual financial institutions or maturities. The District may invest to the following maximum limits:

	<u>Maximum Percentage</u>
U.S. Treasury obligations	100%
Federal agency securities	100%
Repurchase agreements	100%
Certificates of deposit	50%
Local government investment pools	50%
Combined total in bankers acceptances and commercial paper	30%

Investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represented 5% or more of the total District investments at December 31, 2013 were as follows:

<u>Issuer</u>	<u>Reported Amount</u>	<u>Percentage of Investment Portfolio</u>
Federal Home Loan Mortgage Corp	8,333,069	22%
Federal Farm Credit Bank	6,815,618	18%
Federal Home Loan Bank	5,695,989	15%
Federal National Mortgage Assoc	4,994,008	13%

B. Restricted Cash and Cash Equivalents

At December 31, 2013, cash has been restricted for the following purposes:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Restricted for capital projects	167,959	17,955,900	18,123,859
Debt service reserves	230,905	6,005,066	6,235,971
Rate stabilization funds	600,000	600,000	1,200,000
Total	<u>998,864</u>	<u>24,560,966</u>	<u>25,559,830</u>

C. Summary of Cash and Investments

The District's cash and cash equivalents are disclosed in the following financial statement captions:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Cash and cash equivalents - Unrestricted	3,600,210	1,706,462	5,306,672
Cash and cash equivalents - Restricted	244,433	6,010,330	6,254,763
Investments - Unrestricted	9,281,492	7,097,334	16,378,826
Investments - Restricted	754,431	18,550,636	19,305,067
Total	<u>13,880,566</u>	<u>33,364,762</u>	<u>47,245,328</u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

D. Notes Receivable

The following is an analysis of changes in notes receivable for the year ended December 31, 2013:

	1/0/00			12/31/13
	Beginning			Ending
	Balance	Additions	Reductions	Balance
Red Cliff	225,000	-	(18,175)	206,825
Red Sandstone Creek	41,128	-	(13,528)	27,600
Employees	386,255	-	-	386,255
Sewer tap purchases	22,664	-	(8,788)	13,876
	<u>675,047</u>	<u>-</u>	<u>(40,491)</u>	<u>634,556</u>
Less: Current portion	(20,376)	-	(6,303)	(26,679)
Long-term portion	<u>654,671</u>	<u>-</u>	<u>(46,794)</u>	<u>607,877</u>

The following notes receivable were outstanding as of December 31, 2013:

1. Red Cliff

During 2012, the District received a promissory note for \$225,000 from the Town of Red Cliff for operation and maintenance services provided over a number of years. The note bears interest at 3.0% annually and is amortized over a 10 year period.

2. Red Sandstone Creek

The District loaned residents of this employee housing development funds for the replacement of the roof. The annual interest rate on the notes with these residents is 4% and will be collected over a period of ten years. These notes are secured by a lien on the related property.

3. Employees

During 2009 and 2010, the District provided down payment assistance to employees as part of its Employee Home Ownership Program. These non-interest bearing notes are secured by the related properties and will be collected over a period of fifteen years.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

E. Patronage Dividend Receivable

The District has a dividend receivable from Holy Cross Electric Association (“Holy Cross”) which represents allocated refundable operating profits. These amounts are held by Holy Cross as working capital until the financial condition of Holy Cross permits a refund. Refunds are normally received annually approximately ten years in arrears. During the year ended December 31, 2013, the District received a refund of \$66,173 from Holy Cross. The balance due to the District at December 31, 2013 and 2012 was \$538,966 and \$540,823, respectively.

F. Investment in Eagle Park Reservoir Company

The Eagle Park Reservoir Company (the “Reservoir Company”), a Colorado nonprofit corporation was formed May 8, 1998 to acquire water diversion, storage facilities and water rights, and operate its water storage facilities located in Eagle County, Colorado, and to direct releases of water from the reservoir on behalf of its stockholders. An investment in the Reservoir Company allows the owner to augment its existing water rights.

In 1998, the District acquired 3,300 Class A Shares (approximately 16.4%) and 125 Class B shares of the stock in the Reservoir Company for \$1,909,732 and the contribution/pledge of certain water rights. The \$1,909,732 was financed through an assessment obligation payable to the Reservoir Company, which is explained in Note III.H.1, and is recorded as an investment in Eagle Park Reservoir Company, along with \$130,000 of legal costs related to the issuance of the assessment payable. Since 1998, the District has acquired additional shares of the Reservoir Company through various transactions. As of December 31, 2012, the District held 4,345 Class A Shares, 125 Class B Series 1 and 125 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$3,466,756.

During 2011 through 2013, the District’s investment in the Reservoir Company was unchanged.

As of December 31, 2013, the District held 4,345 Class A Shares (approximately 16.8%), 125 Class B Series 1 and 125 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$3,466,756. See the Schedule of Water and Storage Rights in the Statistical Section (pages F11-F14) for additional information.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

G. Capital Assets

Capital asset activity related to water services for 2013 was as follows:

	1/0/00			12/31/13
	Beginning	Additions	Retirements	Ending
	Balance		and Transfers	Balance
Water				
Capital assets, not being depreciated:				
Water rights	1,496,416	-	-	1,496,416
Construction in progress	2,154,288	2,683,333	(4,468,955)	368,666
Total capital assets, not being depreciated	<u>3,650,704</u>	<u>2,683,333</u>	<u>(4,468,955)</u>	<u>1,865,082</u>
Capital assets, being depreciated:				
Treatment plants	2,561,408	1,967,102	(16,000)	4,512,510
Distribution systems	41,110,978	2,248,273	(135,366)	43,223,885
Computers, equipment and vehicles	1,589,934	244,785	(5,399)	1,829,320
Total capital assets being depreciated	<u>45,262,320</u>	<u>4,460,160</u>	<u>(156,765)</u>	<u>49,565,715</u>
Less accumulated depreciation for:				
Treatment plants	(1,209,446)	(155,477)	15,504	(1,349,419)
Distribution systems	(12,269,842)	(1,213,189)	109,654	(13,373,377)
Computers, equipment and vehicles	(1,055,193)	(152,865)	4,984	(1,203,074)
Total accumulated depreciation	<u>(14,534,481)</u>	<u>(1,521,531)</u>	<u>130,142</u>	<u>(15,925,870)</u>
Total capital assets, being depreciated, net	<u>30,727,839</u>	<u>2,938,629</u>	<u>(26,623)</u>	<u>33,639,845</u>
Total capital assets, net - Water	<u><u>34,378,543</u></u>	<u><u>5,621,962</u></u>	<u><u>(4,495,578)</u></u>	<u><u>35,504,927</u></u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

G. Capital Assets (continued)

Capital asset activity related to sanitation services for 2013 was as follows:

	<u>1/0/00</u> <u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u> <u>and Transfers</u>	<u>12/31/13</u> <u>Ending</u> <u>Balance</u>
Sanitation				
Capital assets, not being depreciated:				
Land and easements	3,530,480	-	-	3,530,480
Construction in progress	5,517,880	6,940,499	(7,059,469)	5,398,910
Total capital assets, not being depreciated	<u>9,048,360</u>	<u>6,940,499</u>	<u>(7,059,469)</u>	<u>8,929,390</u>
Capital assets, being depreciated:				
Treatment plants	96,609,070	5,834,237	(22,563)	102,420,744
Distribution systems	50,248,450	381,738	-	50,630,188
Computers, equipment and vehicles	4,769,803	734,354	(16,198)	5,487,959
Employee housing	7,781,035	25,220	-	7,806,255
Total capital assets being depreciated	<u>159,408,358</u>	<u>6,975,549</u>	<u>(38,761)</u>	<u>166,345,146</u>
Less accumulated depreciation for:				
Treatment plants	(43,836,978)	(4,083,929)	34,286	(47,886,621)
Distribution systems	(18,444,240)	(1,322,914)	-	(19,767,154)
Computers, equipment and vehicles	(3,165,580)	(458,593)	14,953	(3,609,220)
Employee housing	(803,470)	(194,841)	-	(998,311)
Total accumulated depreciation	<u>(66,250,268)</u>	<u>(6,060,277)</u>	<u>49,239</u>	<u>(72,261,306)</u>
Total capital assets, being depreciated, net	<u>93,158,090</u>	<u>915,272</u>	<u>10,478</u>	<u>94,083,840</u>
Total capital assets, net - Sanitation	<u><u>102,206,450</u></u>	<u><u>7,855,771</u></u>	<u><u>(7,048,991)</u></u>	<u><u>103,013,230</u></u>

Depreciation expense for the year ended December 31, 2013 was charged to the following departments:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Maintenance	71,725	215,176	286,901
Water operations	1,368,665	-	1,368,665
Wastewater treatment	-	5,406,844	5,406,844
General and administrative	81,141	438,257	519,398
Total	<u><u>1,521,531</u></u>	<u><u>6,060,277</u></u>	<u><u>7,581,808</u></u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt – Water

The District has the following long-term debt outstanding related to its water operations:

1. 1998 Assessment Obligation Note

As previously explained in Note III.F, the District financed its 1998 investment in the Reservoir Company through the execution of an assessment obligation note in the amount of \$1,909,842. This note bears interest at 5.45% annually. Debt service payments of \$130,683 are due annually on September 16, through 2027.

The obligation is secured by the District's ownership of common stock of the Reservoir Company and certain water rights owned by participating members and leased to the District. The agreement contains release provisions for the collateral based on the timely payment of scheduled obligations. The assessment payable is subject to annual appropriation.

The District is maintaining a reserve equal to the next fiscal year's principal and interest payments for this obligation.

2. General Obligation Water Bonds, Series 2004

The District, through the Water Subdistrict, issued \$9,335,000 of general obligation water bonds in July 2004, the proceeds of which were used to finance improvements to the District's water system and to purchase water rights. The interest rates on the bonds range from 3.25% to 5.00%. Interest is payable on June 1 and December 1, through 2029. The principal is payable on December 1 and matures in various increments through 2029.

These bonds consist of serial bonds issued in the amount of \$6,590,000 due annually through 2024, and term bonds issued in the amount of \$2,745,000 due December 1, 2029.

Only bonds maturing on and after December 1, 2015, are subject to redemption prior to maturity; these bonds are subject to redemption prior to maturity at the option of the District at par.

The term bonds maturing on December 1, 2029 are subject to mandatory sinking fund redemption at par, plus accrued interest to the redemption date.

A bond insurance policy, which guarantees the scheduled payment of principal and interest on the bonds, was issued by Financial Security Assurance, Inc. concurrently with the issuance of these bonds.

During 2012, proceeds from the General Obligation Water Refunding Bonds, Series 2012B, were used to partially refund the 2004 Water Bonds maturing after December 1, 2015 as mentioned in Note III.H.6.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt – Water (continued)

3. Water Enterprise Revenue Bonds, Series 2009

The District, through the Water Subdistrict, issued \$13,225,000 of water enterprise revenue bonds in May 2009, with annual interest rates ranging from 3.00% to 5.13%. Interest is payable June 1 and December, through 2039. The principal is payable on December 1 and matures in various increments through 2039. The proceeds of these bonds were used for the construction of new water mains, the enhancement of wells, the enlargement of a dam, and other water system improvements.

Principal on the serial bonds is due beginning in 2012 through 2019 in amounts ranging from \$260,000 to \$325,000; the term bonds maturing on December 1, 2024, December 1, 2029, December 1, 2034, and December 1, 2039 are subject to annual, mandatory sinking fund redemptions ranging from \$340,000 beginning in 2020 to \$835,000 due December 1, 2039.

Only bonds maturing on and after December 1, 2019, are subject to redemption prior to maturity; these bonds are subject to redemption prior to maturity at the option of the District at par.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the water system and other legally available revenue after the payment of operation and maintenance expenses of the system.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 115% of each fiscal year's debt service requirements of outstanding District bonds.

In conjunction with the issuance of these bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

These bonds are secured by a Reserve Fund equal to the least of 1) 10% of the principal amount of the bonds, 2) the maximum annual principal and interest on the bonds, or 3) 125% of average principal and interest on the bonds which will become due in any fiscal year. The District has purchased a bond reserve insurance policy to provide reserve funds if needed; therefore, no reserve has been reflected in these financial statements for this purpose.

The District is maintaining a reserve equal to interest accrued through December 31, 2013 plus one twelfth (1/12) of the first principal payment due in the subsequent year for this debt.

A bond insurance policy, which guarantees the scheduled payment of principal and interest on the bonds, was issued by Assured Guaranty Corporation concurrently with the issuance of these bonds.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt – Water (continued)

4. General Obligation Water Refunding Bonds, Series 2011

The District, through the Water Subdistrict, issued \$2,930,000 of general obligation water refunding bonds in December 2011, the proceeds of which were used to retire the 2002 CWRPDA loan and pay the costs of issuance. The interest rates on the bonds range from 3.00% to 4.00%. Interest is payable on June 1st and December 1st, through 2022. The principal is payable on December 1st and matures in various increments through 2022.

Principal on the serial bonds is due beginning in 2012 through 2022 in amounts ranging from \$225,000 to \$315,000. These bonds are not subject to optional redemption prior to their respective maturity dates.

The bonds are not secured by the Water Subdistrict's assets and are not obligations of the District. The bonds are direct obligations and pledge the full faith and credit of the Water Subdistrict and are ultimately secured by the Water Subdistrict's general ad valorem tax collections.

The District is maintaining a reserve equal to interest accrued through December 31, 2013 plus one twelfth (1/12) of the first principal payment due in the subsequent year for this debt.

5. General Obligation Water Bonds, Series 2012A

The District, through the Water Subdistrict, issued \$1,000,000 of general obligation water bonds in December 2012, the proceeds of which will be used to construct improvements to the District's water system and pay the costs of issuance. The interest rates on the bonds range from 2.30% to 2.50%. Interest is payable on June 1st and December 1st, through 2029. The principal is payable on December 1st and matures in various increments through 2029.

Principal on the serial bonds is due beginning in 2023 through 2029 in amounts ranging from \$130,000 to \$155,000.

The bonds are not secured by the Water Subdistrict's assets and are not obligations of the District. The bonds are direct obligations and pledge the full faith and credit of the Water Subdistrict and are ultimately secured by the Water Subdistrict's general ad valorem tax collections.

Bonds maturing on or after December 1, 2023, are subject to redemption prior to maturity at the option of District at par plus accrued interest.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

H. Long-Term Debt – Water (continued)

6. General Obligation Water Refunding Bonds, Series 2012B

The District, through the Water Subdistrict, issued \$6,605,000 of general obligation water refunding bonds in December 2012, the proceeds of which were used to partially refund the aforementioned 2004 General Obligation Water Bonds (Note III.H.2) and pay the costs of issuance. The interest rates on the bonds range from 2.00% to 3.00%. Interest is payable on June 1st and December 1st, through 2029. The principal is payable on December 1st and matures in various increments through 2029.

Principal on the serial bonds is due beginning in 2013 through 2029 in amounts ranging from \$25,000 to \$555,000.

The District realized a present value savings on the refunding of \$801,658.

The bonds are not secured by the Water Subdistrict's assets and are not obligations of the District. The bonds are direct obligations and pledge the full faith and credit of the Water Subdistrict and are ultimately secured by the Water Subdistrict's general ad valorem tax collections.

Bonds maturing on or after December 1, 2023, are subject to redemption prior to maturity at the option of District at par plus accrued interest.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-Term Debt – Sanitation

1. 1992 CWRPDA Loan

In June 1992, the District entered into a \$7,368,840 loan agreement with CWRDPA, the proceeds of which were used for the design and construction of bio-solid handling facility improvements. Interest was payable February 1, May 1, August 1, and November 1, through August 2013. The principal was payable May 1 and August 1, through 2013. The loan bore interest between 4.15% and 6.25% annually. During 2013, the District repaid the loan in full.

2. 1995 CWRPDA Loan

In May 1995, the District entered into a \$6,099,183 loan agreement with CWRDPA, the proceeds of which were used to construct a liquid treatment and odor control facility. Principal and interest is payable February 1 and August 1, through 2015. The effective annual interest rate of the loan is 4.58%.

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or in part, in a minimum of \$100,000 increments.

The District has pledged the revenue from the operation and use of the wastewater treatment facilities and other legally available revenue, after the payment of operation and maintenance expenses of the system, for the repayment of the loan.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

The loan agreement also requires the District to maintain an operations and maintenance reserve in amount equal to 25% of the operations and maintenance expenditures budgeted for the current fiscal year or \$1,250,000, whichever is less.

3. 1998 CWRPDA Governmental Agency Bond

In April 1998, the District, acting through its Sanitation Enterprise, entered into a \$17,685,396 loan agreement with CWRDPA, the proceeds of which were used for the expansion of the Edwards wastewater treatment facility. Principal and interest is payable February 1 and August 1, through 2016. The effective annual interest rate of the loan is 3.94%.

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or in part, in a minimum of \$100,000 increments.

In May 1998, the District's electorate approved the assumption from the Sanitation Enterprise of this long-term obligation as a general obligation bond in the May 1998 election. As a result, the obligation was no longer secured by the Sanitation Enterprise's assets. The bond is a direct obligation and pledges the full faith and credit of the District and is ultimately secured by the District's general ad valorem tax collections.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-Term Debt – Sanitation (continued)

4. Tax-Exempt Wastewater Revenue Bonds, Series 2009A

The District issued \$1,460,000 of tax-exempt wastewater revenue bonds in December 2009, with annual interest rates ranging from 3.00% to 4.00%. Interest is payable June 1 and December 1, through 2014. The principal is payable on December 1 and matures in various increments through 2014. The proceeds of these bonds were used to finance improvements to the wastewater system.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the wastewater treatment facilities and other legally available revenue after the payment of operation and maintenance expenses of the system. In connection with the issuance of these bonds, the District has adopted a resolution imposing a new Sewer Debt Service Rate which is collected monthly from each single family equivalent (“SFE”) in the system.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year’s debt service requirements of outstanding District bonds.

These bonds and the Taxable Wastewater Revenue Bonds, Series 2009B (collectively referred to as the “2009 Bonds”), are secured by a common Reserve Fund equal to the minimum of: a) 10% of the principal amount of the bonds, b) the maximum annual debt service in any calendar year, or c) 125% of the average annual debt service of the bonds.

In conjunction with the issuance of the 2009 Bonds, and subsequently with the 2012 Bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

In accordance with bond indentures, the District is maintaining a reserve equal to interest accrued through December 31, 2013 plus one twelfth (1/12) of the first principal payment due in the subsequent year.

These bonds are not subject to redemption prior to their respective maturity dates.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-Term Debt – Sanitation (continued)

5. Taxable Wastewater Revenue Bonds, Series 2009B

The District issued \$15,785,000 of wastewater revenue bonds in December 2009, with annual interest rates ranging from 4.71% to 6.79%. Interest is payable June 1 and December 1, through 2039. The principal is payable on December 1 and matures in various increments through 2039. The proceeds of these bonds were used to finance improvements to the wastewater system. This bond issue consists of term bonds due on December 1, 2019, December 1, 2023, December 1, 2029, December 1, 2034, and December 1, 2039; these bonds are subject to mandatory sinking fund redemption at par, plus accrued interest to the redemption date.

These bonds are Qualified Build America Bonds, which indicates the bonds are not tax-exempt. Under the Build America Program, the District may apply for interest cost subsidies from the federal government. Such subsidies will be used by the District to pay debt service on these bonds. During the fiscal year ended December 31, 2013, the District recognized revenue of \$319,688 related to this subsidy.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the wastewater treatment facilities and other legally available revenue after the payment of operation and maintenance expenses of the system. In connection with the issuance of these bonds, the District has adopted a resolution imposing a new Sewer Debt Service Rate which is collected monthly from each single family equivalent (“SFE”) in the system.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year’s debt service requirements of outstanding District bonds.

As previously discussed, these bonds and the Tax-Exempt Wastewater Revenue Bonds, Series 2009A (collectively referred to as the “2009 Bonds”), are secured by a common Reserve Fund equal to the minimum of: a) 10% of the principal amount of the bonds, b) the maximum annual debt service in any calendar year, or c) 125% of the average annual debt service of the bonds.

In conjunction with the issuance of the 2009 Bonds, and subsequently with the 2012 Bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-Term Debt – Sanitation (continued)

5. Taxable Wastewater Revenue Bonds, Series 2009B (continued)

In accordance with bond indentures, the District is maintaining a reserve equal to interest accrued through December 31, 2013 plus one twelfth (1/12) of the first principal payment due in the subsequent year.

Bonds maturing on and before December 1, 2019, are not subject to optional prior redemption. Bonds maturing on or after December 1, 2020, are subject to redemption prior to maturity at the option of District at par plus accrued interest. In addition, upon the occurrence of an Extraordinary Event, as defined in the bond documents, these bonds are subject to extraordinary redemption prior to their respective dates, at the option of the District at the Make-Whole Redemption Price, as defined in the bond documents.

6. Enterprise Wastewater Revenue Bonds, Series 2012

The District issued \$28,060,000 of wastewater revenue bonds in December 2012, with annual interest rates ranging from 2.00% to 5.00%. Interest is payable June 1 and December 1, through 2042. The principal is payable on December 1 and matures in various increments through 2042. The proceeds of these bonds were used to finance improvements to the wastewater system.

As special, limited obligations of the District, principal and interest on the bonds are payable solely from Net Pledged Revenues, as defined in the bond documents. Such net revenue includes income from the operation and use of the wastewater treatment facilities and other legally available revenue after the payment of operation and maintenance expenses of the system. In connection with the issuance of these bonds, the District has adopted a resolution imposing a new Sewer Debt Service Rate which is collected monthly from each single family equivalent (“SFE”) in the system.

The bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year’s debt service requirements of outstanding District bonds.

As previously discussed, these bonds are secured by a common Reserve Fund equal to the minimum of: a) 10% of the principal amount of the bonds, b) the maximum annual debt service in any calendar year, or c) 125% of the average annual debt service of the bonds.

In conjunction with the issuance of the 2009 Bonds, and subsequently with the 2012 Bonds, the District is required to maintain a Rate Stabilization Fund of \$600,000; the Rate Stabilization Fund was created to help offset or reduce any increase in fees, rates, and other charges to the users of the water system which was created by the Rate Maintenance Covenant.

Bonds maturing on and before December 1, 2022, are not subject to optional prior redemption. Bonds maturing on or after December 1, 2023, are subject to redemption prior to maturity at the option of District at par plus accrued interest.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

J. Long-term Liability Activity Schedule

Long-term liability activity for 2013 was as follows:

	<u>1/1/13 Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>1/0/00 Ending Balance</u>	<u>Due Within One Year</u>
Water					
1998 assessment obligation note	1,372,015	-	(55,908)	1,316,107	58,955
2004 general obligation bonds	610,000	-	(300,000)	310,000	310,000
2009 water enterprise revenue bonds	12,965,000	-	(265,000)	12,700,000	275,000
2011 refunding general obligation bonds	2,705,000	-	(230,000)	2,475,000	235,000
2012A general obligation bonds	1,000,000	-	-	1,000,000	-
2012B general obligation refunding bonds	6,605,000	-	(40,000)	6,565,000	25,000
Unamortized bond premiums	1,183,680	-	(76,874)	1,106,806	-
Accrued compensated absences	109,771	2,457	-	112,228	-
Subtotal - Water	<u>26,550,466</u>	<u>2,457</u>	<u>(967,782)</u>	<u>25,585,141</u>	<u>903,955</u>
Sanitation					
1992 CWRPDA loan	519,744	-	(519,744)	-	-
1995 CWRPDA loan	1,195,290	-	(378,864)	816,426	389,537
1998 CWRPDA loan	4,880,954	-	(1,134,230)	3,746,724	1,171,859
2009A wastewater revenue bonds	820,000	-	(330,000)	490,000	490,000
2009B wastewater revenue bonds	15,785,000	-	-	15,785,000	-
2012 wastewater revenue bonds	28,060,000	-	-	28,060,000	-
Unamortized bond premiums	3,896,480	-	(130,335)	3,766,145	-
Accrued compensated absences	329,313	7,372	-	336,685	-
Subtotal - Sanitation	<u>55,486,781</u>	<u>7,372</u>	<u>(2,493,173)</u>	<u>53,000,980</u>	<u>2,051,396</u>
Total	<u>82,037,247</u>	<u>9,829</u>	<u>(3,460,955)</u>	<u>78,586,121</u>	<u>2,955,351</u>

K. Debt Service Schedules

Debt service requirements at December 31, 2013, were as follows for water operations:

Water	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
#VALUE!	903,955	1,048,404	1,952,359
#VALUE!	942,168	1,014,477	1,956,645
#VALUE!	965,556	982,190	1,947,746
#VALUE!	1,014,129	948,716	1,962,845
#VALUE!	1,032,896	913,550	1,946,446
#VALUE! - #VALUE!	5,588,586	3,967,041	9,555,627
#VALUE! - #VALUE!	5,953,817	2,806,286	8,760,103
#VALUE! - #VALUE!	3,525,000	1,598,287	5,123,287
#VALUE! - #VALUE!	3,605,000	785,875	4,390,875
#VALUE! - 2042	835,000	42,794	877,794
Total water debt service	<u>24,366,107</u>	<u>14,107,620</u>	<u>38,473,727</u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

III. Detailed Notes on All Funds (continued)

K. Debt Service Schedules (continued)

Debt service requirements at December 31, 2013, were as follows for sanitation operations:

			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Sanitation					
2014			2,051,396	2,499,783	4,551,179
2015			2,613,630	2,377,162	4,990,792
2016			2,298,124	2,237,229	4,535,353
2017			1,000,000	2,148,897	3,148,897
2018			1,030,000	2,112,313	3,142,313
2019	-	2023	5,625,000	9,968,122	15,593,122
2024	-	2028	6,820,000	8,527,598	15,347,598
2029	-	2033	8,380,000	6,650,107	15,030,107
2034	-	2038	10,415,000	4,197,987	14,612,987
2039	-	2042	8,665,000	973,704	9,638,704
Total sanitation debt service			<u>48,898,150</u>	<u>41,692,902</u>	<u>90,591,052</u>

Aggregate debt service requirements at December 31, 2013, were as follows for the District:

			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Combined					
#VALUE!			2,955,351	3,548,187	6,503,538
#VALUE!			3,555,798	3,391,639	6,947,437
#VALUE!			3,263,680	3,219,419	6,483,099
#VALUE!			2,014,129	3,097,613	5,111,742
#VALUE!			2,062,896	3,025,863	5,088,759
#VALUE!	-	#VALUE!	11,213,586	13,935,163	25,148,749
#VALUE!	-	#VALUE!	12,773,817	11,333,884	24,107,701
#VALUE!	-	#VALUE!	11,905,000	8,248,394	20,153,394
#VALUE!	-	#VALUE!	14,020,000	4,983,862	19,003,862
#VALUE!	-	2042	9,500,000	1,016,498	10,516,498
Total combined debt service			<u>73,264,257</u>	<u>55,800,522</u>	<u>129,064,779</u>

IV. Other Information

A. 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 has joined together with other special districts in the State to form the Colorado Special Districts Property and Liability Pool ("the Pool"), a public entity risk pool currently operating as a common risk management and insurance program for member special districts. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

IV. Other Information (continued)

A. Risk Management (continued)

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

B. Pension Plans

1. Defined Contribution Pension Plan - Section 401(a)

Full-time, year round employees of the District participate in a defined contribution pension plan which was established by the District and is maintained and administered by the Principal Financial Group. Additional plan oversight and advisory services are provided by Morton and Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees participate in the District's plan upon employment. Under this plan, 5% of the employees' compensation is withheld and remitted to the Plan Administrator. Following six months of the participant's employment, the District contributes a matching 5% of all eligible employees' compensation. In addition, the District contributes 6.2% of compensation for all eligible participants hired after March 31, 1986 or 7.65% of compensation for participants hired prior to March 31, 1986. This contribution begins upon employment.

The District's contributions, plus earnings, become vested at a rate of 20% for each year of participation in the plan. District contributions for employees who leave employment before five years of participation are used to reduce the District's future contribution requirement. There is no liability for benefits under the plan beyond the District's required contributions. Plan provisions and contribution requirements are established and may be amended by the District.

Contributions actually made, which equaled the required contributions, were \$322,511 for plan members and \$715,231 for the District for the year ended December 31, 2013.

2. Deferred Compensation Plan

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for full time, year round employees. This plan is administered by Principal Financial Group. Additional plan oversight and advisory services are provided by Morton and Company. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergencies. During 2011, the District amended the plan to offer a Roth contribution option.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

IV. Other Information (continued)

C. Employee Housing Program

The District operates a housing program that benefits its employees by providing affordable housing options as real estate prices in the Vail area are high. The objective of the program is to retain current employees and to attract new employees to the area. There are certain specified individuals who are not District employees who are also allowed to participate in the housing program depending on availability and whether they meet eligibility criteria established by the Board.

The District offers rental properties to employees as well as home buyers assistance options. The rental properties consist of condos, apartments and homes that are either built or purchased by the District. For employees using the housing program for rental properties, the District will set up a payroll deduction as a means to collect the rent. This is also done for employees using the home buyers' assistance option.

D. Intergovernmental Agreements

1. Interconnect

The District and Upper Eagle Regional Water Authority (the "Authority") entered into an intergovernmental agreement ("IGA") to construct an interconnect between their two water systems to enable the transfer of water between the parties for the purposes of achieving operational flexibility. In accordance with the IGA, the deliveries between the two systems are to be measured daily (net distribution of water) with the net amount owed by either party to the other to be billed to the owing party at a rate equal to 75 percent of the then current water rate charges by the owing party. The intent of the parties is to provide long-term service to each other through the availability of peak use season and emergency supplemental water supply. The payment calculation year is May 1 to April 30. If at the end of the payment year there is a net distribution of water to one of the parties, that party shall make payment to the other party. In most years, the net distribution at April 30 is insignificant and does not require a payment to be made. At December 31, 2013 and 2012, the net amount due from the Authority to the District was \$251,139 and \$195,006, respectively.

2. Contract for Water Services

Through an agreement, the District provides administration, operations, customer billing, system maintenance and capital program management services to the Authority. The District bills customers for the water service provided and collects and remits the monies to the Authority. The water service monies are not recognized as revenue of the District. In addition to the contract fees, the District bills the Authority for maintenance and supplies which are recognized as revenue. The District earned \$3,813,467 and \$3,760,545 of contract fees from the Authority during 2013 and 2012, respectively. The District has outstanding management fees due from the Authority as of December 31, 2013 and 2012 totaling \$17,870 and \$221,597, respectively, included in other receivables. There were other outstanding receivables, for operations services, due from the Authority as of December 31, 2013 and 2012 totaling \$251,153 and \$446,013, respectively, included in other accounts receivables. As of December 31, 2013 there was \$1,286,639, for water service billed, due to the Authority included in accounts payable.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2013
(Continued)

IV. Other Information (continued)

D. Intergovernmental Agreements (continued)

2. Contract for Water Services (continued)

The District earned \$18,300 and \$22,900 of contract fees from other governments which it has similar agreements (i.e. Town of Minturn, Town of Red Cliff, and Eagle Park Reservoir Company) during 2013 and 2012, respectively.

E. Capital Contributions - Cost Recovery Contracts

The District has Cost Recovery Contracts ("Contracts") with developers to refund the developers' cost of lines contributed to the District. The "cost recovery" amounts are generated from tap fees for taps made to the contributed lines.

The Contracts generally state that reimbursement of the amounts collected by the District for the developers will be made at such times and in such amounts as the District, in its sole discretion, shall determine. The District's current policy of reimbursement, as adopted in its rules and regulations, specifies that the maximum amount reimbursed to developers in any one year under the contract terms would be determined by the Board of Directors. The reimbursement to developers is reflected as a capital distribution when paid.

Per the Pre-Consolidation Agreement, effective July 1, 1996, all cash received from tap fees related to Contracts is to be restricted to reimburse developers pursuant to the Contracts. For the year ended December 31, 2013, the District collected \$34,336 of tap fees, which are subject to developer reimbursement, and reimbursed \$0 to developers.

Capital contributions subject to cost recovery at December 31, 2013, including taps collected and not paid, amounts to \$1,629,768.

Certain District Board members are associated with developers that have Contracts with the District.

F. Commitments and Contingencies - Federal and State Grants and Financial Sources

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

V. Subsequent Events

On May 6th 2014, the District authorized the issuance of an additional \$25,000,000 of debt and corresponding increase in debt service rates in order to construct additional wastewater facilities. Through the date of these financial statements the debt has not actually been issued.

Management has evaluated subsequent events through July 29, 2014, the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



Eagle River Water and Sanitation District
Schedule of Revenues, Expenditures, and Funds Available
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended 2012)

	2013			Final Budget Variance Positive (Negative)	2012
	Original Budget	Final Budget	Actual		Actual
Revenues:					
Water:					
Service fees	4,678,726	4,678,726	4,701,357	22,631	4,407,946
Other charges for services	31,186	31,186	82,072	50,886	93,954
Property taxes	1,357,004	1,357,004	1,370,736	13,732	1,382,818
Specific ownership taxes	53,000	53,000	60,606	7,606	56,999
Investment income	45,000	45,000	9,640	(35,360)	15,620
Proceeds from sale of assets	5,000	5,000	431	(4,569)	179,293
Tap fees	125,506	125,506	309,134	183,628	308,895
Contributed assets - cash	-	-	60,000	60,000	-
Proceeds from bond issue	-	-	-	-	8,503,281
Other	5,000	5,000	27,911	22,911	44,106
Total Water Revenues	<u>6,300,422</u>	<u>6,300,422</u>	<u>6,621,887</u>	<u>321,465</u>	<u>14,992,912</u>
Sanitation:					
Service fees	11,405,596	11,405,596	11,301,360	(104,236)	10,807,864
Contract services	3,900,000	3,900,000	3,853,745	(46,255)	3,783,445
Rental income	311,000	311,000	284,878	(26,122)	318,443
Meter sales	658,000	658,000	576,656	(81,344)	496,100
Other charges for services	232,400	232,400	538,923	306,523	655,430
Property taxes	1,873,991	1,873,991	1,869,598	(4,393)	1,862,130
Specific ownership taxes	70,000	70,000	79,955	9,955	74,114
Investment income	82,100	82,100	52,821	(29,279)	30,623
Interest credit - Build America Bonds	347,298	347,298	319,688	(27,610)	347,298
Proceeds from sale of assets	5,000	5,000	1,294	(3,706)	436,642
Tap fees	157,844	157,844	887,676	729,832	492,998
Fees in lieu of sewer lines	-	-	-	-	5,796
Contributed assets - cash	-	-	4,000	4,000	50,000
Proceeds from bond issue	-	-	-	-	31,888,047
Other	32,000	32,000	76,192	44,192	148,126
Total Sanitation Revenues	<u>19,075,229</u>	<u>19,075,229</u>	<u>19,846,786</u>	<u>771,557</u>	<u>51,397,056</u>
Total Revenues	<u>25,375,651</u>	<u>25,375,651</u>	<u>26,468,673</u>	<u>1,093,022</u>	<u>66,389,968</u>
Expenditures - Water:					
Water Operations:					
Salaries and benefits	1,864,502	1,864,502	1,827,707	36,795	1,866,630
Supplies and materials	353,444	353,444	291,501	61,943	297,700
Telephone and radio service	42,500	42,500	42,470	30	43,313
Insurance	50,250	50,250	48,430	1,820	48,230
Repairs and maintenance	100,000	100,000	151,938	(51,938)	179,299
Other	570,835	570,835	411,564	159,271	479,575
Utilities	270,000	270,000	247,876	22,124	230,869
Chemicals	60,000	60,000	66,416	(6,416)	68,928
Meter replacement	320,000	320,000	125,015	194,985	96,519
Outside services	6,250	6,250	1,971	4,279	5,344
Total Water Operations	<u>3,637,781</u>	<u>3,637,781</u>	<u>3,214,888</u>	<u>422,893</u>	<u>3,316,407</u>

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

Eagle River Water and Sanitation District
Schedule of Revenues, Expenditures, and Funds Available
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended 2012)
(Continued)

	2013			Final Budget Variance Positive (Negative)	2012
	Original Budget	Final Budget	Actual		Actual
Expenditures - Water (continued):					
General and Administrative:					
Legal	75,000	75,000	78,565	(3,565)	86,527
Accounting and audit	14,000	14,000	14,161	(161)	14,555
Engineering	50,000	50,000	51,087	(1,087)	89,010
Management and consulting	463,555	463,555	270,526	193,029	324,873
Benefit administration	12,500	12,500	14,855	(2,355)	12,133
Community relations	17,068	17,068	10,496	6,572	10,530
Directors fees and expenses	5,300	5,300	3,692	1,608	3,393
Maintenance contracts	19,750	19,750	6,493	13,257	11,335
Water quality	50,000	50,000	55,217	(5,217)	89,562
Treasurer's fees	41,200	41,200	41,209	(9)	41,781
Debt issuance costs	-	-	(8,069)	8,069	143,320
Net loan advances (repayments)	-	-	-	-	(96,564)
Total General and Administrative	748,373	748,373	538,232	210,141	730,455
Debt Service:					
Principal	928,224	928,224	890,908	37,316	828,018
Interest	1,024,935	1,024,935	1,077,734	(52,799)	1,122,223
Principal paid to refunded bond escrow agent	-	-	-	-	7,253,407
Subtotal - Debt Service	1,953,159	1,953,159	1,968,642	(15,483)	9,203,648
Capital Outlay	1,825,166	1,825,166	2,626,124	(800,958)	857,664
Total Water Expenditures	8,164,479	8,164,479	8,347,886	(183,407)	14,108,174
Expenditures - Sanitation:					
Sanitation Operations:					
Salaries and benefits	7,072,778	7,072,778	6,866,544	206,234	7,080,463
Supplies and materials	1,918,831	1,918,831	1,795,773	123,058	1,738,010
Telephone and radio service	127,500	127,500	127,410	90	129,939
Insurance	150,750	150,750	145,291	5,459	144,689
Repairs and maintenance	601,000	601,000	503,753	97,247	476,016
Other	717,054	717,054	588,617	128,437	600,621
Utilities	994,900	994,900	878,150	116,750	912,099
Permits	36,500	36,500	40,579	(4,079)	41,221
Outside Services	18,750	18,750	24,218	(5,468)	16,039
Total Sanitation Operations	11,638,063	11,638,063	10,970,335	667,728	11,139,097
General and Administrative:					
Legal	200,000	200,000	78,565	121,435	91,437
Accounting and audit	9,000	9,000	12,632	(3,632)	14,555
Engineering	100,000	100,000	16,898	83,102	46,322
Management and consulting	432,867	432,867	135,937	296,930	74,682
Benefit administration	37,500	37,500	44,565	(7,065)	36,398
Community relations	51,203	51,203	31,489	19,714	31,589
Directors fees and expenses	15,900	15,900	11,075	4,825	10,180
Maintenance contracts	59,250	59,250	19,478	39,772	34,005
Sanitation quality	652,000	652,000	590,412	61,588	569,755
Treasurer's fees	56,196	56,196	56,223	(27)	56,124
Debt issuance costs	-	-	-	-	237,926
Net loan advances (repayments)	-	-	(46,794)	46,794	184,113
Total General and Administrative	1,613,916	1,613,916	950,480	663,436	1,387,086

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

Eagle River Water and Sanitation District
Schedule of Revenues, Expenditures, and Funds Available
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2013
(With Comparative Totals for the Year Ended 2012)
(Continued)

	2013			Final Budget Variance Positive (Negative)	2012
	Original Budget	Final Budget	Actual		Actual
Expenditures - Sanitation (continued):					
Debt Service:					
Principal	2,362,838	2,362,838	2,362,838	-	2,348,866
Interest	2,906,990	2,906,990	2,561,502	345,488	1,472,704
Subtotal - Debt Service	<u>5,269,828</u>	<u>5,269,828</u>	<u>4,924,340</u>	<u>345,488</u>	<u>3,821,570</u>
Capital Outlay	11,484,769	11,484,769	6,720,357	4,764,412	6,448,818
Total Sanitation Expenditures	<u>30,006,576</u>	<u>30,006,576</u>	<u>23,565,512</u>	<u>6,441,064</u>	<u>22,796,571</u>
Total District Expenditures	<u>38,171,055</u>	<u>38,171,055</u>	<u>31,913,398</u>	<u>6,257,657</u>	<u>36,904,745</u>
Excess (Deficiency) of Revenues Over Expenditures	(12,795,404)	(12,795,404)	(5,444,725)	7,350,679	29,485,223
Fund Available - Beginning of Year	42,847,401	42,847,401	52,384,050	9,536,649	22,898,827
Funds Available - End of Year	<u>30,051,997</u>	<u>30,051,997</u>	<u>46,939,325</u>	<u>16,887,328</u>	<u>52,384,050</u>
Funds available at year-end is computed as follows:					
	<u>Water</u>	<u>Sanitation</u>			
Current assets	10,925,956	43,184,299	54,110,256		59,272,738
Current liabilities and unavailable property tax revenue	(2,724,557)	(7,401,724)	(10,126,281)		(10,142,435)
Current portion of long-term obligations	903,954	2,051,396	2,955,350		3,253,747
	<u>9,105,353</u>	<u>37,833,971</u>	<u>46,939,325</u>		<u>52,384,050</u>

Reconciliation to GAAP Basis

	Water	Sanitation		
Excess (deficiency) of revenues over expenditures	(1,725,999)	(3,718,726)	(5,444,725)	29,485,223
Contributed assets from developers	-	-	-	725,887
Proceeds from bond issue	-	-	-	(40,391,328)
Change in patronage dividends receivable	(4,599)	2,744	(1,855)	(16,893)
Change in other long-term receivables	56,133	-	56,133	(63,807)
Proceeds from disposition of capital assets	(431)	(1,294)	(1,725)	(615,934)
Gain (loss) on disposition of property	(26,191)	11,772	(14,419)	175,399
Depreciation	(1,521,530)	(6,060,278)	(7,581,808)	(6,881,848)
Amortization of bond premiums, discounts, and refunding costs	33,869	130,335	164,204	24,379
Net loan advances (repayments)	-	(46,794)	(46,794)	87,549
Debt principal payments	890,908	2,362,838	3,253,745	3,176,885
Principal payment to refunded bond escrow agent	-	-	-	7,253,407
Capitalized assets	2,626,124	6,720,357	9,346,481	7,306,483
Prior year construction in progress expensed in the current year	(6,460)	(71,611)	(78,070)	(8,048)
Capitalized interest	54,872	207,834	262,706	213,785
Change in compensated absences	(2,457)	(7,373)	(9,830)	(63,063)
Change in Net Position - GAAP Basis	<u>374,239</u>	<u>(470,196)</u>	<u>(95,957)</u>	<u>408,076</u>

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

**Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2013**

**1998 Assessment Obligation Note
Payable to Eagle Park Reservoir Company
Original Principal - \$1,909,842
Interest Rate - 5.45%**

<u>Year Ending December 31,</u>	<u>Principal Due September 16</u>	<u>Interest Due September 16</u>	<u>Total</u>
2014	58,955	71,728	130,683
2015	62,168	68,515	130,683
2016	65,556	65,127	130,683
2017	69,129	61,554	130,683
2018	72,896	57,787	130,683
2019	76,869	53,814	130,683
2020	81,059	49,624	130,683
2021	85,476	45,207	130,683
2022	90,135	40,548	130,683
2023	95,047	35,636	130,683
2024	100,227	30,456	130,683
2025	105,689	24,994	130,683
2026	111,449	19,234	130,683
2027	117,524	13,159	130,683
2028	123,929	6,754	130,683
	<u>1,316,108</u>	<u>644,137</u>	<u>1,960,245</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2013

2004 General Obligation Water Bonds			
Original Principal - \$9,335,000			
Interest Rate - 3.25% to 5.00%			
Year Ending December 31,	Principal Due June 1 and December 1	Interest Due June 1 and December 1	Total
2014	310,000	12,563	322,563
	<u>310,000</u>	<u>12,563</u>	<u>322,563</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2013

2009 Water Enterprise Revenue Bonds

Original Principal - \$13,225,000

Interest Rate - 3.00% to 5.13%

Year Ending December 31,	Principal Due June 1 and December 1	Interest Due June 1 and December 1	Total
2014	275,000	602,413	877,413
2015	280,000	594,162	874,162
2016	290,000	585,763	875,763
2017	305,000	574,162	879,162
2018	315,000	561,963	876,963
2019	325,000	549,362	874,362
2020	340,000	536,363	876,363
2021	355,000	521,912	876,912
2022	370,000	506,825	876,825
2023	385,000	491,100	876,100
2024	400,000	474,738	874,738
2025	420,000	457,737	877,737
2026	440,000	436,738	876,738
2027	460,000	414,737	874,737
2028	485,000	391,738	876,738
2029	510,000	367,487	877,487
2030	535,000	341,988	876,988
2031	560,000	315,237	875,237
2032	590,000	287,238	877,238
2033	620,000	257,737	877,737
2034	650,000	226,738	876,738
2035	685,000	194,237	879,237
2036	720,000	159,131	879,131
2037	755,000	122,231	877,231
2038	795,000	83,538	878,538
2039	835,000	42,794	877,794
	<u>12,700,000</u>	<u>10,098,069</u>	<u>22,798,069</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2013

2011 Water Refunding General Obligation Bond			
Original Principal - \$2,930,000			
Interest Rate - 3.00% to 4.00%			
Year Ending December 31,	Principal Due April 1 and October 1	Interest Due June 1 and December 1	Total
2014	235,000	90,300	325,300
2015	250,000	80,900	330,900
2016	260,000	70,900	330,900
2017	265,000	63,100	328,100
2018	270,000	55,150	325,150
2019	280,000	47,050	327,050
2020	300,000	35,850	335,850
2021	300,000	23,850	323,850
2022	315,000	12,600	327,600
	2,475,000	479,700	2,954,700

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2013

2012 Water General Obligation Bonds			
Original Principal - \$1,000,000			
Interest Rate - 2.30% to 2.50%			
Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2014	-	40,000	40,000
2015	-	40,000	40,000
2016	-	40,000	40,000
2017	-	40,000	40,000
2018	-	40,000	40,000
2019	-	40,000	40,000
2020	-	40,000	40,000
2021	-	40,000	40,000
2022	-	40,000	40,000
2023	130,000	40,000	170,000
2024	135,000	35,000	170,000
2025	140,000	29,800	169,800
2026	145,000	24,400	169,400
2027	145,000	18,600	163,600
2028	150,000	12,600	162,600
2029	155,000	6,400	161,400
	<u>1,000,000</u>	<u>526,800</u>	<u>1,526,800</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2013

2012 General Obligation Water Refunding Bonds
Original Principal - \$6,605,000
Interest Rate - 2.00% to 3.00%

Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2014	25,000	231,400	256,400
2015	350,000	230,900	580,900
2016	350,000	220,400	570,400
2017	375,000	209,900	584,900
2018	375,000	198,650	573,650
2019	385,000	187,400	572,400
2020	400,000	175,850	575,850
2021	415,000	163,850	578,850
2022	420,000	151,400	571,400
2023	440,000	138,800	578,800
2024	460,000	121,200	581,200
2025	475,000	102,800	577,800
2026	490,000	83,800	573,800
2027	515,000	64,200	579,200
2028	535,000	43,600	578,600
2029	555,000	22,200	577,200
	<u>6,565,000</u>	<u>2,346,350</u>	<u>8,911,350</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Sanitation
December 31, 2013

1995 Loan			
Payable to Colorado Water Resources and			
Power Development Authority			
Principal After Refinancing - \$6,099,183			
Interest Rate - 4.58%			
Year Ending	Principal Due	Interest Due	
December 31,	February 1 and	February 1 and	Total
	August 1	August 1	
2014	389,537	60,822	450,359
2015	426,888	25,810	452,698
	<u>816,425</u>	<u>86,632</u>	<u>903,057</u>

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

**Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Sanitation
December 31, 2013**

**1998 Loan
Payable to Colorado Water Resources and
Power Development Authority
Principal - \$17,685,396
Interest Rate - 3.94%**

<u>Year Ending December 31,</u>	<u>Principal Due February 1 and August 1</u>	<u>Interest Due February 1 and August 1</u>	<u>Total</u>
2014	1,171,859	206,532	1,378,391
2015	1,241,741	138,523	1,380,264
2016	1,333,124	53,056	1,386,180
	<u>3,746,724</u>	<u>398,111</u>	<u>4,144,835</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Sanitation
December 31, 2013

2009 Wastewater Revenue Bonds			
Principal - \$1,460,000			
Interest Rate - 3.00% - 4.00%			
Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2014	490,000	19,600	509,600
	<u>490,000</u>	<u>19,600</u>	<u>509,600</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Sanitation
December 31, 2013

2009 Wastewater Revenue Bonds
Direct Pay Build America Bonds
Principal - \$15,785,000
Interest Rate - 4.71% - 6.79%

<u>Year Ending December 31,</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1 and December 1</u>	<u>Total</u>
2014	-	992,279	992,279
2015	360,000	992,280	1,352,280
2016	370,000	975,323	1,345,323
2017	385,000	957,897	1,342,897
2018	395,000	939,763	1,334,763
2019	405,000	921,158	1,326,158
2020	420,000	902,083	1,322,083
2021	435,000	878,101	1,313,101
2022	450,000	853,263	1,303,263
2023	470,000	827,567	1,297,567
2024	485,000	800,731	1,285,731
2025	505,000	770,127	1,275,127
2026	525,000	738,261	1,263,261
2027	545,000	705,134	1,250,134
2028	570,000	670,745	1,240,745
2029	595,000	634,777	1,229,777
2030	615,000	597,233	1,212,233
2031	645,000	556,397	1,201,397
2032	670,000	513,569	1,183,569
2033	700,000	469,081	1,169,081
2034	730,000	422,601	1,152,601
2035	760,000	374,129	1,134,129
2036	795,000	322,525	1,117,525
2037	830,000	268,545	1,098,545
2038	865,000	212,187	1,077,187
2039	2,260,000	153,454	2,413,454
	<u>15,785,000</u>	<u>17,449,210</u>	<u>33,234,210</u>

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

Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Sanitation
December 31, 2013

2012 Wastewater Revenue Bonds
Enterprise Wastewater Revenue Bonds
Principal - \$28,060,000
Interest Rate - 2.00% - 5.00%

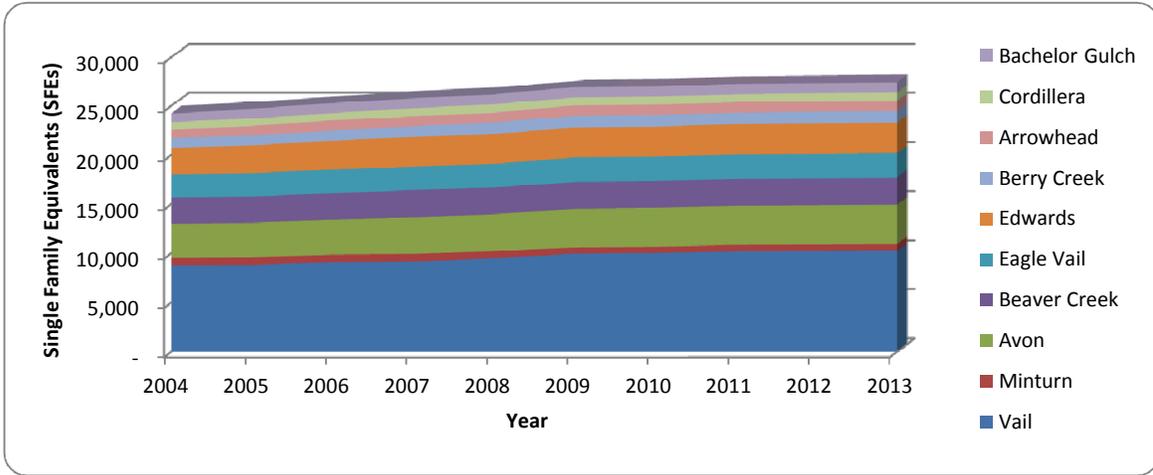
<u>Year Ending December 31,</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1 and December 1</u>	<u>Total</u>
2014	-	1,220,550	1,220,550
2015	585,000	1,220,550	1,805,550
2016	595,000	1,208,850	1,803,850
2017	615,000	1,191,000	1,806,000
2018	635,000	1,172,550	1,807,550
2019	655,000	1,153,500	1,808,500
2020	665,000	1,140,400	1,805,400
2021	685,000	1,120,450	1,805,450
2022	705,000	1,099,900	1,804,900
2023	735,000	1,071,700	1,806,700
2024	765,000	1,042,300	1,807,300
2025	795,000	1,011,700	1,806,700
2026	835,000	971,950	1,806,950
2027	875,000	930,200	1,805,200
2028	920,000	886,450	1,806,450
2029	955,000	851,350	1,806,350
2030	990,000	814,900	1,804,900
2031	1,030,000	777,200	1,807,200
2032	1,070,000	738,100	1,808,100
2033	1,110,000	697,500	1,807,500
2034	1,165,000	642,000	1,807,000
2035	1,220,000	583,750	1,803,750
2036	1,285,000	522,750	1,807,750
2037	1,350,000	458,500	1,808,500
2038	1,415,000	391,000	1,806,000
2039	1,485,000	320,250	1,805,250
2040	1,560,000	246,000	1,806,000
2041	1,640,000	168,000	1,808,000
2042	1,720,000	86,000	1,806,000
	<u>28,060,000</u>	<u>23,739,350</u>	<u>51,799,350</u>

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

STATISTICAL SECTION

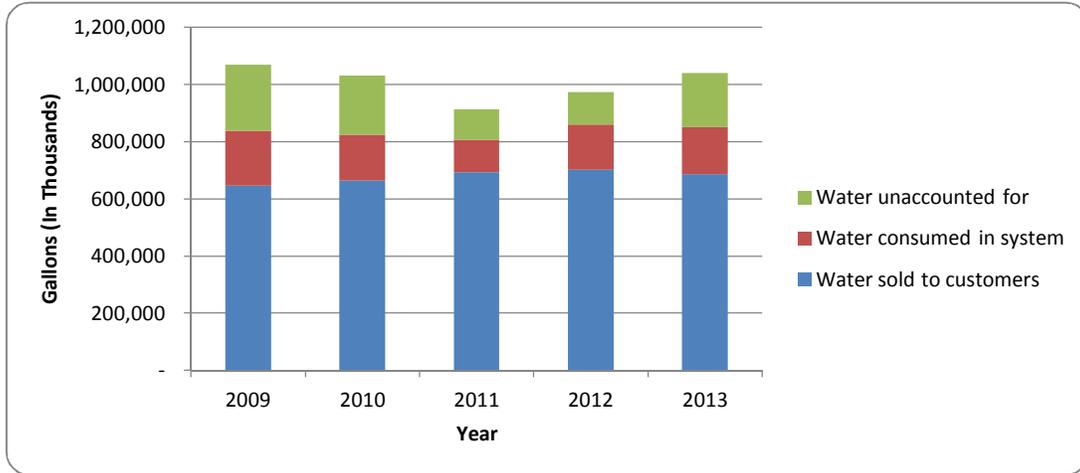


**Eagle River Water and Sanitation District
Single Family Equivalents (SFEs) in Service
Ten Year Comparison
December 31, 2013
(Unaudited)**



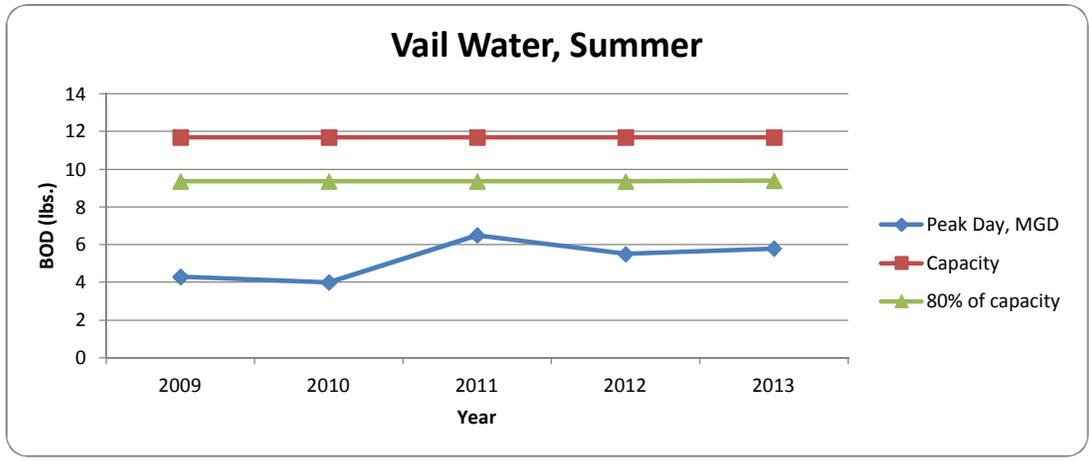
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Vail	8,853	8,883	9,135	9,198	9,502	9,932	10,004	10,184	10,218	10,264
Minturn	674	696	704	698	705	699	697	710	709	711
Avon	3,507	3,546	3,587	3,801	3,821	3,913	3,916	3,932	3,953	3,969
Beaver Creek	2,665	2,676	2,704	2,745	2,715	2,779	2,781	2,794	2,799	2,802
Eagle Vail	2,333	2,361	2,382	2,391	2,392	2,401	2,402	2,409	2,408	2,410
Edwards	2,671	2,852	2,953	3,025	3,075	3,111	3,119	3,125	3,147	3,140
Berry Creek	1,021	1,039	1,078	1,102	1,106	1,162	1,165	1,169	1,171	1,180
Arrowhead	887	930	973	986	998	1,017	1,025	1,021	1,026	1,031
Cordillera	729	736	766	791	829	845	845	853	852	858
Bachelor Gulch	882	963	984	1,043	1,044	1,055	1,058	1,065	1,065	1,071
Total SFEs	<u>24,222</u>	<u>24,682</u>	<u>25,266</u>	<u>25,780</u>	<u>26,187</u>	<u>26,914</u>	<u>27,012</u>	<u>27,262</u>	<u>27,348</u>	<u>27,436</u>
Percent increase	<u>0.80%</u>	<u>1.90%</u>	<u>2.37%</u>	<u>2.03%</u>	<u>1.58%</u>	<u>2.78%</u>	<u>0.36%</u>	<u>0.93%</u>	<u>0.32%</u>	<u>0.32%</u>

**Eagle River Water and Sanitation District
Water Production Analysis - Gallons
Five Year Comparison
December 31, 2013
(Unaudited)**



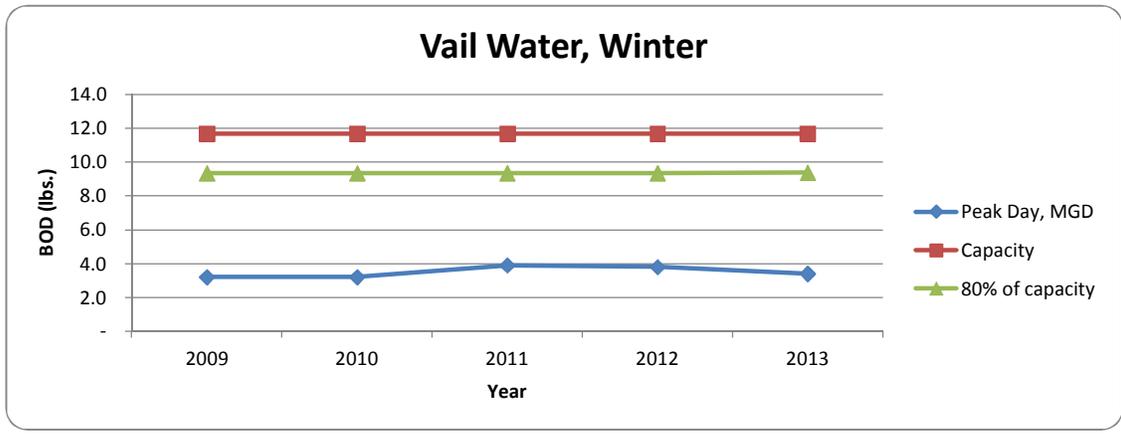
	Gallons (in Thousands)				
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Water sold to customers	645,704	664,798	692,565	701,373	686,669
Water consumed in system	192,670	159,536	114,494	158,992	164,585
Water unaccounted for	231,809	207,242	105,878	112,377	188,355
Total water treated	<u><u>1,070,183</u></u>	<u><u>1,031,576</u></u>	<u><u>912,937</u></u>	<u><u>972,742</u></u>	<u><u>1,039,609</u></u>
Unaccounted for water percentage	<u><u>21.66%</u></u>	<u><u>20.09%</u></u>	<u><u>11.60%</u></u>	<u><u>11.55%</u></u>	<u><u>18.12%</u></u>

**Eagle River Water and Sanitation District
 Water Demand Compared To Capacity
 Five Year Comparison
 December 31, 2013
 (Unaudited)**



Vail Water, Summer

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Peak Day, MGD	4.3	4.0	6.5	5.5	5.8
Capacity	11.7	11.7	11.7	11.7	11.7
80% of capacity	9.4	9.4	9.4	9.4	9.4
Flow, MGD as a % Capacity	37%	34%	56%	47%	50%

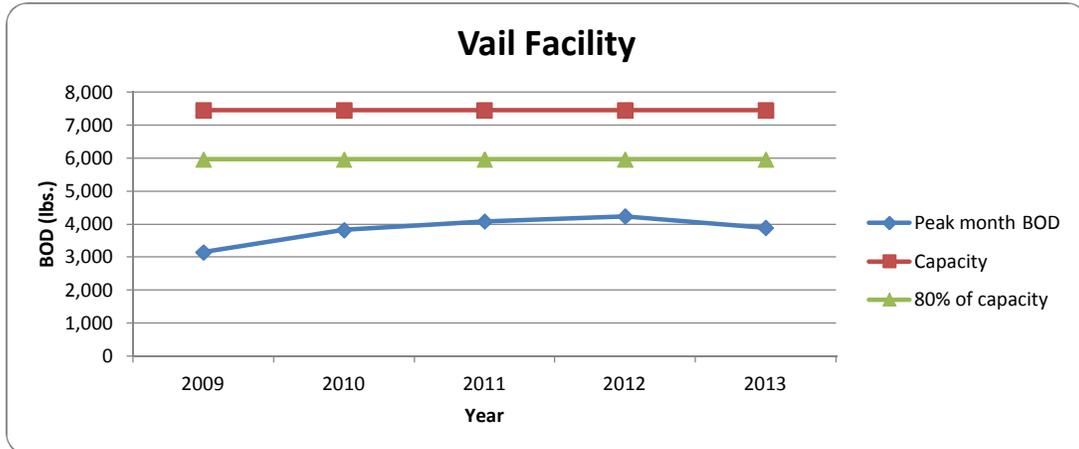


Vail Water, Winter

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Peak Day, MGD	3.2	3.2	3.9	3.8	3.4
Capacity	11.7	11.7	11.7	11.7	11.7
80% of capacity	9.4	9.4	9.4	9.4	9.4
Flow, MGD as a % Capacity	27%	27%	33%	32%	29%

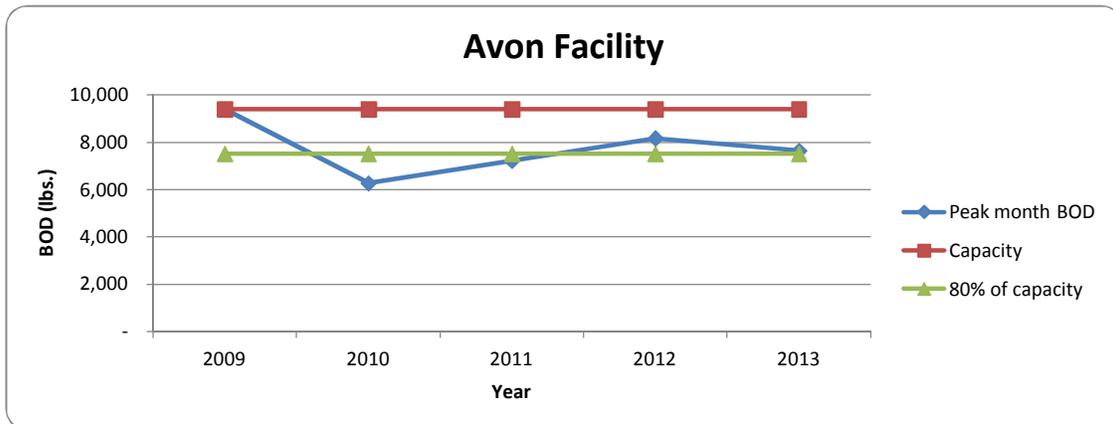
**Eagle River Water and Sanitation District
Wastewater Loadings Compared to Facility Capacity
Five Year Comparison
December 31, 2013
(Unaudited)**

Biochemical Oxygen Demand ("BOD") is the rate in which organisms use oxygen in wastewater while stabilizing decomposable organic matter under aerobic conditions. In decomposition, organic matter serves as food for the bacteria and energy results from its oxidation. BOD measurements are used as a surrogate measure of the organic strength of wastes in water.



Vail Facility

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Peak month BOD	3,149	3,821	4,084	4,236	3,887
Capacity	7,450	7,450	7,450	7,450	7,450
80% of capacity	5,960	5,960	5,960	5,960	5,960
Peak month BOD as % of capacity	42%	51%	55%	57%	52%

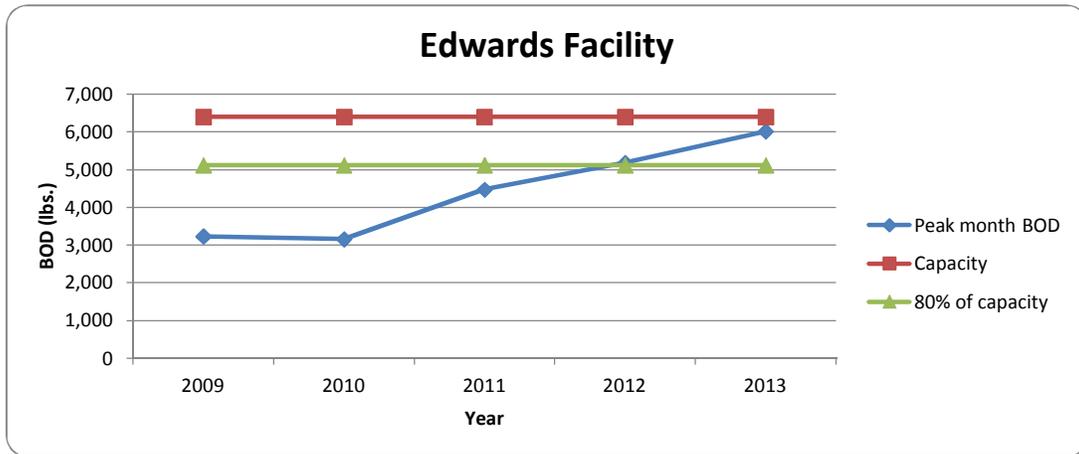


Avon Facility

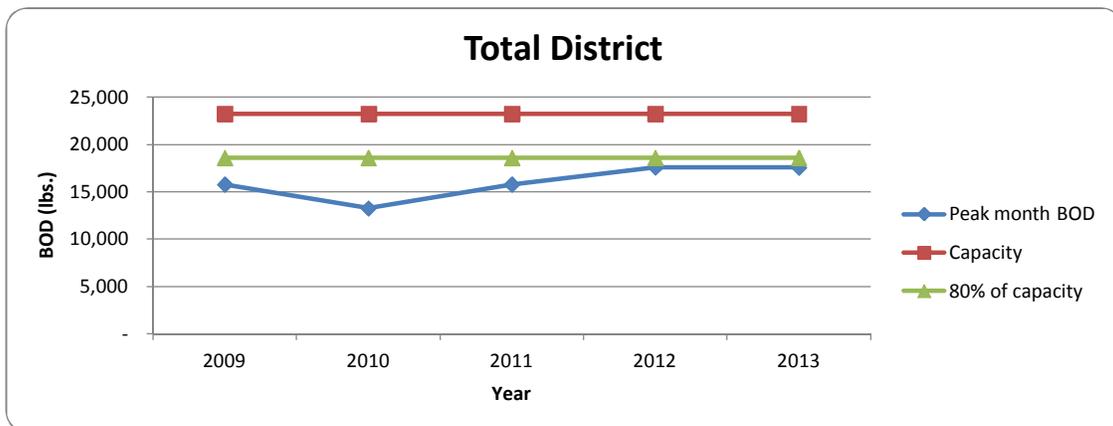
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Peak month BOD	9,390	6,273	7,223	8,169	7,648
Capacity	9,400	9,400	9,400	9,400	9,400
80% of capacity	7,520	7,520	7,520	7,520	7,520
Peak month BOD as % of capacity	100%	67%	77%	87%	81%

**Eagle River Water and Sanitation District
Wastewater Loadings Compared to Facility Capacity
Five Year Comparison
December 31, 2013
(Continued)
(Unaudited)**

Biochemical Oxygen Demand ("BOD") is the rate in which organisms use oxygen in wastewater while stabilizing decomposable organic matter under aerobic conditions. In decomposition, organic matter serves as food for the bacteria and energy results from its oxidation. BOD measurements are used as a surrogate measure of the organic strength of wastes in water.



<u>Edwards Facility</u>		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Peak month BOD		3,231	3,156	4,474	5,183	6,017
Capacity		6,400	6,400	6,400	6,400	6,400
80% of capacity		5,120	5,120	5,120	5,120	5,120
Peak month BOD as % of capacity		50%	49%	70%	81%	94%

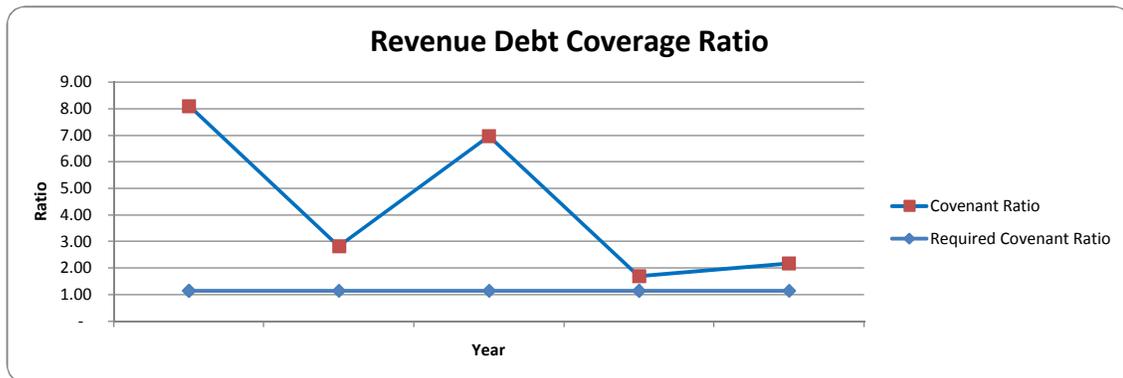
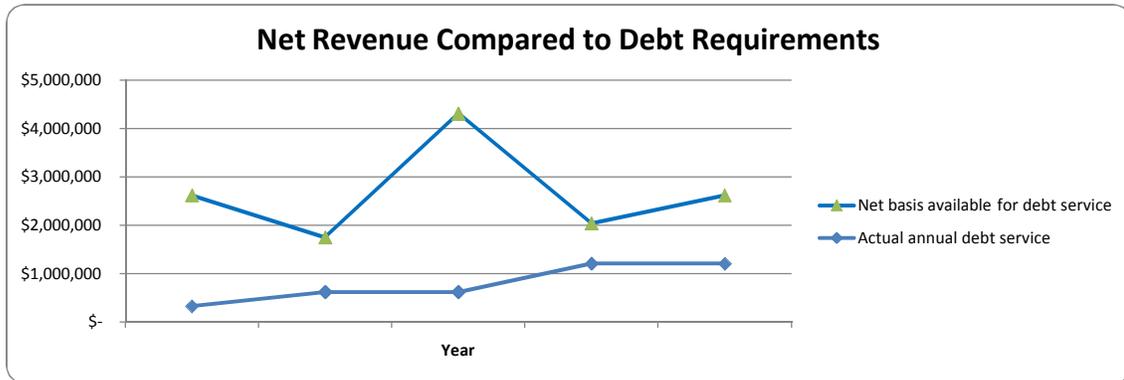


<u>Total District</u>		<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Peak month BOD		15,770	13,250	15,781	17,588	17,552
Capacity		23,250	23,250	23,250	23,250	23,250
80% of capacity		18,600	18,600	18,600	18,600	18,600
Peak month BOD as % of capacity		68%	57%	68%	76%	75%

**Eagle River Water and Sanitation District
Top 10 Customers
Five Year Comparison
December 31, 2013
(Unaudited)**

Customer Type	1,000 Gallons	Sales Dollar Amount	% of Total Sales Dollars
<u>Vail Water Sales</u>			
Ski Company / Resort	65,264	\$ 169,030	3.6%
Hotel / Resort	23,013	112,500	2.4%
Town of Vail	23,717	110,505	2.4%
Condominiums / Resort	16,287	86,611	1.8%
Hospital	11,490	82,844	1.8%
Hotel / Resort	19,252	77,919	1.7%
Hotel / Resort	17,276	71,131	1.5%
Hotel / Resort	11,818	58,379	1.2%
Condominiums / Resort	11,051	51,524	1.1%
Condominiums / Housing Units	11,560	48,103	1.0%
Total - Top 10 Customers	210,728	\$ 868,546	18.5%
Total - All Other Customers	475,941	3,832,811	81.5%
Total Service Fees	686,669	\$ 4,701,357	100.0%
<u>Wastewater Sales</u>			
Ski Company / Resort		\$ 315,514	2.8%
Mobile Home Park		184,249	1.6%
Hotel / Resort		141,118	1.2%
UERWA Avon Drinking Water Facility		123,079	1.1%
Hotel / Resort		112,555	1.0%
Apartment Complex		110,333	1.0%
Hotel / Resort		105,845	0.9%
Condominiums / Resort		99,277	0.9%
Condominiums / Resort		92,947	0.8%
Apartment Complex/ Housing		89,744	0.8%
Total - Top 10 Customers		\$ 1,374,661	12.2%
Total - All Other Customers		9,926,699	87.8%
Total Service Fees		\$ 11,301,360	100.0%

**Eagle River Water and Sanitation District
Rate Maintenance Covenant - Water
Five Year Comparison
December 31, 2013
(Unaudited)**



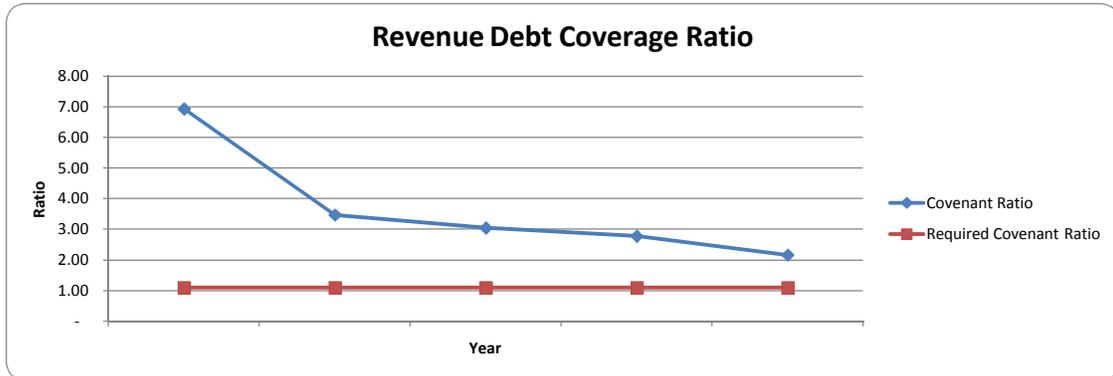
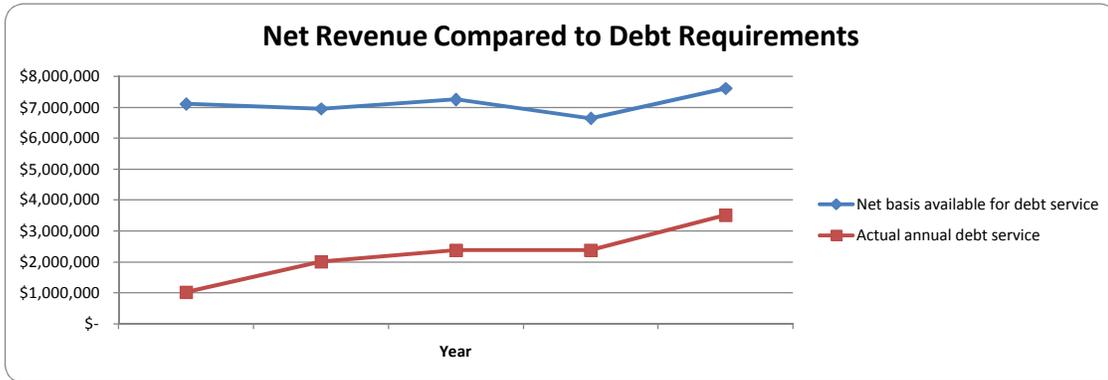
Per the bond covenants, the District is to assess a fee to cover operations and maintenance and 115% of water debt service.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operating revenue	3,343,283	3,771,932	4,070,509	4,498,998	4,839,562
Plus:					
Tap fees and other contributed cash	1,049,473	322,576	160,635	308,895	309,134
Investment income	993,132	131,572	33,651	15,620	9,640
Property taxes for general operating	468,958	512,644	516,076	424,746	429,259
Other non-operating revenues	38,181	22,982	123,791	27,076	23,312
Proceeds from sale of system	-	-	2,375,000	-	-
Rate stabilization funds	-	600,000	600,000	600,000	600,000
Total revenues available for debt service	5,893,027	5,361,706	7,879,662	5,875,335	6,210,907
Expenses	6,272,541	6,643,552	6,330,821	6,442,116	6,239,419
Less:					
Interest expense	(993,132)	(1,176,984)	(1,153,948)	(1,047,355)	(988,993)
Depreciation	(1,306,573)	(1,403,302)	(1,422,477)	(1,418,591)	(1,521,530)
Major capital additions	(702,545)	(449,675)	(188,747)	(142,970)	(138,275)
Total expenses available for debt service	3,270,291	3,613,591	3,565,649	3,833,200	3,590,621
Net basis available for debt service	2,622,736	1,748,115	4,314,013	2,042,135	2,620,286
Actual annual debt service (excluding general obligation debt)	323,450	618,162	618,162	1,207,444	1,204,862
Covenant Ratio	8.11	2.83	6.98	1.69	2.17
Required Covenant Ratio	1.15	1.15	1.15	1.15	1.15

Rate Maintenance Covenant: The District's Water Enterprise Series 2009 bonds include a Rate Maintenance Covenant sufficient revenues to pay: (i) Operation and Maintenance Expenses, (ii) 115% of each Fiscal Year's Bond Requirements of the Bonds, (iii) any amounts required to pay all Policy Costs then due and owing and all sums, (iv) any amounts required to meet then existing deficiencies pertaining to any fund or account relating to the Gross Pledged Revenues or any securities payable there from.

The above Rate Maintenance Covenant is tested annually. It is the District's policy to use unrestricted cash and investments (\$12,881,702 at December 31, 2013) to meet the Rate Maintenance Covenant if necessary.

**Eagle River Water and Sanitation District
Rate Maintenance Covenant - Sanitation
Five Year Comparison
December 31, 2013
(Unaudited)**



Per the bond covenants, the District is to assess a fee to cover operations and maintenance and 110% of sewer debt service.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Operating revenue	13,809,866	14,517,372	15,560,966	16,000,377	16,555,561
Plus:					
Tap fees and other contributed cash	1,336,452	461,095	667,464	542,998	891,676
Investment income	610,851	83,262	33,834	30,623	52,821
Interest credit - Build America Bonds	-	355,015	347,298	347,298	319,688
Property taxes for general operating	619,079	651,496	650,756	513,105	516,631
Other non-operating revenues	112,765	68,947	161,421	140,215	78,936
Rate stabilization funds	-	600,000	600,000	600,000	600,000
Total revenues available for debt service	<u>16,489,013</u>	<u>16,737,187</u>	<u>18,021,739</u>	<u>18,174,616</u>	<u>19,015,313</u>
Expenses	15,361,249	17,561,107	17,721,463	18,865,900	20,273,980
Less:					
Interest expense	(610,851)	(1,400,562)	(1,278,024)	(1,309,408)	(2,223,333)
Depreciation	(5,169,048)	(5,493,091)	(5,248,218)	(5,463,258)	(6,060,278)
Major capital additions	(205,315)	(886,801)	(429,580)	(569,755)	(590,412)
Total expenses available for debt service	<u>9,376,035</u>	<u>9,780,653</u>	<u>10,765,641</u>	<u>11,523,479</u>	<u>11,399,957</u>
Net basis available for debt service	<u>7,112,978</u>	<u>6,956,534</u>	<u>7,256,098</u>	<u>6,651,137</u>	<u>7,615,356</u>
Actual annual debt service (excluding general obligation debt)	<u>1,025,726</u>	<u>2,002,861</u>	<u>2,378,633</u>	<u>2,390,602</u>	<u>3,518,690</u>
Covenant Ratio	<u>6.93</u>	<u>3.47</u>	<u>3.05</u>	<u>2.78</u>	<u>2.16</u>
Required Covenant Ratio	<u>1.10</u>	<u>1.10</u>	<u>1.10</u>	<u>1.10</u>	<u>1.10</u>

Rate Maintenance Covenant: The District's Wastewater Revenue Bonds, Series 2009A, 2009B, and 2012 include a Rate Maintenance Covenant sufficient revenues to pay: (i) Operation and Maintenance Expenses, (ii) 110% of each Fiscal Year's Bond Requirements of the Bonds, (iii) any amounts required to pay all Policy Costs then due and owing and all sums, (iv) any amounts required to meet then existing deficiencies pertaining to any fund or account relating to the Gross Pledged Revenues or any securities payable there from.

The above Rate Maintenance Covenant is tested annually. It is the District's policy to use unrestricted cash and investments (\$8,803,796 at December 31, 2013) to meet the Rate Maintenance Covenant if necessary.

Eagle River Water and Sanitation District
Assessed Valuation, Property Taxes Levied and Collected - Water
Five Year Comparison
December 31, 2013
(Unaudited)

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Total Mills Levied		Total Property Tax		% Collected to Levied
		Operating Mills Levied	Debt Service Mills Levied	Levied	Collected	
2008	\$ 935,720,350 *	0.519	1.055	\$ 1,472,824	\$ 1,390,548	94.4%
2009	904,546,748 *	0.519	1.090	1,455,416	1,403,972	96.5%
2010	1,047,156,590 *	0.475	0.940	1,481,727	1,473,417	99.4%
2011	1,059,176,210 *	0.475	0.934	1,492,379	1,481,122	99.2%
2012	871,564,200 *	0.475	1.135	1,403,218	1,384,378	98.7%
2013	867,000,510 *	0.475	1.109	1,373,329	1,371,553	99.9%
2014	903,631,550 *	0.475	1.001	1,333,760		

Note: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.

* Net of Tax Increment Funding Areas (TIF), not generating Tax Revenue to the Sanitation District.

Eagle River Water and Sanitation District
Assessed Valuation, Property Taxes Levied and Collected - Sanitation
Five Year Comparison
December 31, 2013
(Unaudited)

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Total Mills Levied		Total Property Tax		% Collected to Levied
		Operating Mills Levied	Debt Service Mills Levied	Levied	Collected	
2008	\$ 2,280,914,900 *	0.263	0.563	\$ 1,884,035	\$ 1,809,813	96.1%
2009	2,284,276,380 *	0.263	0.563	1,886,812	1,856,359	98.4%
2010	2,533,899,100 *	0.251	0.544	2,014,450	1,994,677	99.0%
2011	2,537,532,640 *	0.251	0.545	2,019,876	1,999,673	99.0%
2012	2,020,250,180 *	0.247	0.685	1,882,873	1,865,020	99.1%
2013	2,012,536,240 *	0.247	0.684	1,873,671	1,871,209	99.9%
2014	1,970,636,950 *	0.247	0.699	1,864,222		

Note: Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years. Information received from the County Treasurer does not permit identification of specific year of assessment.

* Net of Tax Increment Funding Areas (TIF), not generating Tax Revenue to the Sanitation District.

**Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2013
(Unaudited)**

Most of the water and storage rights currently used by the District were provided by the previous water utilities at no cost to the District. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the District's Statement of Net Position at historic cost, totaling \$1,496,416. This cost represents mostly legal expenditures to establish the District's ability to use these rights to provide water directly to the customers and a small acquisition of new rights. Also in accordance with GASB, the investment in Eagle Park Reservoir Company Stock, which provides a valuable source of raw water supply, is not reflected in capital assets, but is shown in Other Assets at the historic cost of \$3,466,756. Management of the District believes the actual value of these water and storage rights used by the District to be greater than historical cost as of December 31, 2013.

The appraisal value as of November 21, 2013, performed by Porzak Browning & Bushong LLP (Special Water Rights Counsel for the District) is recited here solely for informational purposes.

Water Right	Quantity (a.f.)	Price per a.f.	Historical Cost	Appraisal Value
Investment in Eagle Park Reservoir Company	434.5	\$23,800	\$3,466,756	\$10,341,100
Homestake Reservoir	250	23,800	0	5,950,000
Green Mtn. Res. contract	934	1,000	0	934,000
Wolford Mtn. Res. contract	500	3,160	0	1,580,000
Black Lakes storage	425	23,800	0	10,115,000
Conditional storage	7,684.76042	100	0	768,476
In-basin consumptive use	902	7,500	1,496,416	6,765,000
Direct flow HUP water (winter)	89	23,800	0	2,118,200
TOTAL			\$4,963,172	\$38,571,776

Water Rights Owned

Eagle Park Reservoir

The District owns or has a perpetual contractual right to the water rights in connection with Eagle Park Reservoir (434.5 a.f.). Refer to footnote III.F. for additional terms. The value of Eagle Park Reservoir is based on the District's dedication replacement cost of \$23,800 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area.

Homestake Reservoir

The District owns or has a perpetual contractual right to the water rights in connection with Homestake Reservoir (250 a.f.). The value of Homestake Reservoir storage is based on the District's dedication replacement cost of \$23,800 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area.

Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2013
(Unaudited)
(Continued)

Green Mountain Reservoir

The District owns water related contracts in connection with Green Mountain Reservoir (934 a.f.).

Contract 9-07-60-W0408: This contract was executed on April 6, 1989, for a total of 934 acre-feet per year, 264 acre-feet for municipal and domestic use, and 670 acre-feet for industrial use which includes snowmaking. The annual contract payment is \$10 per acre-foot for municipal and domestic use water (264 acre-feet). The annual contract payment for industrial use water (670 acre-feet) is \$55 per acre-foot for the first 385 acre-feet, and a \$15 per acre foot standby charge and a \$40 per acre foot delivery charge for the remaining 285 acre-feet. The \$40 delivery charge is paid only for actual water delivered, while the standby charge is paid regardless of actual delivery. This lease is for a term of 40 years (expires April 5, 2029), with an option to renew for an additional 40 years.

Green Mountain Reservoir contract water value is based on the fact that Green Mountain Reservoir is a finite pool, that there are no new contracts being let by the U.S. Bureau of Reclamation for this pool, but also reflecting its lower value compared with Wolford Mountain Reservoir contract water due to less reliability and transfer issues with the Bureau. The term of the Green Mountain Reservoir contract is also less than the term of the Wolford Mountain Reservoir contract.

Wolford Mountain Reservoir

The District owns water related contracts in connection with Wolford Mountain Reservoir (500 a.f.).

Contract CW08010: This contract was executed on February 9, 2009, for 500 acre-feet per year. The base price was \$260.25 per acre-foot for the first year, and annual contract payments are \$260.25 per acre-foot, but they can be increased each year up to the amount of increase in the Consumer Price Increase plus the New Growth Index. It is for an initial term of 75 years (expiring February 9, 2084), with a right of first refusal at the end of the initial term on the same terms at which the River District is offering similar supplies to other municipal water providers.

Wolford Mountain Reservoir contract water value is based on a ten (10) year cost at \$316 per acre-foot per year, or a total of \$3,160 per acre-foot. A ten year lease cost is an approximation of the purchase value of this water.

Black Lakes

The Black Lakes water rights consist of two structures, Black Lake and Black Lake No. 2, and three separate water rights decreed to those structures. Pursuant to the decrees in Case Nos. W-4003, 79CW296, 82CW328, 05CW257, and 10CW200, the District's interest in the Black Lake No.1 water right is 352 a.f. absolute, and its interest in the Black Lake No.2 water right is 73 a.f. absolute. These structures and water rights are subject to two agreements: the Memorandum of Agreement dated January 30, 1986, between the Vail Valley Consolidated Water District and the Colorado Department of Natural Resources; and the Memorandum of Agreement dated June 23, 2005, between the Eagle River Water & Sanitation District and the Colorado Department of Natural Resources (together, the "MOAs").

By virtue of the decrees described above and the MOAs, the District owns a total of 425 a.f. absolute in the Black Lakes. Pursuant to the 2005 MOA, the District is free to use 125 a.f. for all uses any time of year. The District must release the other 300 a.f. during the December through March period to augment stream flows during that period. However, to the extent that the District diverts water from the System Interconnect and/or Dowds Junction diversions during the December through March period instead of diverting water at its Gore Creek wellfield, then it can keep an equivalent amount of water in Black Lakes for its use any time of year. (For example, if the District

Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2013
(Unaudited)
(Continued)

diverts 150 a.f. of water at the System Interconnect during December through March, then it may use 150 a.f. of the 300 a.f. of Black Lakes water for any decreed use any time of year, and it would release the other 150 a.f. to Gore Creek during the December through March period to augment stream flows.)

The value of Black Lakes storage is based on the District's dedication replacement cost of \$23,800 per acre-foot for non-irrigation season in-basin storage. The value to the District of Black Lakes is that these reservoirs fill each year and the water is stored very high in the Gore Creek drainage. Therefore, the water is available for direct use and/or augmentation (i.e., replace out of priority depletions resulting from the diversion of other water rights) without causing any "gap" in the creek between the point of depletions and location of the replacement water. In other words, this water can be delivered directly to the location of the points of diversion and/or depletion.

Conditional Storage

The District's conditional storage (7,684.76042 a.f.) are decreed, but not yet completed, water rights. These water rights of the District exist in several locations throughout the District's service area and given a nominal value of \$100 per acre-foot due to the high cost of developing these storage rights.

In-Basin Consumptive Use

The District's in-basin consumptive use water rights (902 a.f.) includes senior irrigation water rights that were changed, and their historical consumptive use was quantified in Case Nos. W-2256, W-2264, 79CW124, and 82CW328. In-basin consumptive use credits are valued at the District's dedication replacement cost of \$7,500 per acre-foot of irrigation season water. This replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area. These water rights are generally quite senior and are not subject to curtailment; hence, their higher value. Further, these water rights have been changed to be used for municipal uses, including augmentation, thus permitting the District to divert and use other water rights when they are out of priority. The value of these water rights to the District is derived from their seniority and that they have already been quantified and changed to municipal uses and augmentation, and included in the District's plan for augmentation. The only reason why these are not the most valuable of the District's water rights on a per-acre-foot basis is due to the fact that they can only be used during the irrigation season, not year-round, unless they are diverted and placed in storage.

Direct Flow Historical Users' Pool

The District's historical users' pool (HUP) beneficiary water rights (89 a.f.) are decreed for non-irrigation season use as HUP rights, and the fact that 4.35 cfs of the District's HUP rights are senior to the CWCB instream flow water right. As a result, 89 acre-feet of winter use is not subject to curtailment. This quality makes these rights as valuable as in-basin storage such as Eagle Park Reservoir water, so we assigned a value of \$23,800 to these rights, equivalent to the District's non-irrigation season dedication cost.

These are water rights that are protected by Green Mountain Reservoir pursuant to the decrees for Green Mountain Reservoir, Senate Document 80 (which established the federal basis for Green Mountain Reservoir), and the final Operating Policy for Green Mountain Reservoir, Colorado-Big Thompson Project, Colorado (48 P.R. 56657). Pursuant to these Green Mountain Reservoir documents, as specifically described in the final Operating Policy, West Slope domestic and irrigation water rights that were "perfected" (actually diverted and used) as of October 15, 1977 are allowed to continue to divert at times when they otherwise would be curtailed. At such times, Green Mountain Reservoir will release water to downstream senior water rights to allow such continued diversions by the HUP "beneficiaries."

Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2013
(Unaudited)
(Continued)

This category of HUP water rights typically consists of what are deemed to be fairly junior water rights (priorities between approximately 1940 and 1977) that would be curtailed in most years due to a call administered to protect either the Shoshone Power Plant or the Grand Valley "Cameo" water rights. However, because the HUP water rights benefit from the releases from Green Mountain Reservoir, they are allowed to continue to divert water at times when either Shoshone or Cameo is placing a call for water. This has the effect of enhancing the period of time, and thus the amount of water, that these HUP water rights can divert. This enhances their value. The District owns a number of such water rights that were perfected as of October 15, 1977. In fact, the District's augmentation plan decree in Case No. 82CW328 expressly recognizes the HUP status of a number of its water rights and incorporates these water rights, as so protected by Green Mountain Reservoir, in its plan for augmentation.