

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

**Financial Statements  
December 31, 2010**

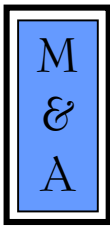


Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District  
Financial Statements  
December 31, 2010**

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## INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors  
Eagle River Water and Sanitation District  
Vail, Colorado**

We have audited the accompanying basic financial statements of the Eagle River Water and Sanitation District (the "District") as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the District's fiscal year 2009 financial statements. The financial statements of the District as of December 31, 2009, were audited by other auditors whose report dated June 25, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Eagle River Water and Sanitation District as of December 31, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles 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 required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying budgetary comparison and debt service schedules in Section E and the statistical data found in Section F are presented for the purpose of additional analysis and are not a required part of the financial statements. The budgetary comparison and debt service schedules in Section E is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The statistical data in Section F has 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 it.

**McMahan and Associates, L.L.C.**  
**September 28, 2011**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010**

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 2010 net assets in total decreased by approximately \$0.5 million (less than 1%). As part of a long term capital improvement program, the District increased capital assets by \$12.4 million. As this construction was partially funded by bond proceeds from the 2009 issuance cash decreased \$10.6 million. In addition, the District's capital assets were depreciated \$6.8 million and Debt Service payments of \$2.3 million were made as scheduled to reduce liabilities. In 2009, net assets in total increased by approximately \$2.1 million (approximately 2%). The contribution of tap fees and capital assets from developers, to serve new customers, are the major cause of this 2009 increase.

Total revenues were \$23.8 million during 2010, which is consistent with 2009 levels. In 2010, service fees increased \$0.8 million. This was a direct result of the creation of a Debt Service Base rate in January of 2010 to fund the 2009 Bond issue. Contact services generated an additional \$0.3 million as the demanded service levels to contracting parties increased. Property taxes and investment income also increased \$0.2 million and \$0.4 million respectively. These increases to revenue were offset by continued reduction in growth related activates. Tap fees and other developer contributions decreased \$1.7 from 2009 levels. This was an anticipated reduction due to the current economic slowdown.

In 2010, the District's expenses increased \$2.6 million, overall. Operating expenses increased \$1.6 million due to increased cost of legal consulting, engineering activities, salaries and benefits and depreciation expense. Non operating expenses increase \$1.0 million due to the new debt service on the 2009 bond issuance.

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 2010 remained unchanged from 2009. The water service base rate is \$13.62 per SFE. The usage rates for tier one (0 to 10,999 gallons) is \$2.06 per 1,000 gallons. The usage rates for tier two (11,000 to 40,999 gallons) and tier three (41,000 and over) are \$3.93 and \$6.16 per 1,000 gallons, respectively. A new Debt Service base rate is established to provide a reliable revenue source for repayment of the 2009 Water bonds. For 2010 this rate is established at \$2.62 per month per SFE.

Wastewater service rate for 2010 remained at \$4.87 per 1,000 gallons of treatment in the winter months. A 5,000 gallon per month minimum, per SFE, applies to all customers. In January 2010 a Debt Service base rate was established to provide a reliable revenue source for repayment of the 2009 Wastewater bonds. For 2010 this rate is established at \$1.56 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 Assets* present information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010  
(continued)**

The *Statements of Revenues, Expenses and Changes in Net Assets* present information that reflects how the District's net assets changed during the past year. All changes in the net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the 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 ASSETS**

	2010			2009		
	Water	Sanitation	Total	Water	Sanitation	Total
<b>Assets:</b>						
Current and other assets	\$ 16,491,680	21,050,545	37,542,225	18,502,664	27,807,683	46,310,347
Capital assets, net	34,837,840	100,501,052	135,338,892	33,911,333	95,896,285	129,807,618
<b>Total Assets</b>	<b>51,329,520</b>	<b>121,551,597</b>	<b>172,881,117</b>	<b>52,413,997</b>	<b>123,703,968</b>	<b>176,117,965</b>
<b>Liabilities:</b>						
Other liabilities	1,989,069	5,354,500	7,343,569	1,989,741	5,742,165	7,731,906
Long-term liabilities	25,930,639	28,128,038	54,058,677	26,440,900	29,955,530	56,396,430
<b>Total Liabilities</b>	<b>27,919,708</b>	<b>33,482,538</b>	<b>61,402,246</b>	<b>28,430,641</b>	<b>35,697,695</b>	<b>64,128,336</b>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	14,154,199	75,799,100	89,953,299	14,338,343	76,990,075	91,328,418
Restricted:						
Debt	1,745,900	3,432,475	5,178,375	1,565,717	4,470,983	6,036,700
Capital projects	3,681,902	3,156,731	6,838,633	5,264,358	10,807,638	16,071,996
Unrestricted	3,827,811	5,680,753	9,508,564	2,814,938	(4,262,423)	(1,447,485)
<b>Total Net Assets</b>	<b>\$ 23,409,812</b>	<b>88,069,059</b>	<b>111,478,871</b>	<b>23,983,356</b>	<b>88,006,273</b>	<b>111,989,629</b>

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$23.4 million and \$88.0 million for water and sanitation, respectively, as of December 31, 2010 and \$24.0 million and \$88.0 million for water and sanitation, respectively, as of December 31, 2009.

The largest portion of the District's net assets 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 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, 2010  
(continued)**

During 2010, overall net assets decreased \$0.5 million.

Current and other assets decreased \$8.8 million. The major reason for this decrease is the spending of bond proceeds from the 2009 issuance on capital construction projects in 2010.

Capital assets increase \$12.4 million as 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 decreased \$2.7 million. Current liabilities remained consistent. Long-term liabilities decreased \$2.3 million as a result of making the regular scheduled debt service principal payments.

During 2009, overall net assets increased \$2.1 million.

Current assets increased by \$22.2 million (128%). The major reason for this increase is the replenishment of cash and cash proceeds from bonds issued during 2009. Of the \$30.5 million of new revenue bonds, \$4.2 million was used to reimburse the cash funds for 2008 capital spending and \$16 million of Construction Funds were held on deposits at December 31, 2009 for multi-year construction projects. Continued capital construction contributed to the \$5.7 million increase in combined water and sanitation capital assets from \$124.1 million in 2008 to \$129.8 million in 2009.

Other assets increased by \$3.4 million (99%). Two factors were the primary contributors to this increase. First, notes receivable owed to the District increased by \$2.6 million. This was due to the fact that in January 2009, the Board elected to rescind the Flat Tops water rights purchase (from 2005) due to the determination that alternative water rights available would be of greater benefit to the District. In return for its claim to the water rights, the District received a note receivable of \$2.4 million to be collected over a period of two years, if not earlier. Secondly, due to the issuance of debt described below, bond issuance costs of \$0.7 million were deferred as an asset to be amortized over the life of the debt.

Total liabilities increased \$29.2 million. Current liabilities increased \$0.9 million. Long-term liabilities increased \$28.3 million. Major factors in this change were the issuance of \$30.5 million in new Revenue Bonds, offset by scheduled debt service reductions of \$2.3 million on existing long-term obligations and the early payoff of the 1990 Water Loan of \$0.3 million to the Colorado Water and Power Development Authority to achieve interest cost savings.



**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010  
(continued)**

**REVIEW OF REVENUES**

	2010			2009		
	Water	Sanitation	Total	Water	Sanitation	Total
<b>Revenues:</b>						
Operating revenues:						
Service fees	\$ 3,706,863	10,325,368	14,032,231	3,274,177	9,969,905	13,244,082
Contract services	-	3,402,585	3,402,585	-	3,054,062	3,054,062
Meter sales and rentals	37,098	276,706	313,804	35,374	311,194	346,568
Other	27,971	512,713	540,684	33,732	474,705	508,437
Non-operating revenues:						
Property taxes	1,473,417	1,994,677	3,468,094	1,403,972	1,856,359	3,260,331
Specific ownership taxes	52,309	67,018	119,327	61,521	78,261	139,782
Investment income	131,572	83,262	214,834	117,284	54,182	171,466
Interest credit - Build America Bonds	-	355,015	355,015	-	-	-
Other	31,560	28,356	59,916	235,936	(43,928)	192,008
Capital contributions:						
Tap fees	322,576	461,095	783,671	1,049,473	1,336,452	2,385,925
Contributed assets	232,490	156,040	388,530	-	482,729	482,729
Other	98,476	21,308	119,784	44,100	(20,337)	23,763
<b>Total Revenues</b>	<b>6,114,332</b>	<b>17,684,143</b>	<b>23,798,475</b>	<b>6,255,569</b>	<b>17,553,584</b>	<b>23,809,153</b>

In 2010, Total revenues were \$23.8 million, which is consistent with the 2009 levels.

Service fees increased \$0.8 million. This was a direct result of the creation of a Debt Service Base rate in January of 2010 to fund the 2009 Bond issues. This rate is designed to generate the payment amount of the debt service each year for the 2009 bonds. The water and sanitation base rates generated an additional \$.3 million and \$.5 million respectively.

Contract services generated an additional \$0.3 million as the demanded service levels to contracting parties increased.

Property taxes and investment income increased \$0.2 million and \$0.4 million respectively. The increase in investment income was due to holding cash as unspent bond proceeds during 2010 and the new interest credit earned on the Build America Bonds issued in 2009 for sanitation capital.

These increases to revenue were offset by continued reduction in growth related activities. Tap fees and other developer contributions decreased \$1.6 million and \$0.1 million respectively from 2009 levels. This was an anticipated reduction due to the continued economic slowdown.

In 2009, Water operating revenue remained consistent with the prior year at \$3.3 million. Service fee increases were offset by a slightly lower demand in service levels. This was due to both the current economic slowdown and lower lawn watering demands due to higher rainfall in the early summer of 2009. Continued water conservation has been offset by rate increases to create a stable revenue source.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010  
(continued)**

**REVIEW OF EXPENSES**

	2010			2009		
	Water	Sanitation	Total	Water	Sanitation	Total
<b>Expenses:</b>						
Operating Expenses:						
Maintenance	690,687	1,842,798	2,533,485	501,606	1,657,846	2,159,452
Water operations	2,660,208	1,123,158	3,783,366	2,464,297	1,016,054	3,480,351
Wastewater treatment	-	7,772,861	7,772,861	-	7,473,713	7,473,713
Engineering	130,714	392,141	522,855	157,444	472,330	629,774
Laboratory	103,092	309,277	412,369	96,924	290,772	387,696
General and administrative	1,853,216	4,699,886	6,553,102	2,040,804	3,826,837	5,867,641
Non-operating expenses:						
Interest expense	1,176,984	1,400,562	2,577,546	984,358	610,675	1,595,033
Bond issue cost amortization	28,651	20,424	49,075	27,357	13,022	40,379
Treasurer's fees	44,324	60,250	104,574	43,195	56,475	99,670
<b>Total Expenses</b>	<b>6,687,876</b>	<b>17,621,357</b>	<b>24,309,233</b>	<b>6,315,985</b>	<b>15,417,724</b>	<b>21,733,709</b>
<b>Change in Net Assets</b>	<b>(573,544)</b>	<b>62,786</b>	<b>(510,758)</b>	<b>(60,416)</b>	<b>2,135,860</b>	<b>2,075,444</b>
<b>Net Assets - Beginning of Year</b>	<b>23,983,356</b>	<b>88,006,273</b>	<b>111,989,629</b>	<b>24,043,772</b>	<b>85,870,413</b>	<b>109,914,185</b>
<b>Net Assets - End of Year</b>	<b>\$ 23,409,812</b>	<b>88,069,059</b>	<b>111,478,871</b>	<b>23,983,356</b>	<b>88,006,273</b>	<b>111,989,629</b>

In 2010, the District's expenses increased \$2.6 million, overall. Operating expenses increased \$1.6 million due to a \$.7 million increase in consulting work for litigation, easement acquisition and engineering studies for sanitation permitting and capital planning activities, \$.4 million increase in Salaries and Benefits (as noted earlier, additional contract services revenue of \$.3 million was generated from this increased staff activity), \$.4 million increase in depreciation expense and \$.1 million increase in various other items. Non operating expenses increase \$1.0 million due to the new debt service on the 2009 bond issuance.

In 2009, Total operating expenses decreased \$0.1 million (less than 1%). The District anticipated potentially lower revenues as part of the budgeting process for 2009 and therefore, made adjustments to spending in preparation of the general economic conditions indicating less new construction and possible slowing of service demand levels.

For 2010, the District's combined operating activities, prior to depreciation expense, provided \$3.6 million increase in net assets. This was offset by \$6.9 million in depreciation expense which led to a loss from operations of \$3.3 million.

For 2009, the District's combined operating activities, prior to depreciation expense, provided \$3.6 million increase in net assets. This was offset by \$6.4 million in depreciation expense which led to a loss from operations of \$2.8 million.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010  
(continued)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets at December 31, 2010, 2009, and 2008 amounted to \$135.3 million, \$129.8 million, and \$124.1 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 Assets 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 Assets 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 greater than historical cost at December 31, 2010. See the Schedule of Water and Storage Rights in the Statistical Section (page F14-17) for additional information.

	Water			Sanitation				
	1/1/10 Beginning Balance	Additions	Retirements	12/31/10 Ending Balance	1/1/10 Beginning Balance	Additions	Retirements	12/31/10 Ending Balance
Capital assets, not being depreciated:								
Water rights	\$ 1,496,416	-	-	1,496,416	-	-	-	-
Land and easements	-	-	-	-	2,946,898	250	-	2,947,148
Construction in progress	1,116,886	876,298	(454,801)	1,538,383	8,927,722	8,736,760	(2,154,838)	15,509,644
Total capital assets, not being depreciated	<u>2,613,302</u>	<u>876,298</u>	<u>(454,801)</u>	<u>3,034,799</u>	<u>11,874,620</u>	<u>8,737,010</u>	<u>(2,154,838)</u>	<u>18,456,792</u>
Capital assets, being depreciated:								
Treatment plants	2,332,683	143,704	-	2,476,387	78,021,720	704,286	-	78,726,006
Distribution systems	37,835,485	1,630,161	-	39,465,646	46,544,346	2,328,857	-	48,873,203
Computers, equipment and vehicles	1,243,945	57,507	(10,539)	1,290,913	3,731,834	172,520	(31,616)	3,872,738
Employee housing	431,196	180,401	(109,921)	501,676	5,927,618	1,056,783	(766,142)	6,218,259
Total capital assets being depreciated	<u>41,843,309</u>	<u>2,011,773</u>	<u>(120,460)</u>	<u>43,734,622</u>	<u>134,225,518</u>	<u>4,262,446</u>	<u>(797,758)</u>	<u>137,690,206</u>
Less accumulated depreciation for:								
Treatment plants	(801,972)	(129,070)	-	(931,042)	(33,336,797)	(3,579,857)	-	(36,916,654)
Distribution systems	(8,981,015)	(1,123,006)	-	(10,104,021)	(14,418,376)	(1,354,389)	-	(15,772,765)
Computers, equipment and vehicles	(684,483)	(140,448)	9,485	(815,446)	(2,053,487)	(421,304)	28,454	(2,446,337)
Employee housing	(77,808)	(10,779)	7,515	(81,072)	(395,193)	(137,540)	22,543	(510,190)
Total accumulated depreciation	<u>(10,545,278)</u>	<u>(1,403,303)</u>	<u>17,000</u>	<u>(11,931,581)</u>	<u>(50,203,853)</u>	<u>(5,493,090)</u>	<u>50,997</u>	<u>(55,645,946)</u>
Total capital assets, being depreciated, net	<u>31,298,031</u>	<u>608,470</u>	<u>(103,460)</u>	<u>31,803,041</u>	<u>84,021,665</u>	<u>(1,230,644)</u>	<u>(746,761)</u>	<u>82,044,260</u>
<b>Total capital assets, net</b>	<b>\$ 33,911,333</b>	<b>1,484,768</b>	<b>(558,261)</b>	<b>34,837,840</b>	<b>95,896,285</b>	<b>7,506,366</b>	<b>(2,901,599)</b>	<b>100,501,052</b>

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010  
(continued)**

Analysis of changes in capital assets is as follows:

The District's major capital additions and deletions in 2010 include:

- Sanitation treatment plant rehabilitation and treatment improvements at Edwards, began in 2009. During 2010, \$8.7 million was spent towards this three year construction improvement project. Other Sanitation Treatment plant upgrades for 2010 of \$0.7 million were capitalized.
- Water Treatment plant upgrades for 2010 of \$0.5 million, mostly in progress at year end 2010.
- Water and sewer line upgrades in the Vail area primarily contributed to the increase in Distribution System assets and were done in conjunction with the District Master Plan. The approximate costs of the upgrades in 2010 were \$1.6 million for water lines and \$2.3 million for sewer lines.
- Employee housing increased \$0.4 million due to the net effect of the sale and repurchase program. The increase represents one additional unit being owned by the District at year end.
- Information system upgrade spending of \$0.2 million in 2010 was part of an ongoing three to five year project.

The District's major capital additions and deletions in 2009 include:

- Water Rights decreased \$2.5 million due to the resale of the Flattops Ranch water right originally purchased in 2005. This water right was found to not fully meet the needs of the District and was, therefore, resold to the Flattops Ranch for full recovery of the original purchase price. Alternative water right augmentation leases and contracts have been executed to better meet the future water diversion augmentation needs of the District.
- Sanitation treatment plant rehabilitation and treatment improvements at Edwards, budgeted for \$15 million over three years, began in 2009. During 2009, \$4.4 million was spent towards an overall construction improvement project.
- Water and sewer line upgrades in the Vail area primarily contributed to the increase in Distribution System assets and were done in conjunction with the District Master Plan. The approximate costs of the upgrades in 2009 were \$2.2 million for water lines and \$0.1 million for sewer lines. The remainder of the increase in Distribution System assets was attributable to transfers of completed projects from Construction in Progress as the assets were placed in service.
- Employee housing increased \$2.3 million primarily due to a \$2.0 million purchase of property that is currently being used as employee housing. Management may reassess the use of this property in the future for other business use.
- Information system upgrade spending of \$0.3 million in 2009 was part of an ongoing three to five year project.

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

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
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(continued)**

**Long-term Debt**

At December 31, 2010, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$10.5 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.5 million outstanding. Also, the Water Bonds issued in 2002 and 2004 for water system improvements have an outstanding balance at December 31, 2010 of \$11 million. The 2009 District Revenue Bonds of \$30.5 million. Other changes in debt in the current year are representative of scheduled reductions on long term obligations.

At December 31, 2009, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$12.4 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.5 million outstanding. Also, the Water Bonds issued in 2002 and 2004 for water system improvements have an outstanding balance at December 31, 2009 of \$11.5 million. During 2009 the District issued new Revenue Bonds in the amount of \$30.5 million. The proceeds are being used for \$4.2 million in reimbursement of 2008 water capital spending from other funds available, \$8 million in water capital construction projects, \$17 million in sanitation capital construction projects, with the remainder to fund cash reserves and pay bond issuance costs. 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.

**2011 BUDGET CONSIDERATIONS**

The existing Water service rates are unchanged from 2010 rates. A new Debt Service base rate established January 2010, is to provide a reliable revenue source for repayment of the 2009 Water bonds. The annual debt service payments associated with these bonds are approximately \$.9 million. The Series 2009 Bonds Debt Service Base Rate will be 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. For 2011 this rate is increased to \$5.18 per month per SFE. The 2011 water rates are \$13.62 service base rate per SFE, plus \$5.18 debt service base rate per SFE and tiered usage rates of \$2.06 per 1,000 gallons for tier one, \$3.93 per 1,000 gallons for tier two, and \$6.16 per 1,000 gallons for tier three.

The existing Wastewater service rates are unchanged from 2010 rates (monthly base rate of \$24.35 per SFE). A new Debt Service base rate established January 2010, is to provide a reliable revenue source for repayment of the 2009 Wastewater bonds. The annual debt service payments associated with these bonds are approximately \$1 million. The Series 2009 Bonds Debt Service Base Rate will be 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. For 2011 this rate is increased to \$3.06 per month per SFE. The 2011 Wastewater rates are \$4.87 per 1,000 gallons of winter water usage, with a 5,000 gallon allowance per SFE, plus the debt service base rate of \$3.06 per SFE per month. Wastewater tap fees rates increased by 3%.

Water tap fees increased by 3%.

Property taxes were budgeted in the amount of \$1.5 million for water and \$2.0 million for sanitation.

**Eagle River Water and Sanitation District  
Management's Discussion and Analysis  
December 31, 2010  
(continued)**

**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, Customer and Financial Services Manager, 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 Assets**  
**December 31, 2010**  
**(With Comparative Totals for 2009)**

	<u>Water</u>	<u>2010 Sanitation</u>	<u>Total</u>	<u>2009 Total</u>
<b>Assets:</b>				
<b>Current Assets:</b>				
Cash and cash equivalents - Unrestricted	-	5,669,851	5,669,851	8,841,842
Cash and cash equivalents - Restricted	5,427,802	6,589,206	12,017,008	19,456,236
Investments - Unrestricted	1,526,372	2,842,316	4,368,688	4,322,729
Receivables, net of allowance for uncollectibles:				
Service	292,552	1,755,707	2,048,259	1,908,870
Property taxes	1,492,380	2,019,876	3,512,256	3,496,177
Current portion of notes receivable	-	25,606	25,606	29,885
Interest	5,486	43,782	49,268	19,724
Other	337,861	680,117	1,017,978	834,698
Inventory	98,243	294,730	392,973	365,716
Prepaid expenses	17,632	52,896	70,528	271,972
<b>Total Current Assets</b>	<u>9,198,328</u>	<u>19,974,087</u>	<u>29,172,415</u>	<u>39,547,849</u>
<b>Non-current Assets:</b>				
<b>Other Assets:</b>				
Notes receivable - Due in more than one year	2,752,722	320,365	3,073,087	2,864,297
Patronage dividend receivable	163,332	395,785	559,117	540,919
Other receivables	255,266	60,905	316,171	313,647
Debt issue costs, net of accumulated amortization	655,276	299,403	954,679	1,003,903
Investment in Eagle Park Reservoir Company	3,466,756	-	3,466,756	2,039,732
<b>Total Other Assets</b>	<u>7,293,352</u>	<u>1,076,458</u>	<u>8,369,810</u>	<u>6,762,498</u>
<b>Capital Assets:</b>				
Land and easements	-	2,947,148	2,947,148	2,946,898
Water rights	1,496,416	-	1,496,416	1,496,416
Construction in progress	1,538,383	15,509,644	17,048,027	10,044,608
Treatment plants	2,476,387	78,726,006	81,202,393	80,354,403
Distribution systems	39,465,646	48,873,203	88,338,849	84,379,831
Computers, equipment, and vehicles	1,290,913	3,872,738	5,163,651	4,975,779
Employee housing	501,676	6,218,259	6,719,935	6,358,814
Less: Accumulated depreciation	(11,931,581)	(55,645,946)	(67,577,527)	(60,749,131)
<b>Total Capital Assets</b>	<u>34,837,840</u>	<u>100,501,052</u>	<u>135,338,892</u>	<u>129,807,618</u>
<b>Total Non-current Assets</b>	<u>42,131,192</u>	<u>101,577,510</u>	<u>143,708,702</u>	<u>136,570,116</u>
<b>Total Assets</b>	<u>51,329,520</u>	<u>121,551,597</u>	<u>172,881,117</u>	<u>176,117,965</u>

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



**Eagle River Water and Sanitation District**  
**Statement of Net Assets**  
**December 31, 2010**  
**(With Comparative Totals for 2009)**  
**(Continued)**

	<u>Water</u>	<u>2010 Sanitation</u>	<u>Total</u>	<u>2009 Total</u>
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
Accounts payable	352,009	1,859,717	2,211,726	2,745,082
Service fees payable	-	1,169,173	1,169,173	1,074,921
Accrued payroll and related liabilities	2,987	8,961	11,948	13,688
Deferred property taxes	1,492,380	2,019,876	3,512,256	3,496,177
Interest payable	141,693	277,179	418,872	377,119
Loans and bonds payable - Due within one year	535,278	2,229,611	2,764,889	2,365,111
Deposits	-	19,594	19,594	24,919
<b>Total Current Liabilities</b>	<u>2,524,347</u>	<u>7,584,111</u>	<u>10,108,458</u>	<u>10,097,017</u>
<b>Non-current Liabilities:</b>				
Compensated absences - Due in more than one year	89,785	269,355	359,140	322,243
Loans and bonds payable - Due in more than one year	25,305,576	25,629,072	50,934,648	53,709,076
<b>Total Non-current Liabilities</b>	<u>25,395,361</u>	<u>25,898,427</u>	<u>51,293,788</u>	<u>54,031,319</u>
<b>Total Liabilities</b>	<u>27,919,708</u>	<u>33,482,538</u>	<u>61,402,246</u>	<u>64,128,336</u>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	14,154,199	75,799,100	89,953,299	91,328,418
Restricted for:				
Debt	1,745,900	3,432,475	5,178,375	6,036,700
Capital projects	3,681,902	3,156,731	6,838,633	16,071,996
Unrestricted	3,827,811	5,680,753	9,508,564	(1,447,485)
<b>Total Net Assets</b>	<u>23,409,812</u>	<u>88,069,059</u>	<u>111,478,871</u>	<u>111,989,629</u>

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 Assets**  
**For the Year Ended December 31, 2010**  
**(With Comparative Totals for 2009)**

	<b>2010</b>			<b>2009</b>
	<b>Water</b>	<b>Sanitation</b>	<b>Total</b>	<b>Total</b>
<b>Operating Revenues:</b>				
Service fees	3,706,863	10,325,368	14,032,231	13,244,082
Contract services	-	3,402,585	3,402,585	3,054,062
Meter sales and rental income	37,098	276,706	313,804	346,568
Other charges for services	27,971	512,713	540,684	508,437
<b>Total Operating Revenues</b>	<b>3,771,932</b>	<b>14,517,372</b>	<b>18,289,304</b>	<b>17,153,149</b>
<b>Operating Expenses:</b>				
Maintenance	690,687	1,842,798	2,533,485	2,159,452
Water operations	2,660,208	1,123,158	3,783,366	3,480,351
Wastewater treatment	-	7,772,861	7,772,861	7,473,713
Engineering	130,714	392,141	522,855	629,774
Laboratory	103,092	309,277	412,369	387,696
General and administrative	1,853,216	4,699,886	6,553,102	5,867,641
<b>Total Operating Expenses</b>	<b>5,437,917</b>	<b>16,140,121</b>	<b>21,578,038</b>	<b>19,998,627</b>
<b>Operating Income (Loss)</b>	<b>(1,665,985)</b>	<b>(1,622,749)</b>	<b>(3,288,734)</b>	<b>(2,845,478)</b>
<b>Non-operating Revenues (Expenses):</b>				
Property taxes	1,473,417	1,994,677	3,468,094	3,260,331
Specific ownership taxes	52,309	67,018	119,327	139,782
Investment income	131,572	83,262	214,834	171,466
Interest credit - Build America Bonds	-	355,015	355,015	-
Gain (loss) on disposal of capital assets	8,578	(40,591)	(32,013)	41,062
Other non-operating revenues	22,982	68,947	91,929	150,946
Interest expense	(1,176,984)	(1,400,562)	(2,577,546)	(1,595,033)
Treasurer's fees	(44,324)	(60,250)	(104,574)	(99,670)
Amortization of bond issue costs	(28,651)	(20,424)	(49,075)	(40,379)
<b>Total Non-operating Revenues</b>	<b>438,899</b>	<b>1,047,092</b>	<b>1,485,991</b>	<b>2,028,505</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>(1,227,086)</b>	<b>(575,657)</b>	<b>(1,802,743)</b>	<b>(816,973)</b>
<b>Capital Contributions:</b>				
Tap fees	322,576	461,095	783,671	2,385,925
Contributed assets	232,490	156,040	388,530	482,729
Fees in lieu of water and sewer lines	98,476	21,308	119,784	59,859
Refund of contributions - Cost recovery contract	-	-	-	(36,096)
<b>Total Capital Contributions</b>	<b>653,542</b>	<b>638,443</b>	<b>1,291,985</b>	<b>2,892,417</b>
<b>Change in Net Assets</b>	<b>(573,544)</b>	<b>62,786</b>	<b>(510,758)</b>	<b>2,075,444</b>
<b>Net Assets - Beginning of Year</b>	<b>23,983,356</b>	<b>88,006,273</b>	<b>111,989,629</b>	<b>109,914,185</b>
<b>Net Assets - End of Year</b>	<b>23,409,812</b>	<b>88,069,059</b>	<b>111,478,871</b>	<b>111,989,629</b>

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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**

	2010			2009
	Water	Sanitation	Total	Total
<b>Cash Flows From Operating Activities:</b>				
Cash received from customers and others	3,789,324	14,174,783	17,964,107	18,026,784
Cash payments for goods and services	(2,463,276)	(4,441,318)	(6,904,594)	(6,209,292)
Cash payments to employees and for benefits	(1,614,230)	(6,203,647)	(7,817,877)	(7,646,761)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(288,182)</u>	<u>3,529,818</u>	<u>3,241,636</u>	<u>4,170,731</u>
<b>Cash Flows From Non-capital Financing Activities:</b>				
Property taxes levied for operations, net	480,175	611,279	1,091,454	1,011,412
Specific ownership taxes received	17,576	21,178	38,754	44,731
Patronage dividend received	12,871	33,728	46,599	47,504
Other cash receipts	6,783	20,349	27,132	38,264
<b>Net Cash Provided (Used) by Non-capital Financing Activities</b>	<u>517,405</u>	<u>686,534</u>	<u>1,203,939</u>	<u>1,141,911</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Proceeds from bond issuance, including premium	-	-	-	30,638,758
Property taxes levied for debt service, net	948,918	1,323,148	2,272,066	2,149,000
Specific ownership taxes received	34,733	45,840	80,573	95,051
Cash received from tap fees	322,576	461,095	783,671	2,385,925
Proceeds from sale of capital assets	139,525	678,687	818,212	1,718,218
Interest subsidy payment received - Build America Bonds	-	326,074	326,074	-
Cash received (paid) related to capital asset deposit	-	(5,325)	(5,325)	11,050
Fees in lieu of water and sewer lines	98,476	21,308	119,784	59,859
Cash paid for principal on debt	(512,680)	(1,852,431)	(2,365,111)	(2,591,172)
Cash paid for interest on debt	(1,222,854)	(1,532,173)	(2,755,027)	(1,539,598)
Debt issuance cost	-	-	-	(706,714)
Payments on cost recovery contracts	-	-	-	(36,096)
Cash paid for capital acquisitions	(2,144,376)	(10,763,586)	(12,907,962)	(14,834,840)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(2,335,682)</u>	<u>(11,297,363)</u>	<u>(13,633,045)</u>	<u>17,349,441</u>
<b>Cash Flows From Investing Activities:</b>				
Interest income received	61,378	112,078	173,456	354,174
Proceeds from sales and maturities of investments	1,114,073	1,960,927	3,075,000	5,821,738
Principal received on notes receivable	-	89,301	89,301	41,223
Purchase of stock in Eagle Park Reservoir Company	(1,387,500)	-	(1,387,500)	-
Purchase of investments	(974,227)	(2,200,957)	(3,175,184)	(1,560,117)
Issuance of notes receivable	(28,738)	(170,084)	(198,822)	(230,087)
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(1,215,014)</u>	<u>(208,735)</u>	<u>(1,423,749)</u>	<u>4,426,931</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(3,321,473)	(7,289,746)	(10,611,219)	27,089,014
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>8,749,275</u>	<u>19,548,803</u>	<u>28,298,078</u>	<u>1,209,064</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>5,427,802</u></u>	<u><u>12,259,057</u></u>	<u><u>17,686,859</u></u>	<u><u>28,298,078</u></u>
<b>Represented by Balance Sheet captions:</b>				
Cash and cash equivalents - Unrestricted	-	5,669,851	5,669,851	8,841,842
Cash and cash equivalents - Restricted	5,427,802	6,589,206	12,017,008	19,456,236
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>5,427,802</u></u>	<u><u>12,259,057</u></u>	<u><u>17,686,859</u></u>	<u><u>28,298,078</u></u>

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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**  
**(Continued)**

	<b>2010</b>		<b>Total</b>	<b>2009</b>
	<b>Water</b>	<b>Sanitation</b>		<b>Total</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	(1,665,985)	(1,622,749)	(3,288,734)	(2,845,478)
<b>Adjustments:</b>				
Depreciation	1,403,302	5,493,091	6,896,393	6,475,621
(Increase) decrease in accounts receivable	17,393	(342,586)	(325,193)	541,712
(Increase) decrease in inventory	(6,814)	(20,443)	(27,257)	(61,107)
(Increase) decrease in prepaid expenses	50,361	151,083	201,444	101,873
Increase (decrease) in accounts payable	(85,893)	(258,533)	(344,426)	(154,193)
Increase (decrease) in service fees payable	(9,335)	103,587	94,252	331,923
Increase (decrease) in payroll liabilities	(435)	(1,305)	(1,740)	(224,300)
Increase (decrease) in accrued compensated absences	9,224	27,673	36,897	4,680
<b>Total Adjustments</b>	<b>1,377,803</b>	<b>5,152,567</b>	<b>6,530,370</b>	<b>7,016,209</b>
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(288,182)</b>	<b>3,529,818</b>	<b>3,241,636</b>	<b>4,170,731</b>
<b>Non-cash Investing, Capital, and Financing Activities:</b>				
Contribution of capital assets from developers	232,490	156,040	388,530	482,729
Unrealized gain (loss) on investments	(19,646)	(34,579)	(54,225)	(139,019)
Receipt of note receivable in exchange for water rights	-	-	-	2,452,302

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, 2010**

**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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements after that date to its enterprise fund, the District has chosen not to do so. 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 on the criteria above, the District is not financially accountable for any other entity nor is the District a component unit of any other government.

**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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**B. Fund Accounting (continued)**

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.

**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.

**Eagle River Water and Sanitation District  
Notes to the Financial Statements  
December 31, 2010  
(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts and Accounting Policies (continued)**

**3. Receivables**

Receivables are reported net of an allowance for uncollectible accounts. An allowance for doubtful accounts in the amount of \$42,760 has been established at December 31, 2010, 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 deferred 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 F14-F17) 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 2010, the District capitalized interest of \$209,843 as part of capital assets.

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

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



**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts and Accounting Policies (continued)**

**7. Net Assets**

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, 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 assets are 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 assets are reported as unrestricted.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are 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 Assets. Bond premiums and discounts, as well as debt issuance costs, 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. Debt issuance costs are reported as other assets and are amortized over the term of the related debt.

**10. 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.

**11. 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.

**12. Subsequent Events**

Management has evaluated subsequent events through September 28, 2011, the date these financial statements were available to be issued.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**I. Summary of Significant Accounting Policies (continued)**

**D. Financial Statement Accounts and Accounting Policies (continued)**

**13. 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, 2010, 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.

**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 2010.

1. For the 2010 budget year, prior to August 25, 2009, 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, 2009, 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, 2009, 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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**II. Stewardship, Compliance, and Accountability (continued)**

**A. Budgetary Information (continued)**

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2009 were collected in 2010 and taxes certified in 2010 will be collected in 2011. 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.

**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 requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government. Any revenues earned in excess of the fiscal year spending limit must be refunded in the next fiscal year, unless voters approve retention of such excess revenue

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

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, 2010**  
**(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 interest bearing accounts and provides unlimited coverage for non-interest bearing accounts. Interest bearing 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 \$22,055,547 and \$32,620,807 as of December 31, 2010 and 2009, respectively.

At December 31, 2010, the District had the following cash and investments with the following maturities:

	<b>Standard &amp; Poors Rating</b>	<b>Carrying Amounts</b>	<b>Maturities</b>	
			<b>Less than one year</b>	<b>1 - 5 years</b>
<i>Petty cash</i>	Not rated	2,600	2,600	-
<i>Deposits:</i>				
Checking	Not rated	694,178	694,178	-
<i>Investment pool</i>	AAAm	16,990,081	16,990,081	-
<i>Investments:</i>				
United States Treasury notes	AAA	650,356	-	650,356
Federal agency securities	AAA	3,718,332	542,347	3,175,985
<b>Total</b>		<u>22,055,547</u>	<u>18,229,206</u>	<u>3,826,341</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, 2010  
(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:

	<b>Required Ratings</b>
Federal agency securities	AAA
Commercial paper	A-1
Eligible bankers acceptances	A-1
Local government pools	AAA <sub>m</sub>
Money market mutual funds	AAA <sub>m</sub>

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, 2010**  
**(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 represent 5% or more of the total District investments at December 31, 2010 were as follows:

<u>Issuer</u>	<u>Reported Amount</u>	<u>Percentage of Investment Portfolio</u>
Federal National Mortgage Association	1,277,144	6%
Federal Home Loan Bank	1,232,704	6%

**B. Restricted Cash and Cash Equivalents**

At December 31, 2010, cash has been restricted for the following purposes:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Unspent bond proceeds	3,681,902	3,156,731	6,838,633
Debt service reserves	1,145,900	2,832,475	3,978,375
Rate stabilization funds	600,000	600,000	1,200,000
<b>Total</b>	<u>5,427,802</u>	<u>6,589,206</u>	<u>12,017,008</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	-	5,669,851	5,669,851
Cash and cash equivalents - Restricted	5,427,802	6,589,206	12,017,008
Investments - Unrestricted	1,526,372	2,842,316	4,368,688
<b>Total</b>	<u>6,954,174</u>	<u>15,101,373</u>	<u>22,055,547</u>

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(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, 2010:

	<b>1/1/10 Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>12/31/10 Ending Balance</b>
Flat Tops	2,452,302	95,000	-	2,547,302
Red Cliff	206,900	-	(25,000)	181,900
Red Sandstone Creek	-	108,872	(25,066)	83,806
Employees	195,735	89,950	-	285,685
Sewer tap purchases	39,245	-	(39,245)	-
	<u>2,894,182</u>	<u>293,822</u>	<u>(89,311)</u>	<u>3,098,693</u>
Less: Current portion	(29,885)	-	4,279	(25,606)
Long-term portion	<u>2,864,297</u>	<u>293,822</u>	<u>(85,032)</u>	<u>3,073,087</u>

The following notes receivable were outstanding as of December 31, 2010:

**1. Flat Tops**

In 2005, the District and Upper Eagle Regional Water Authority (the "Authority") jointly entered into an agreement to purchase water rights. In 2009, due to the determination that alternative water rights available would be of greater benefit to the District, the purchase of these water rights was rescinded by the District. In addition to a cash payment, the District received a \$2,375,000 note receivable in exchange for its claim to these water rights. The annual interest rate on the note is 4% and is to be collected by March 9, 2011, if not earlier.

**2. Red Cliff**

The District performed work to repair the Town of Red Cliff's water treatment plant during 2008 and 2009. Annual payments of \$25,000 are expected to be made by the Town to reimburse the District for costs incurred on this repair work. This note is non-interest bearing.

**3. 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.

**4. 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, 2010**  
**(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, 2010, the District received a refund of \$46,599 from Holy Cross. The balance due to the District at December 31, 2010 and 2009 was \$559,117 and \$540,919, 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, including the Arkansas well water 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, 2009, the District held 3,420 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 \$2,039,732.

During 2010, the District acquired an additional 925 Class A shares through an investment of an additional \$1,387,500 in the Reservoir Company when the Reservoir Company entered into an agreement with the City of Aurora to exchange water (the “2010 Water Delivery Agreement”). During 2010, the District capitalized \$39,524 of costs associated with the enlargement of an unrelated dam, for which the District had already received 120 Class A shares.

As of December 31, 2010, 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 F14-F17) for additional information.



**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Capital Assets**

Capital asset activity related to water services for 2010 was as follows:

	<u>1/1/10 Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/10 Ending Balance</u>
<b>Water</b>				
Capital assets, not being depreciated:				
Water rights	1,496,416	-	-	1,496,416
Construction in progress	1,116,886	876,298	(454,801)	1,538,383
Total capital assets, not being depreciated	<u>2,613,302</u>	<u>876,298</u>	<u>(454,801)</u>	<u>3,034,799</u>
Capital assets, being depreciated:				
Treatment plants	2,332,683	143,704	-	2,476,387
Distribution systems	37,835,485	1,630,161	-	39,465,646
Computers, equipment and vehicles	1,243,945	57,507	(10,539)	1,290,913
Employee housing	431,196	180,401	(109,921)	501,676
Total capital assets being depreciated	<u>41,843,309</u>	<u>2,011,773</u>	<u>(120,460)</u>	<u>43,734,622</u>
Less accumulated depreciation for:				
Treatment plants	(801,972)	(129,070)	-	(931,042)
Distribution systems	(8,981,015)	(1,123,006)	-	(10,104,021)
Computers, equipment and vehicles	(684,483)	(140,448)	9,485	(815,446)
Employee housing	(77,808)	(10,779)	7,515	(81,072)
Total accumulated depreciation	<u>(10,545,278)</u>	<u>(1,403,303)</u>	<u>17,000</u>	<u>(11,931,581)</u>
Total capital assets, being depreciated, net	<u>31,298,031</u>	<u>608,470</u>	<u>(103,460)</u>	<u>31,803,041</u>
<b>Total capital assets, net - Water</b>	<u><u>33,911,333</u></u>	<u><u>1,484,768</u></u>	<u><u>(558,261)</u></u>	<u><u>34,837,840</u></u>

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**G. Capital Assets (continued)**

Capital asset activity related to sanitation services for 2010 was as follows:

	<u>1/1/10 Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/10 Ending Balance</u>
<b>Sanitation</b>				
Capital assets, not being depreciated:				
Land and easements	2,946,898	250	-	2,947,148
Construction in progress	8,927,722	8,736,760	(2,154,838)	15,509,644
Total capital assets, not being depreciated	<u>11,874,620</u>	<u>8,737,010</u>	<u>(2,154,838)</u>	<u>18,456,792</u>
Capital assets, being depreciated:				
Treatment plants	78,021,720	704,286	-	78,726,006
Distribution systems	46,544,346	2,328,857	-	48,873,203
Computers, equipment and vehicles	3,731,834	172,520	(31,616)	3,872,738
Employee housing	5,927,618	1,056,783	(766,142)	6,218,259
Total capital assets being depreciated	<u>134,225,518</u>	<u>4,262,446</u>	<u>(797,758)</u>	<u>137,690,206</u>
Less accumulated depreciation for:				
Treatment plants	(33,336,797)	(3,579,857)	-	(36,916,654)
Distribution systems	(14,418,376)	(1,354,389)	-	(15,772,765)
Computers, equipment and vehicles	(2,053,487)	(421,304)	28,454	(2,446,337)
Employee housing	(395,193)	(137,540)	22,543	(510,190)
Total accumulated depreciation	<u>(50,203,853)</u>	<u>(5,493,090)</u>	<u>50,997</u>	<u>(55,645,946)</u>
Total capital assets, being depreciated, net	<u>84,021,665</u>	<u>(1,230,644)</u>	<u>(746,761)</u>	<u>82,044,260</u>
<b>Total capital assets, net - Sanitation</b>	<u><u>95,896,285</u></u>	<u><u>7,506,366</u></u>	<u><u>(2,901,599)</u></u>	<u><u>100,501,052</u></u>

Depreciation expense for the year ended December 31, 2010 was charged to the following departments:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Maintenance	63,119	189,356	252,475
Water operations	1,252,080	-	1,252,080
Wastewater treatment	-	4,934,246	4,934,246
General and administrative	88,104	369,488	457,592
<b>Total</b>	<u><u>1,403,303</u></u>	<u><u>5,493,090</u></u>	<u><u>6,896,393</u></u>

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(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. 2002 Colorado Water Resources and Power Development Authority ("CWRPDA") Loan**

In May 2002, the District entered a \$4,560,000 loan agreement with CWRDPA, the proceeds of which were used for the construction of water facility improvements, the replacement of water distribution lines, and the construction of other improvements to the water system. The District's electorate approved this long-term obligation as general obligation debt in the May 2002 election. As a result, this debt service is being retired through property taxes rather than increased service charges.

Principal and variable interest payments are due April 1 and October 1, through 2022. The loan bears interest between 3.00% and 5.38% annually.

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

The loan agreement contains various restrictive covenants, including a requirement that the District maintain an operations and maintenance reserve in amount equal to 25% of the operations and maintenance expenditures budgeted for the current fiscal year.

**3. General Obligation Water Bonds, Series 2004**

The District 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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Long-Term Debt – Water (continued)**

**3. General Obligation Water Bonds, Series 2004 (continued)**

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.

**4. Water Enterprise Revenue Bonds, Series 2009**

The District 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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**H. Long-Term Debt – Water (continued)**

**4. Water Enterprise Revenue Bonds, Series 2009 (continued)**

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, 2010 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.

**I. Long-Term Debt – Sanitation**

**1. 1992 CWRPDA Loan**

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

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or if 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 loan agreement contains various restrictive covenants, including a Rate Maintenance Covenant. Also, the loan agreement requires the District to maintain an operations and maintenance reserve in amount equal to 25% of the operations and maintenance expenditures budgeted for the succeeding fiscal year or \$1,250,000, whichever is less.

**2. 1995 CWRPDA Loan**

In May 1995, the District entered a \$6,099,183 loan agreement with CWRPDA, 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 if in part, in a minimum of \$100,000 increments.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

**2. 1995 CWRPDA Loan (continued)**

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 loan agreement contains various restrictive covenants, including a Rate Maintenance Covenant. Also, the loan agreement 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 Loan**

In April 1998, the District entered 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 if 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 loan agreement contains various restrictive covenants, including a Rate Maintenance Covenant. Also, the loan agreement 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.

**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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

**4. Tax-Exempt Wastewater Revenue Bonds, Series 2009A (continued)**

The bond documents include a Rate Maintenance Covenant, which requires the Authority 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, 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, 2010 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.

**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, 2010, the District recognized revenue of \$355,015 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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**I. Long-Term Debt – Sanitation (continued)**

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

The bond documents include a Rate Maintenance Covenant, which requires the Authority 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, 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, 2010 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.



**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**J. Long-term Liability Activity Schedule**

Long-term liability activity for 2010 was as follows:

	<u>1/1/10 Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/10 Ending Balance</u>	<u>Due Within One Year</u>
<b>Water</b>					
1998 assessment obligation note	1,522,991	-	(47,680)	1,475,311	50,278
2002 CWRPDA loan	3,335,000	-	(195,000)	3,140,000	205,000
2004 general obligation bonds	8,115,000	-	(270,000)	7,845,000	280,000
2009 water enterprise revenue bonds	13,225,000	-	-	13,225,000	-
Unmortized bond premiums	162,348	-	(6,805)	155,543	-
Accrued compensated absences	80,561	9,224	-	89,785	-
Subtotal - Water	<u>26,440,900</u>	<u>9,224</u>	<u>(519,485)</u>	<u>25,930,639</u>	<u>535,278</u>
<b>Sanitation</b>					
1992 CWRPDA loan	2,034,175	-	(468,073)	1,566,102	487,327
1995 CWRPDA loan	2,251,843	-	(341,513)	1,910,330	352,184
1998 CWRPDA loan	8,100,879	-	(1,042,846)	7,058,033	1,075,100
2009A wastewater revenue bonds	1,460,000	-	-	1,460,000	315,000
2009B wastewater revenue bonds	15,785,000	-	-	15,785,000	-
Unmortized bond premiums	81,951	-	(2,733)	79,218	-
Accrued compensated absences	241,682	27,673	-	269,355	-
Subtotal - Sanitation	<u>29,955,530</u>	<u>27,673</u>	<u>(1,855,165)</u>	<u>28,128,038</u>	<u>2,229,611</u>
<b>Total</b>	<u><u>56,396,430</u></u>	<u><u>36,897</u></u>	<u><u>(2,374,650)</u></u>	<u><u>54,058,677</u></u>	<u><u>2,764,889</u></u>

**K. Debt Service Schedules**

Debt service requirements at December 31, 2010, were as follows for water operations:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Water</b>			
2011	535,278	1,203,182	1,738,460
2012	818,018	1,178,243	1,996,261
2013	840,908	1,148,695	1,989,603
2014	873,955	1,117,584	1,991,539
2015	907,168	1,083,668	1,990,836
2016 - 2020	5,140,509	4,821,807	9,962,316
2021 - 2025	5,326,574	3,585,608	8,912,182
2026 - 2030	5,032,901	2,280,086	7,312,987
2031 - 2035	3,105,000	1,281,187	4,386,187
2036 - 2039	3,105,000	407,694	3,512,694
<b>Total water debt service</b>	<u><u>25,685,311</u></u>	<u><u>18,107,754</u></u>	<u><u>43,793,065</u></u>

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(Continued)**

**III. Detailed Notes on All Funds (continued)**

**K. Debt Service Schedules (continued)**

Debt service requirements at December 31, 2010, were as follows for sanitation operations:

			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Sanitation</b>					
2011			2,229,611	1,533,269	3,762,880
2012			2,314,369	1,452,269	3,766,638
2013			2,397,335	1,370,490	3,767,825
2014			2,051,396	1,279,233	3,330,629
2015			2,028,630	1,156,612	3,185,242
2016	-	2020	3,308,124	4,749,280	8,057,404
2021	-	2025	2,345,000	4,129,789	6,474,789
2026	-	2030	2,850,000	3,346,150	6,196,150
2031	-	2035	3,505,000	2,335,777	5,840,777
2036	-	2039	4,750,000	956,711	5,706,711
<b>Total sanitation debt service</b>			<u><u>27,779,465</u></u>	<u><u>22,309,580</u></u>	<u><u>50,089,045</u></u>

Aggregate debt service requirements at December 31, 2010, were as follows for the District:

			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Combined</b>					
2011			2,764,889	2,736,451	5,501,340
2012			3,132,387	2,630,512	5,762,899
2013			3,238,243	2,519,185	5,757,428
2014			2,925,351	2,396,817	5,322,168
2015			2,935,798	2,240,280	5,176,078
2016	-	2020	8,448,633	9,571,087	18,019,720
2021	-	2025	7,671,574	7,715,397	15,386,971
2026	-	2030	7,882,901	5,626,236	13,509,137
2031	-	2035	6,610,000	3,616,964	10,226,964
2036	-	2039	7,855,000	1,364,405	9,219,405
<b>Total combined debt service</b>			<u><u>53,464,776</u></u>	<u><u>40,417,334</u></u>	<u><u>93,882,110</u></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, 2010**  
**(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 \$286,940 for plan members and \$639,131 for the District for the year ended December 31, 2010.

**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.

**Eagle River Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2010**  
**(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, 2010 and 2009, the net amount due from the Authority to the District was \$205,768 and \$203,243, respectively.

**2. Contract for Water Services**

Through an agreement, the District provides administration, operations, billing and maintenance 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 \$3,367,845 and \$3,034,204 of contract fees from the Authority during 2010 and 2009, respectively. The District has outstanding management fees due from the Authority as of December 31, 2010 and 2009 totaling \$204,034 and \$138,947, respectively, included in other receivables. There were other outstanding receivables, for operations services, due from the Authority as of December 31, 2010 and 2009 totaling \$396,816 and \$70,022, respectively, included in other accounts receivables. As of December 31, 2010 there was \$967,847, 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, 2010**  
**(Continued)**

**IV. Other Information (continued)**

**D. Intergovernmental Agreements (continued)**

**2. Contract for Water Services (continued)**

The District earned \$34,070 and \$19,858 of contract fees from other governments which it has similar agreements (i.e. Town of Minturn, Holland Creek Metro District, Town of Red Cliff, and Eagle Park Reservoir Company) during 2010 and 2009, 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, 2010, the District collected \$18,211 of tap fees, which are subject to developer reimbursement, and reimbursed \$0 to developers.

Capital contributions subject to cost recovery at December 31, 2010, including taps collected and not paid, amounts to \$1,704,882.

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.

**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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**

	2010			Final Budget Variance Positive (Negative)	2009
	Original Budget	Final Budget	Actual		Actual
<b>Revenues:</b>					
<b>Water:</b>					
Service fees	3,645,000	3,645,000	3,706,863	61,863	3,274,177
Rental income	34,637	34,637	37,098	2,461	35,374
Other charges for services	60,000	60,000	25,446	(34,554)	59,095
Property taxes	1,477,680	1,477,680	1,473,417	(4,263)	1,403,972
Specific ownership taxes	90,320	90,320	52,309	(38,011)	61,521
Investment income	41,000	41,000	36,572	(4,428)	117,284
Proceeds from sale of assets	-	-	139,525	139,525	461,481
Tap fees	78,000	78,000	322,576	244,576	1,049,473
Fees in lieu of water lines	-	-	98,476	98,476	44,100
Proceeds from bond issue	-	-	-	-	13,311,806
Other	12,000	12,000	19,654	7,654	18,904
<b>Total Water Revenues</b>	<u>5,438,637</u>	<u>5,438,637</u>	<u>5,911,936</u>	<u>473,299</u>	<u>19,837,187</u>
<b>Sanitation:</b>					
Service fees	10,573,000	10,573,000	10,325,368	(247,632)	9,969,905
Contract services	3,500,000	3,500,000	3,402,585	(97,415)	3,054,062
Rental income	214,628	214,628	211,780	(2,848)	209,817
Meter sales	88,000	88,000	64,926	(23,074)	101,377
Other charges for services	402,600	402,600	512,713	110,113	474,705
Property taxes	1,963,235	1,963,235	1,994,677	31,442	1,856,359
Specific ownership taxes	125,174	125,174	67,018	(58,156)	78,261
Investment income	149,000	149,000	83,262	(65,738)	54,182
Interest credit - Build America Bonds	-	-	355,015	355,015	-
Proceeds from sale of assets	-	-	678,687	678,687	1,256,737
Tap fees	198,000	198,000	461,095	263,095	1,336,452
Fees in lieu of sewer lines	-	-	21,308	21,308	15,759
Proceeds from bond issue	-	-	-	-	17,327,011
Other	34,000	34,000	54,077	20,077	66,874
<b>Total Sanitation Revenues</b>	<u>17,247,637</u>	<u>17,247,637</u>	<u>18,232,511</u>	<u>984,874</u>	<u>35,801,501</u>
<b>Total Revenues</b>	<u>22,686,274</u>	<u>22,686,274</u>	<u>24,144,447</u>	<u>1,458,173</u>	<u>55,638,688</u>
<b>Expenditures - Water:</b>					
<b>Maintenance:</b>					
Salaries and benefits	376,975	376,975	358,725	18,250	321,025
Supplies and materials	65,838	65,838	85,219	(19,381)	72,186
Repairs and maintenance	70,000	70,000	117,620	(47,620)	29,488
Other	106,432	106,432	61,821	44,611	22,635
<b>Subtotal - Maintenance</b>	<u>619,245</u>	<u>619,245</u>	<u>623,385</u>	<u>(4,140)</u>	<u>445,334</u>
<b>Water Operations:</b>					
Salaries and benefits	350,487	350,487	362,983	(12,496)	327,343
Supplies and materials	10,223	10,223	8,212	2,011	11,341
Utilities	247,000	247,000	239,562	7,438	214,361
Chemicals	46,000	46,000	50,172	(4,172)	56,591
Repairs and maintenance	91,500	91,500	117,164	(25,664)	120,335
Meter replacement	150,000	150,000	99,410	50,590	165,085
Other	329,270	329,270	527,433	(198,163)	401,200
<b>Subtotal - Water Operations</b>	<u>1,224,480</u>	<u>1,224,480</u>	<u>1,404,936</u>	<u>(180,456)</u>	<u>1,296,256</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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**  
**(Continued)**

	2010			2009	
	Original Budget	Final Budget	Actual	Final Budget Variance Positive (Negative)	Actual
<b>Expenditures - Water (continued):</b>					
<b>Engineering:</b>					
Salaries and benefits	152,932	152,932	126,371	26,561	152,335
Supplies and materials	250	250	441	(191)	81
Other	6,466	6,466	5,236	1,230	5,028
<b>Subtotal - Engineering</b>	<u>159,648</u>	<u>159,648</u>	<u>132,048</u>	<u>27,600</u>	<u>157,444</u>
<b>Laboratory:</b>					
Salaries and benefits	80,667	80,667	73,234	7,433	73,131
Supplies and materials	17,425	17,425	22,353	(4,928)	15,867
Outside services	6,500	6,500	5,463	1,037	5,538
Other	1,766	1,766	2,719	(953)	2,388
<b>Subtotal - Laboratory</b>	<u>106,358</u>	<u>106,358</u>	<u>103,769</u>	<u>2,589</u>	<u>96,924</u>
<b>General and Administrative:</b>					
<b>Office:</b>					
Salaries and benefits	331,254	331,254	324,003	7,251	312,797
Supplies and materials	20,253	20,253	17,575	2,678	18,543
Telephone and radio service	38,750	38,750	42,327	(3,577)	42,275
Insurance	53,575	53,575	43,695	9,880	49,874
Other	74,560	74,560	71,210	3,350	87,276
<b>Subtotal - Office</b>	<u>518,392</u>	<u>518,392</u>	<u>498,810</u>	<u>19,582</u>	<u>510,765</u>
<b>Accounting:</b>					
Salaries and benefits	110,210	110,210	111,175	(965)	106,309
Supplies and materials	2,761	2,761	1,363	1,398	883
<b>Subtotal - Accounting</b>	<u>112,971</u>	<u>112,971</u>	<u>112,538</u>	<u>433</u>	<u>107,192</u>
<b>Customer Service:</b>					
Salaries and benefits	112,931	112,931	129,460	(16,529)	107,013
Supplies and materials	124,500	124,500	48,333	76,167	43,943
<b>Subtotal - Customer Service</b>	<u>237,431</u>	<u>237,431</u>	<u>177,793</u>	<u>59,638</u>	<u>150,956</u>
<b>Information Technology:</b>					
Salaries and benefits	133,180	133,180	130,120	3,060	124,835
Supplies and materials	83,918	83,918	81,438	2,480	55,314
<b>Subtotal - Information Technology</b>	<u>217,098</u>	<u>217,098</u>	<u>211,558</u>	<u>5,540</u>	<u>180,149</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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**  
**(Continued)**

	2010			Final Budget Variance Positive (Negative)	2009
	Original Budget	Final Budget	Actual		Actual
<b>Expenditures - Water (continued):</b>					
<b>General and Administrative (continued):</b>					
<b>Other:</b>					
Legal	75,000	75,000	106,211	(31,211)	39,795
Accounting and audit	26,500	26,500	25,083	1,417	16,594
Engineering	30,000	30,000	48,930	(18,930)	45,095
Management and consulting	297,500	297,500	413,882	(116,382)	773,665
Benefit administration	16,250	16,250	17,485	(1,235)	13,394
Community relations	12,468	12,468	4,138	8,330	4,557
On-call housing	16,375	16,375	19,660	(3,285)	20,343
Directors fees and expenses	4,300	4,300	3,587	713	3,659
Maintenance contracts	50,000	50,000	59,369	(9,369)	42,983
Water quality	74,000	74,000	61,505	12,495	50,221
Treasurer's fees	59,220	59,220	44,324	14,896	43,194
Net loan advances (repayments)	-	-	28,738	(28,738)	48,934
<b>Subtotal - Other</b>	<u>661,613</u>	<u>661,613</u>	<u>832,912</u>	<u>(171,299)</u>	<u>1,102,434</u>
<b>Total General and Administrative</b>	<u>1,747,505</u>	<u>1,747,505</u>	<u>1,833,611</u>	<u>(86,106)</u>	<u>2,051,496</u>
<b>Debt Service:</b>					
Principal	512,680	512,680	512,680	-	795,965
Interest	1,223,374	1,223,374	1,219,419	3,955	989,979
Issue costs	-	-	-	-	245,660
<b>Subtotal - Debt Service</b>	<u>1,736,054</u>	<u>1,736,054</u>	<u>1,732,099</u>	<u>3,955</u>	<u>2,031,604</u>
<b>Eagle Park Reservoir Company Stock Purchases - Water Rights</b>					
	-	1,400,000	1,387,500	12,500	-
<b>Capital Outlay</b>	<u>3,050,095</u>	<u>5,475,095</u>	<u>2,216,582</u>	<u>3,258,513</u>	<u>3,204,399</u>
<b>Total Water Expenditures</b>	<u>8,643,385</u>	<u>12,468,385</u>	<u>9,433,930</u>	<u>3,034,455</u>	<u>9,283,457</u>
<b>Expenditures - Sanitation:</b>					
<b>Maintenance:</b>					
Salaries and benefits	1,130,919	1,130,919	1,076,177	54,742	963,076
Supplies and materials	197,513	197,513	255,658	(58,145)	216,559
Repairs and maintenance	220,000	220,000	194,668	25,332	195,132
Other	140,635	140,635	114,391	26,244	114,264
<b>Subtotal - Maintenance</b>	<u>1,689,067</u>	<u>1,689,067</u>	<u>1,640,894</u>	<u>48,173</u>	<u>1,489,031</u>
<b>Water Operations:</b>					
Salaries and benefits	1,051,460	1,051,460	1,088,948	(37,488)	982,030
Supplies and materials	30,668	30,668	24,636	6,032	34,024
<b>Subtotal - Water Operations</b>	<u>1,082,128</u>	<u>1,082,128</u>	<u>1,113,584</u>	<u>(31,456)</u>	<u>1,016,054</u>
<b>Wastewater Treatment:</b>					
Salaries and benefits	1,394,098	1,394,098	1,351,857	42,241	1,308,666
Supplies and materials	352,225	352,225	279,026	73,199	280,169
Repairs and maintenance	461,500	461,500	295,432	166,068	328,685
Utilities	925,500	925,500	786,692	138,808	807,555
Permits	32,520	32,520	57,364	(24,844)	29,465
Other	36,691	36,691	21,356	15,335	30,250
<b>Subtotal - Wastewater Treatment</b>	<u>3,202,534</u>	<u>3,202,534</u>	<u>2,791,727</u>	<u>410,807</u>	<u>2,784,790</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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**  
**(Continued)**

	2010			2009	
	Original Budget	Final Budget	Actual	Final Budget Variance Positive (Negative)	Actual
<b>Expenditures - Sanitation (continued):</b>					
<b>Engineering:</b>					
Salaries and benefits	458,797	458,797	379,113	79,684	457,005
Supplies and materials	750	750	1,323	(573)	242
Other	19,397	19,397	15,708	3,689	15,083
<b>Subtotal - Engineering</b>	<b>478,944</b>	<b>478,944</b>	<b>396,144</b>	<b>82,800</b>	<b>472,330</b>
<b>Laboratory:</b>					
Salaries and benefits	241,999	241,999	219,701	22,298	219,394
Supplies and materials	52,275	52,275	67,058	(14,783)	47,600
Outside services	19,500	19,500	16,389	3,111	16,614
Other	5,298	5,298	8,157	(2,859)	7,164
<b>Subtotal - Laboratory</b>	<b>319,072</b>	<b>319,072</b>	<b>311,305</b>	<b>7,767</b>	<b>290,772</b>
<b>General and Administrative:</b>					
<b>Office:</b>					
Salaries and benefits	993,761	993,761	972,008	21,753	938,391
Supplies and materials	60,758	60,758	52,726	8,032	55,630
Telephone and radio service	116,250	116,250	126,982	(10,732)	126,826
Insurance	160,725	160,725	131,086	29,639	149,623
Other	223,679	223,679	213,630	10,049	273,037
<b>Subtotal - Office</b>	<b>1,555,173</b>	<b>1,555,173</b>	<b>1,496,432</b>	<b>58,741</b>	<b>1,543,507</b>
<b>Accounting:</b>					
Salaries and benefits	330,630	330,630	333,524	(2,894)	318,926
Supplies and materials	8,282	8,282	4,090	4,192	2,649
<b>Subtotal - Accounting</b>	<b>338,912</b>	<b>338,912</b>	<b>337,614</b>	<b>1,298</b>	<b>321,575</b>
<b>Customer Service:</b>					
Salaries and benefits	338,793	338,793	388,380	(49,587)	321,040
Supplies and materials	373,499	373,499	144,999	228,500	131,829
<b>Subtotal - Customer Service</b>	<b>712,292</b>	<b>712,292</b>	<b>533,379</b>	<b>178,913</b>	<b>452,869</b>
<b>Information Technology:</b>					
Salaries and benefits	399,541	399,541	390,361	9,180	374,506
Supplies and materials	251,753	251,753	244,313	7,440	165,943
<b>Subtotal - Information Technology</b>	<b>651,294</b>	<b>651,294</b>	<b>634,674</b>	<b>16,620</b>	<b>540,449</b>
<b>Other:</b>					
Legal	75,059	75,059	95,515	(20,456)	119,443
Accounting and audit	26,500	26,500	25,083	1,417	49,781
Engineering	30,000	30,000	13,710	16,290	7,979
Management and consulting	32,500	32,500	31,904	596	24,080
Benefit administration	48,750	48,750	52,454	(3,704)	40,182
Community relations	37,403	37,403	12,413	24,990	13,670
On-call housing	49,125	49,125	58,979	(9,854)	61,030
Directors fees and expenses	12,900	12,900	10,762	2,138	10,977
Maintenance contracts	150,000	150,000	178,107	(28,107)	128,948
Sanitation quality	230,000	230,000	744,399	(514,399)	195,534
Treasurer's fees	60,247	60,247	60,250	(3)	56,475
Cost recovery payments	10,000	10,000	-	10,000	36,096
Net loan advances (repayments)	(7,339)	(7,339)	85,062	(92,401)	149,392
<b>Subtotal - Other</b>	<b>755,145</b>	<b>755,145</b>	<b>1,368,638</b>	<b>(613,493)</b>	<b>893,587</b>
<b>Total General and Administrative</b>	<b>4,012,816</b>	<b>4,012,816</b>	<b>4,370,737</b>	<b>(357,921)</b>	<b>3,751,987</b>

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, 2010**  
**(With Comparative Totals for the Year Ended 2009)**  
**(Continued)**

	2010			Final Budget Variance Positive (Negative)	2009
	Original Budget	Final Budget	Actual		Actual
<b>Expenditures - Sanitation (continued):</b>					
<b>Debt Service:</b>					
Principal	1,852,430	1,852,430	1,852,431	(1)	1,795,207
Interest	1,279,011	1,279,011	1,577,361	(298,350)	610,734
Issue costs	-	-	-	-	461,054
<b>Subtotal - Debt Service</b>	<u>3,131,441</u>	<u>3,131,441</u>	<u>3,429,792</u>	<u>(298,351)</u>	<u>2,866,995</u>
<b>Capital Outlay</b>	<u>13,581,250</u>	<u>15,756,250</u>	<u>10,643,431</u>	<u>5,112,819</u>	<u>12,590,529</u>
<b>Total Sanitation Expenditures</b>	<u>27,497,252</u>	<u>29,672,252</u>	<u>24,697,614</u>	<u>4,974,638</u>	<u>25,262,488</u>
<b>Total District Expenditures</b>	<u>36,140,637</u>	<u>42,140,637</u>	<u>34,131,544</u>	<u>8,009,093</u>	<u>34,545,945</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(13,454,363)	(19,454,363)	(9,987,097)	9,467,266	21,092,743
Fund Available - Beginning of Year	<u>26,945,884</u>	<u>26,945,884</u>	<u>31,815,943</u>	<u>4,870,059</u>	<u>10,723,200</u>
Funds Available - End of Year	<u>13,491,521</u>	<u>7,491,521</u>	<u>21,828,846</u>	<u>14,337,325</u>	<u>31,815,943</u>
<b>Funds available at year-end is computed as follows:</b>					
Current assets			29,172,415		39,547,849
Current liabilities			(10,108,458)		(10,097,017)
Current portion of long-term obligations			<u>2,764,889</u>		<u>2,365,111</u>
			<u>21,828,846</u>		<u>31,815,943</u>
<b>Reconciliation to GAAP Basis:</b>					
Excess (deficiency) of revenues over expenditures			(9,987,097)		21,092,743
Contributed assets from developers			388,530		482,729
Proceeds from bond issue			-		(30,638,817)
Change in patronage dividends receivable			18,198		65,168
Change in other long-term receivables			2,525		(25,363)
Proceeds from disposition of capital assets			(818,212)		(1,718,218)
Gain (loss) on disposition of property			(32,013)		41,062
Increase in accrued interest on long-term note receivable			95,000		-
Depreciation			(6,896,393)		(6,475,621)
Bond and loan issue cost amortization			(49,075)		(40,379)
Amortization of bond premiums and discounts			9,391		5,680
Net loan advances (repayments)			113,800		198,326
Debt principal payments			2,365,111		2,591,172
Increase in investment in Eagle Park Reservoir Company			1,387,500		-
Capitalized assets			12,860,013		15,794,928
Prior year construction in progress expensed in the current year			(140,982)		-
Capitalized interest			209,843		-
Change in compensated absences			(36,897)		(4,680)
Capitalized debt issue costs			-		706,714
<b>Change in Net Assets - GAAP Basis</b>			<u>(510,758)</u>		<u>2,075,444</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, 2010**

**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>
2011	50,278	80,405	130,683
2012	53,018	77,665	130,683
2013	55,908	74,775	130,683
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	123,928	6,755	130,683
	<u>1,475,311</u>	<u>876,983</u>	<u>2,352,294</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, 2010**

**2002 General Obligation Loan**  
**Payable to Colorado Water Resources and**  
**Power Development Authority**  
**Original Principal - \$4,560,000**  
**Interest Rate - 3.00% to 5.38%**

<u>Year Ending</u> <u>December 31,</u>	<u>Principal Due</u> <u>April 1 and</u> <u>October 1</u>	<u>Interest Due</u> <u>April 1 and</u> <u>October 1</u>	<u>Total</u>
2011	205,000	148,060	353,060
2012	215,000	139,860	354,860
2013	220,000	131,153	351,153
2014	230,000	121,912	351,912
2015	240,000	112,023	352,023
2016	250,000	101,462	351,462
2017	260,000	90,212	350,212
2018	275,000	78,188	353,188
2019	285,000	65,262	350,262
2020	305,000	49,944	354,944
2021	320,000	33,550	353,550
2022	335,000	16,750	351,750
	<u>3,140,000</u>	<u>1,088,376</u>	<u>4,228,376</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, 2010**

**2004 General Obligation Water Bonds**

**Original Principal - \$9,335,000**

**Interest Rate - 3.25% to 5.00%**

<b>Year Ending December 31,</b>	<b>Principal Due June 1 and December 1</b>	<b>Interest Due June 1 and December 1</b>	<b>Total</b>
2011	280,000	356,555	636,555
2012	290,000	342,555	632,555
2013	300,000	332,405	632,405
2014	310,000	321,531	631,531
2015	325,000	308,968	633,968
2016	335,000	296,618	631,618
2017	350,000	283,218	633,218
2018	365,000	269,218	634,218
2019	380,000	254,253	634,253
2020	395,000	237,913	632,913
2021	415,000	221,125	636,125
2022	430,000	203,280	633,280
2023	450,000	183,500	633,500
2024	475,000	161,000	636,000
2025	495,000	137,250	632,250
2026	520,000	112,500	632,500
2027	550,000	86,500	636,500
2028	575,000	59,000	634,000
2029	605,000	30,250	635,250
	<u>7,845,000</u>	<u>4,197,639</u>	<u>12,042,639</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, 2010**

**2009 Water Enterprise Revenue Bonds**

**Original Principal - \$13,225,000**

**Interest Rate - 3.00% to 5.13%**

<b>Year Ending December 31,</b>	<b>Principal Due June 1 and December 1</b>	<b>Interest Due June 1 and December 1</b>	<b>Total</b>
2011	-	618,162	618,162
2012	260,000	618,163	878,163
2013	265,000	610,362	875,362
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>13,225,000</u>	<u>11,944,756</u>	<u>25,169,756</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, 2010**

<b>1992 Loan</b>			
<b>Payable to Colorado Water Resources and</b>			
<b>Power Development Authority</b>			
<b>Principal - \$7,368,840</b>			
<b>Interest Rate - 4.15% to 6.25%</b>			
<b>Year Ending</b>	<b>Principal Due</b>	<b>Interest Due</b>	<b>Total</b>
<b>December 31,</b>	<b>May 1 and</b>	<b>February 1,</b>	<b>May 1, August 1</b>
	<b>August 1</b>	<b>and November 1</b>	<b>and November 1</b>
2011	487,327	76,782	564,109
2012	524,535	53,144	577,679
2013	554,240	25,248	579,488
	1,566,102	155,174	1,721,276

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, 2010**

<b>1995 Loan</b>			
<b>Payable to Colorado Water Resources and</b>			
<b>Power Development Authority</b>			
<b>Principal After Refinancing - \$6,099,183</b>			
<b>Interest Rate - 4.58%</b>			
<b>Year Ending</b>	<b>Principal Due</b>	<b>Interest Due</b>	
<b>December 31,</b>	<b>February 1 and</b>	<b>February 1 and</b>	
	<b>August 1</b>	<b>August 1</b>	<b>Total</b>
2011	352,184	104,710	456,894
2012	362,856	91,888	454,744
2013	378,864	78,491	457,355
2014	389,537	60,822	450,359
2015	426,889	25,809	452,698
	<u>1,910,330</u>	<u>361,720</u>	<u>2,272,050</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, 2010**

<b>1998 Loan</b>			
<b>Payable to Colorado Water Resources and</b>			
<b>Power Development Authority</b>			
<b>Principal - \$17,685,396</b>			
<b>Interest Rate - 3.94%</b>			
<b>Year Ending</b>	<b>Principal Due</b>	<b>Interest Due</b>	
<b>December 31,</b>	<b>February 1 and</b>	<b>February 1 and</b>	
	<b>August 1</b>	<b>August 1</b>	<b>Total</b>
2011	1,075,100	309,147	1,384,247
2012	1,101,978	274,058	1,376,036
2013	1,134,231	243,321	1,377,552
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>7,058,033</u>	<u>1,224,637</u>	<u>8,282,670</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, 2010**

<b>2009 Wastewater Revenue Bonds</b>			
<b>Principal - \$1,460,000</b>			
<b>Interest Rate - 3.00% - 4.00%</b>			
<b>Year Ending December 31,</b>	<b>Principal Due December 1</b>	<b>Interest Due June 1 and December 1</b>	<b>Total</b>
2011	315,000	50,350	365,350
2012	325,000	40,900	365,900
2013	330,000	31,150	361,150
2014	490,000	19,600	509,600
	<u>1,460,000</u>	<u>142,000</u>	<u>1,602,000</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, 2010**

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

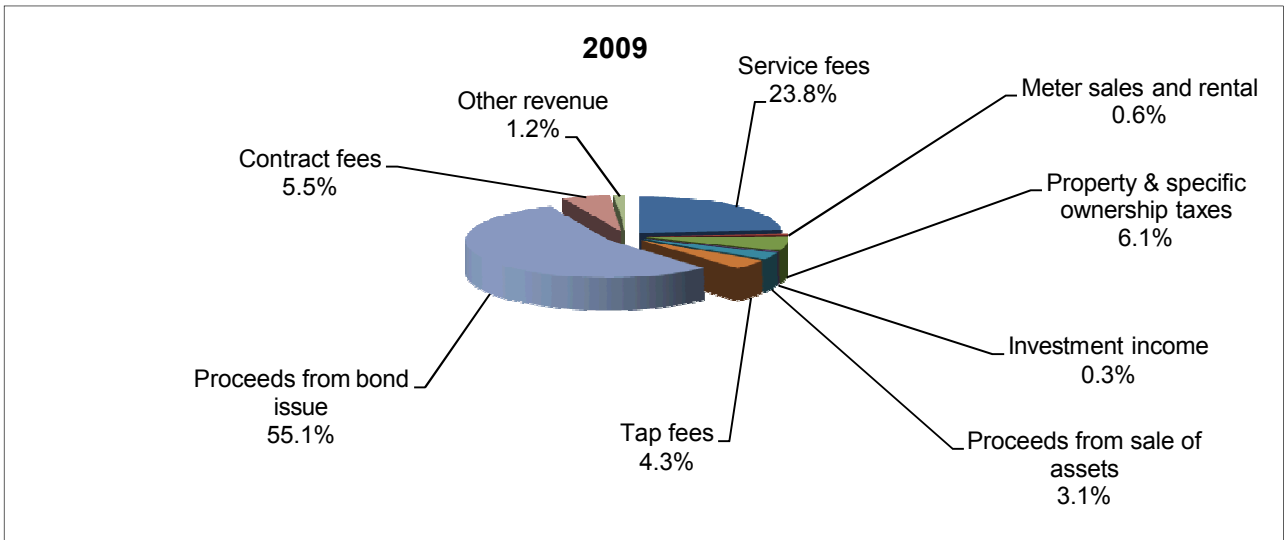
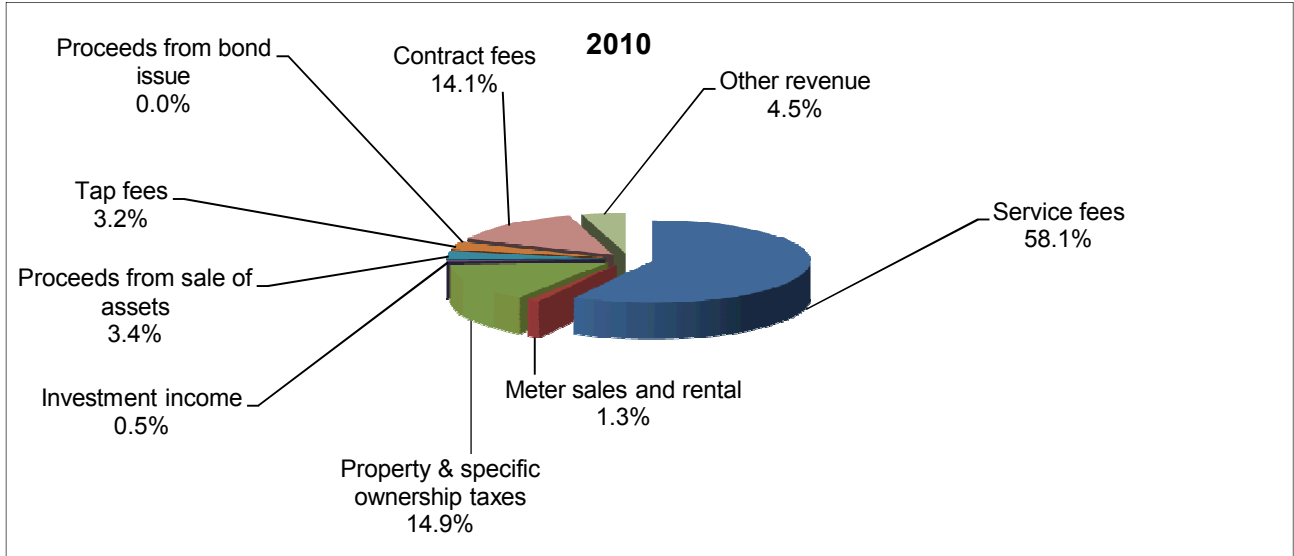
<u>Year Ending December 31,</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1 and December 1</u>	<u>Total</u>
2011	-	992,280	992,280
2012	-	992,279	992,279
2013	-	992,280	992,280
2014	-	992,279	992,279
2015	360,000	992,280	1,352,280
2016	370,000	975,323	1,345,323
2017	385,000	957,897	1,342,897
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>20,426,049</u>	<u>36,211,049</u>

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

**STATISTICAL SECTION**

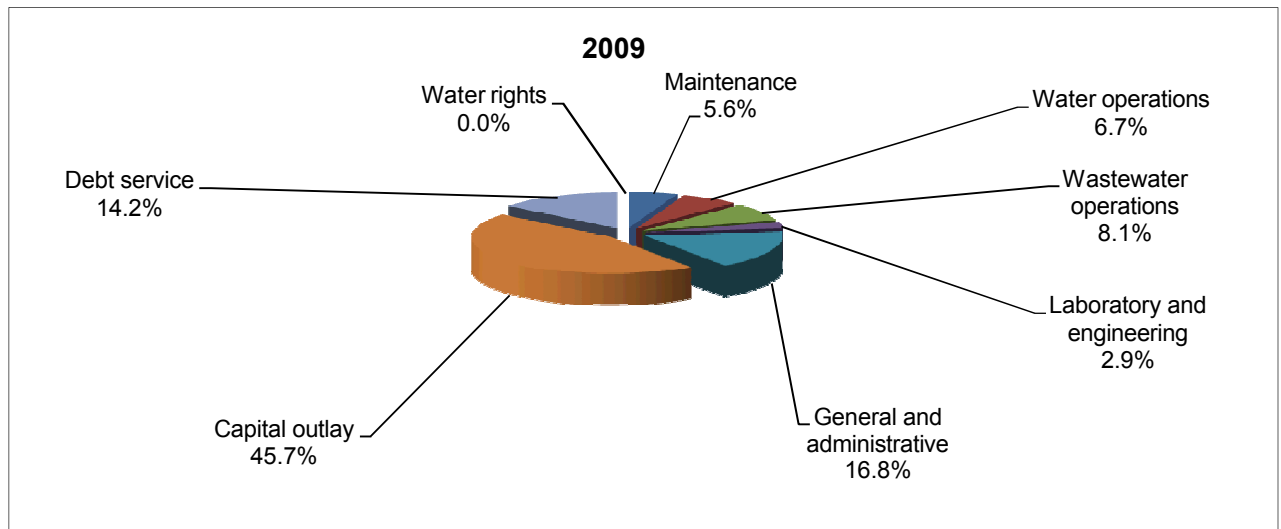
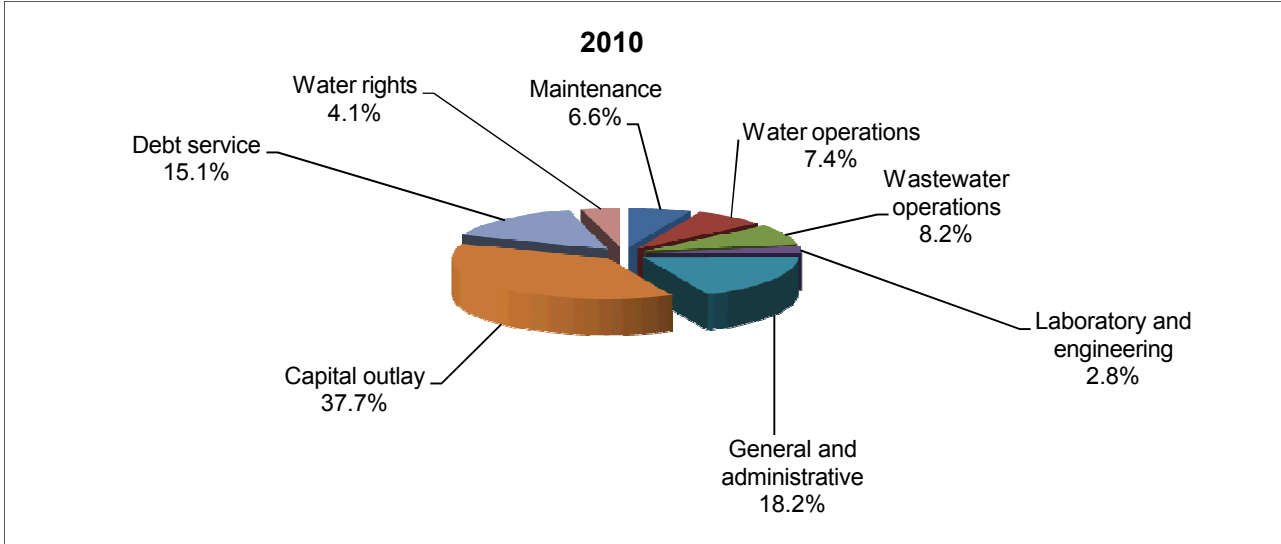


**Eagle River Water and Sanitation District  
Budgetary Revenue Analysis  
Two Year Comparison  
December 31, 2010  
(Unaudited)**



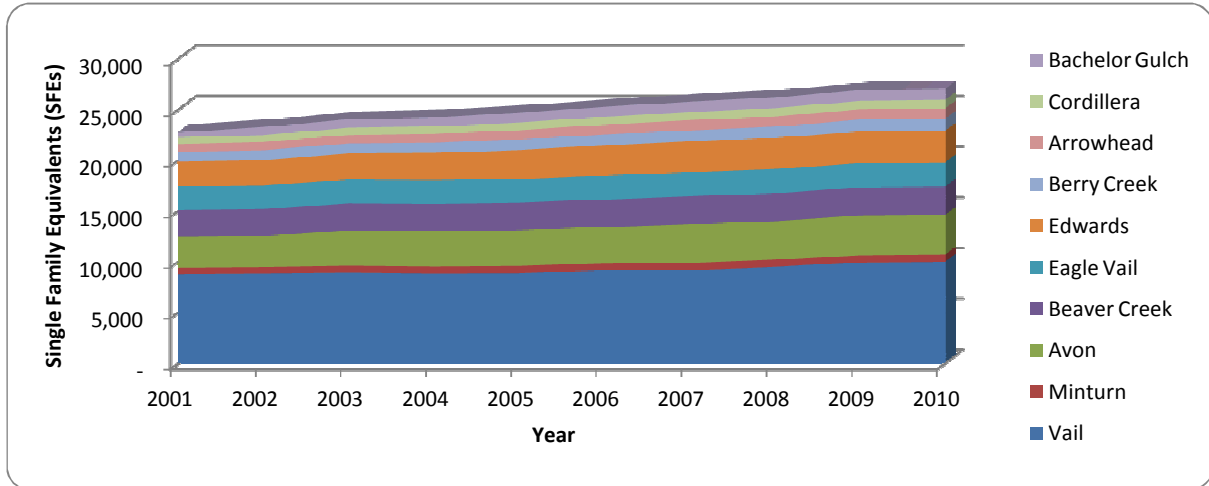
	<u>2010</u>	<u>2009</u>
Service fees	\$ 14,032,231	13,244,082
Meter sales and rental	313,804	346,568
Property & specific ownership taxes	3,587,421	3,400,113
Investment income	119,834	171,466
Proceeds from sale of assets	818,212	1,718,218
Tap fees	783,671	2,385,925
Proceeds from bond issue	-	30,638,817
Contract fees	3,402,585	3,054,062
Other revenue	1,086,689	679,437
<b>Total revenue (budgetary basis)</b>	<u><u>\$ 24,144,447</u></u>	<u><u>55,638,688</u></u>

**Eagle River Water and Sanitation District  
Budgetary Expenditures Analysis  
Two Year Comparison  
December 31, 2010  
(Unaudited)**



	<b>2010</b>	<b>2009</b>
Maintenance	\$ 2,264,279	1,934,365
Water operations	2,518,520	2,312,310
Wastewater operations	2,791,727	2,784,790
Laboratory and engineering	943,266	1,017,470
General and administrative	6,204,348	5,803,483
Capital outlay	12,860,013	15,794,928
Debt service	5,161,891	4,898,599
Water rights	1,387,500	-
<b>Total expenditures (budgetary basis)</b>	<b>\$ 34,131,544</b>	<b>34,545,945</b>

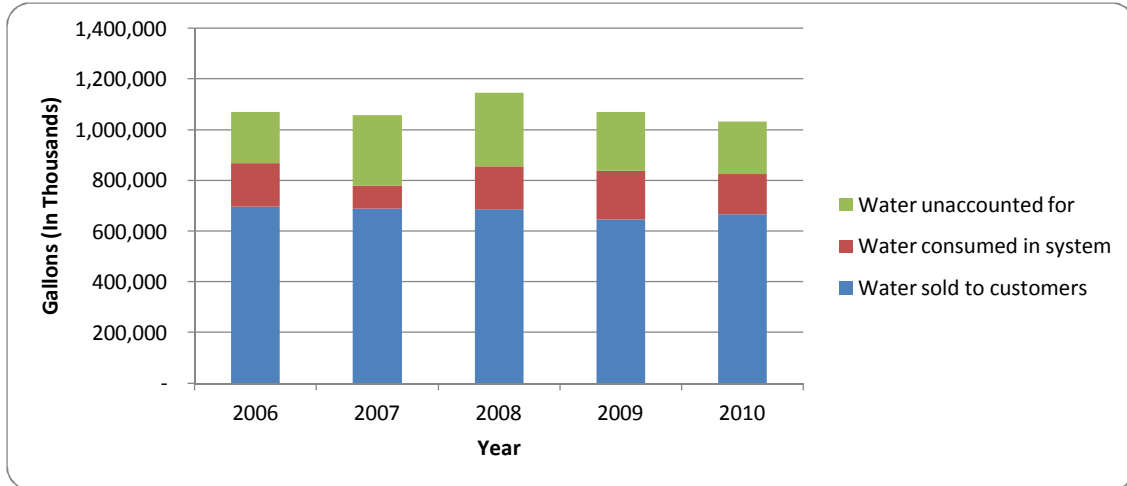
**Eagle River Water and Sanitation District  
Single Family Equivalents (SFEs) in Service  
Ten Year Comparison  
December 31, 2010  
(Unaudited)**



	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Vail	8,805	8,858	8,932	8,853	8,883	9,135	9,198	9,502	9,932	10,004
Minturn	614	621	667	674	696	704	698	705	699	697
Avon	3,055	3,075	3,489	3,507	3,546	3,587	3,801	3,821	3,913	3,916
Beaver Creek	2,640	2,649	2,664	2,665	2,676	2,704	2,745	2,715	2,779	2,781
Eagle Vail	2,317	2,324	2,326	2,333	2,361	2,382	2,391	2,392	2,401	2,402
Edwards	2,466	2,497	2,581	2,671	2,852	2,953	3,025	3,075	3,111	3,119
Berry Creek	950	967	997	1,021	1,039	1,078	1,102	1,106	1,162	1,165
Arrowhead	756	806	843	887	930	973	986	998	1,017	1,025
Cordillera	646	692	718	729	736	766	791	829	845	845
Bachelor Gulch	513	792	812	882	963	984	1,043	1,044	1,055	1,058
<b>Total SFEs</b>	<u>22,762</u>	<u>23,281</u>	<u>24,029</u>	<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>
Percent increase	<u>2.02%</u>	<u>2.28%</u>	<u>3.21%</u>	<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>

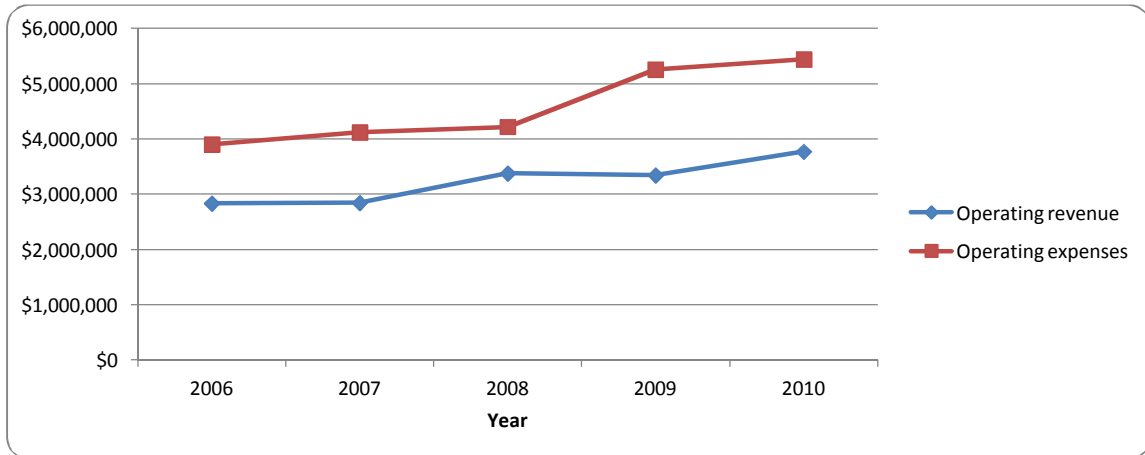


**Eagle River Water and Sanitation District  
Water Production Analysis - Gallons  
Five Year Comparison  
December 31, 2010  
(Unaudited)**



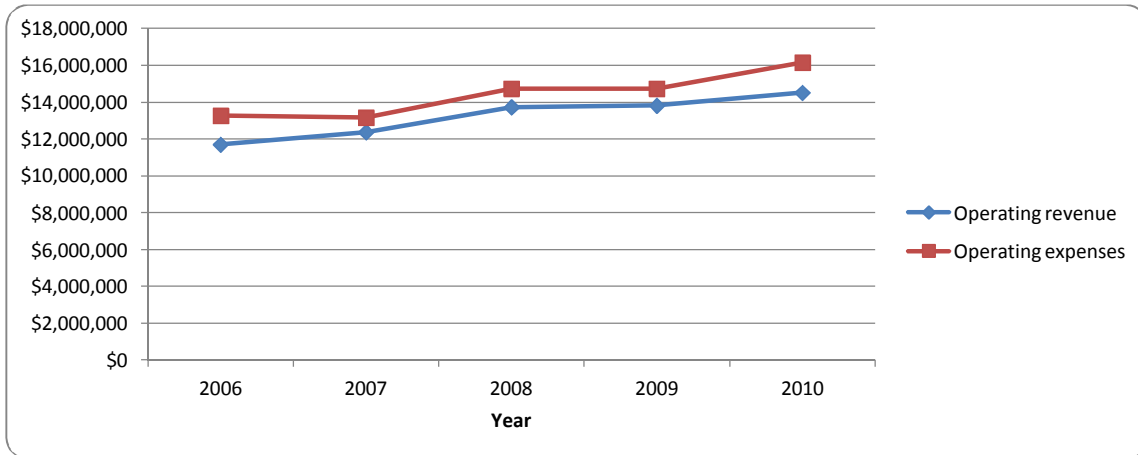
	<b>Gallons (in Thousands)</b>				
	<u><b>2006</b></u>	<u><b>2007</b></u>	<u><b>2008</b></u>	<u><b>2009</b></u>	<u><b>2010</b></u>
Water sold to customers	694,845	687,356	684,684	645,704	664,798
Water consumed in system	171,976	92,144	171,633	192,670	159,536
Water unaccounted for	<u>203,229</u>	<u>277,637</u>	<u>289,458</u>	<u>231,809</u>	<u>207,242</u>
<b>Total water treated</b>	<u><u>1,070,050</u></u>	<u><u>1,057,137</u></u>	<u><u>1,145,775</u></u>	<u><u>1,070,183</u></u>	<u><u>1,031,576</u></u>
Unaccounted for water percentage	<u>18.99%</u>	<u>26.26%</u>	<u>25.26%</u>	<u>21.66%</u>	<u>20.09%</u>

**Eagle River Water and Sanitation District**  
**Comparison of Operating Revenue to Operating Expenses - Water**  
**Five Year Comparison**  
**December 31, 2010**  
**(Unaudited)**



	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Water service fees	\$ 2,594,747	2,773,984	3,045,352	3,274,177	3,706,863
Other revenue	238,150	68,914	332,967	69,106	65,069
<b>Operating revenue</b>	<u>2,832,897</u>	<u>2,842,898</u>	<u>3,378,319</u>	<u>3,343,283</u>	<u>3,771,932</u>
Maintenance	484,322	507,936	613,206	501,606	690,687
Water operations	1,854,677	2,054,912	2,011,125	2,464,297	2,660,208
Engineering and lab	203,328	199,770	166,045	254,368	233,806
General and administrative	1,359,915	1,355,446	1,429,569	2,040,804	1,853,216
<b>Operating expenses</b>	<u>3,902,242</u>	<u>4,118,064</u>	<u>4,219,945</u>	<u>5,261,075</u>	<u>5,437,917</u>
<b>Operating income (loss)</b>	<u>\$ (1,069,345)</u>	<u>(1,275,166)</u>	<u>(841,626)</u>	<u>(1,917,792)</u>	<u>(1,665,985)</u>
Depreciation expense (included above)	\$ 926,091	916,256	1,077,119	1,306,573	1,403,303

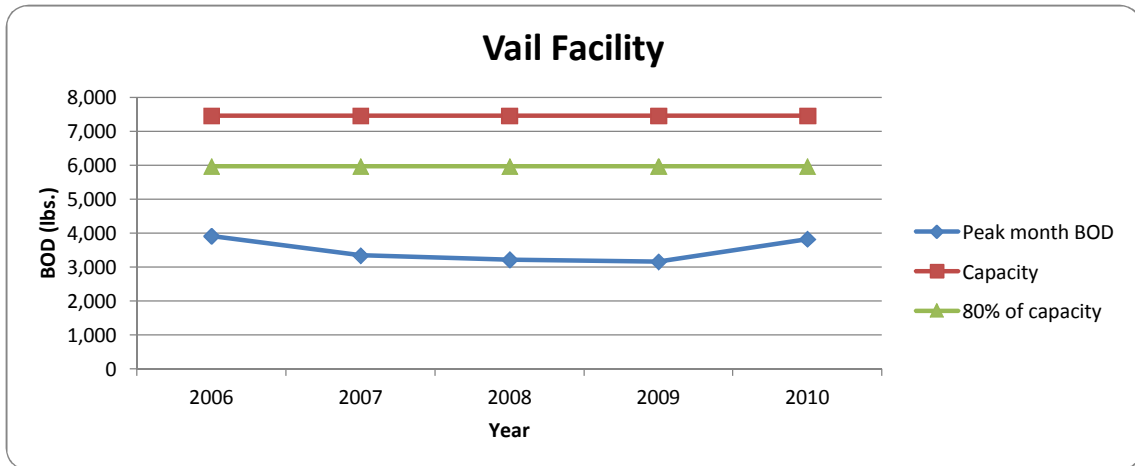
**Eagle River Water and Sanitation District**  
**Comparison of Operating Revenues to Operating Expenses - Sanitation**  
**Five Year Comparison**  
**December 31, 2010**  
**(Unaudited)**



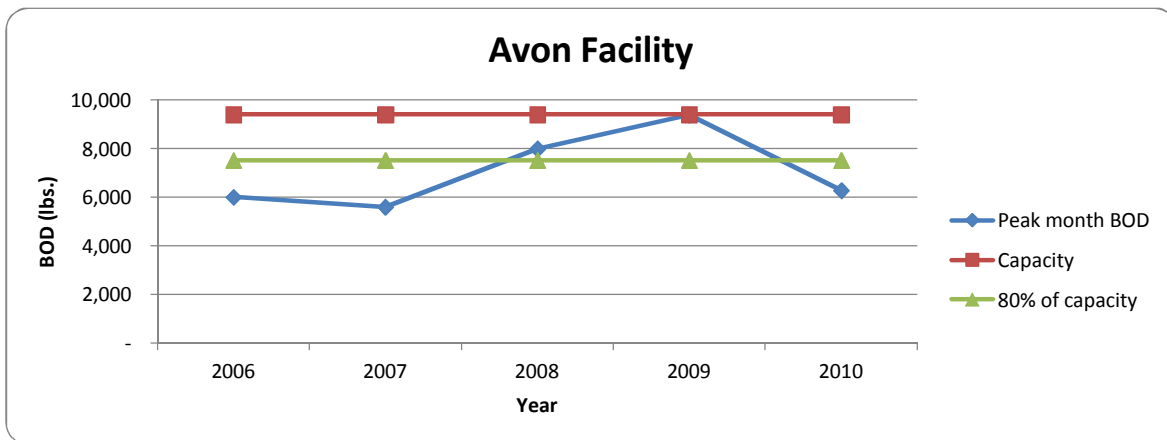
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Service fees	\$ 8,870,820	9,251,049	9,911,510	9,969,905	10,325,368
Contract services	2,294,366	2,391,930	2,764,400	3,054,062	3,402,585
Other revenue	537,556	728,027	1,051,463	785,899	789,419
<b>Operating revenue</b>	<u>11,702,742</u>	<u>12,371,006</u>	<u>13,727,373</u>	<u>13,809,866</u>	<u>14,517,372</u>
Maintenance	1,503,786	1,513,198	2,002,236	1,657,846	1,842,798
Water operations	942,628	939,724	931,366	1,016,054	1,123,158
Wastewater treatment	7,313,855	7,014,471	7,614,338	7,473,713	7,772,861
Engineering and lab	616,595	945,847	906,873	763,102	701,418
General and administrative	2,885,078	2,745,886	3,285,870	3,826,837	4,699,886
<b>Operating expenses</b>	<u>13,261,942</u>	<u>13,159,126</u>	<u>14,740,683</u>	<u>14,737,552</u>	<u>16,140,121</u>
<b>Operating income (loss)</b>	<u>\$ (1,559,200)</u>	<u>(788,120)</u>	<u>(1,013,310)</u>	<u>(927,686)</u>	<u>(1,622,749)</u>
Depreciation expense (included above)	<u>\$ 4,893,052</u>	<u>4,760,622</u>	<u>4,682,141</u>	<u>5,169,048</u>	<u>5,493,090</u>

**Eagle River Water and Sanitation District  
Wastewater Loadings Compared to Facility Capacity  
Five Year Comparison  
December 31, 2010  
(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.



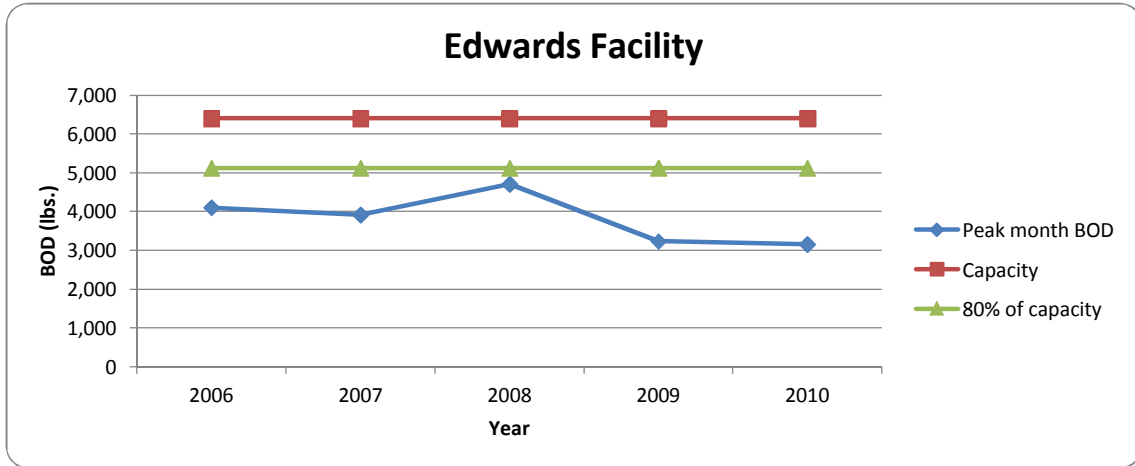
<u>Vail Facility</u>		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Peak month BOD		3,910	3,334	3,215	3,149	3,821
Capacity		7,450	7,450	7,450	7,450	7,450
80% of capacity		5,960	5,960	5,960	5,960	5,960
Peak month BOD as % of capacity		52%	45%	43%	42%	51%



<u>Avon Facility</u>		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Peak month BOD		6,002	5,596	7,997	9,390	6,273
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		64%	60%	85%	100%	67%

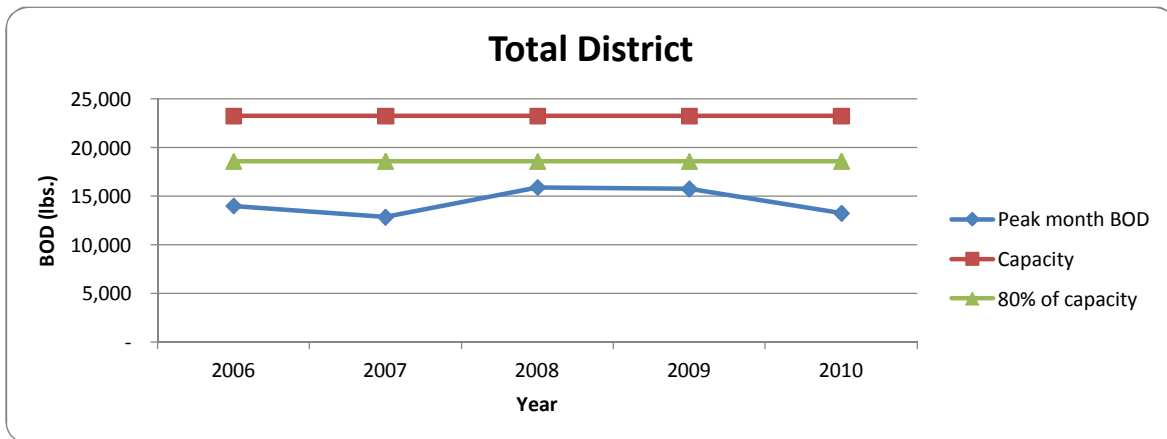
**Eagle River Water and Sanitation District  
Wastewater Loadings Compared to Facility Capacity  
Five Year Comparison  
December 31, 2010  
(Continued)  
(Unaudited)**

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.



**Edwards Facility**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Peak month BOD	4,103	3,913	4,706	3,231	3,156
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	64%	61%	74%	50%	49%



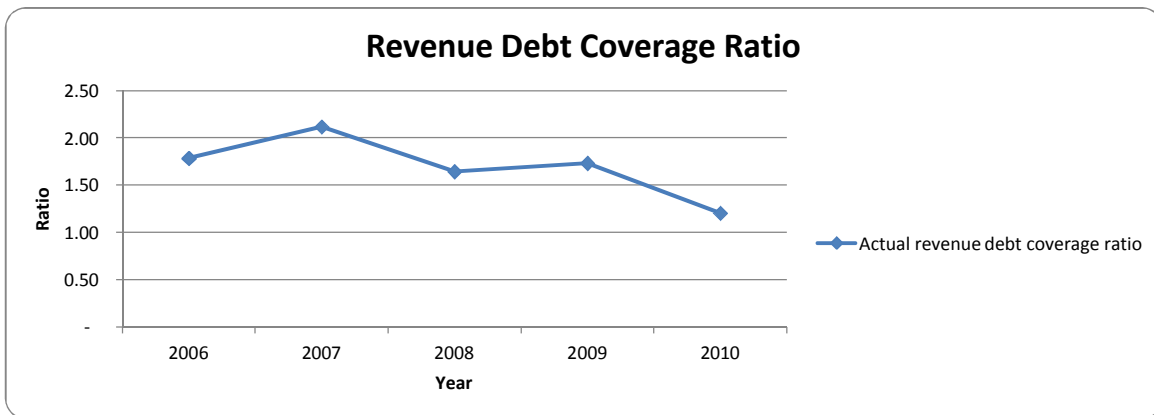
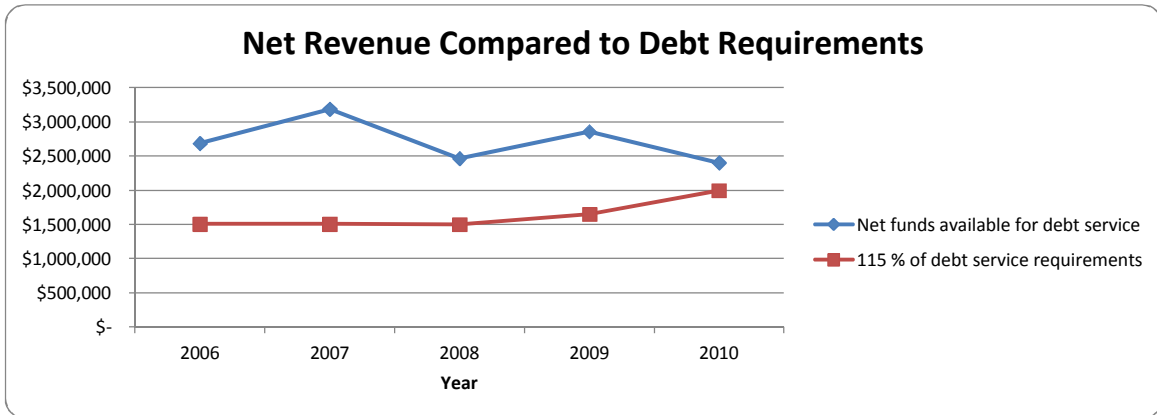
**Total District**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Peak month BOD	14,015	12,843	15,918	15,770	13,250
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	60%	55%	68%	68%	57%

**Eagle River Water and Sanitation District  
Top 10 Customers  
Five Year Comparison  
December 31, 2010  
(Unaudited)**

<b>Customer Type</b>	<b>1,000 Gallons</b>	<b>Sales Dollar Amount</b>	<b>% of Total Sales Dollars</b>
<b><u>Vail Water Sales</u></b>			
Ski Company / Resort	44,074	\$ 139,045	3.8%
Town of Vail	20,954	109,484	3.0%
Hotel / Resort	19,563	91,918	2.5%
Condominiums / Resort	13,663	85,117	2.3%
Hospital	17,784	71,971	1.9%
Hotel / Resort	16,885	62,597	1.7%
Hotel / Resort	15,750	61,218	1.7%
Hotel / Resort	12,717	52,899	1.4%
Condominiums / Resort	7,417	43,774	1.2%
Condominiums / Resort	8,304	40,656	1.1%
<b>Total - Top 10 Customers</b>	<b>177,111</b>	<b>\$ 758,678</b>	<b>20.5%</b>
<b>Total - All Other Customers</b>	<b>487,687</b>	<b>2,948,185</b>	<b>79.5%</b>
<b>Total Service Fees</b>	<b>664,798</b>	<b>\$ 3,706,863</b>	<b>100.0%</b>
<b><u>Wastewater Sales</u></b>			
Ski Company / Resort		\$ 272,991	2.6%
Mobile Home Park		177,330	1.7%
Hotel / Resort		144,819	1.4%
Hotel / Resort		123,416	1.2%
Apartment Complex		105,630	1.0%
Condominiums / Resort		94,799	0.9%
Apartment Complex		92,311	0.9%
Hotel / Resort		91,386	0.9%
Condominiums / Resort		86,374	0.8%
UERWA AVON Drinking Water Facility		78,884	0.8%
<b>Total - Top 10 Customers</b>		<b>\$ 1,267,941</b>	<b>12.3%</b>
<b>Total - All Other Customers</b>		<b>9,057,427</b>	<b>87.7%</b>
<b>Total Service Fees</b>		<b>\$ 10,325,368</b>	<b>100.0%</b>

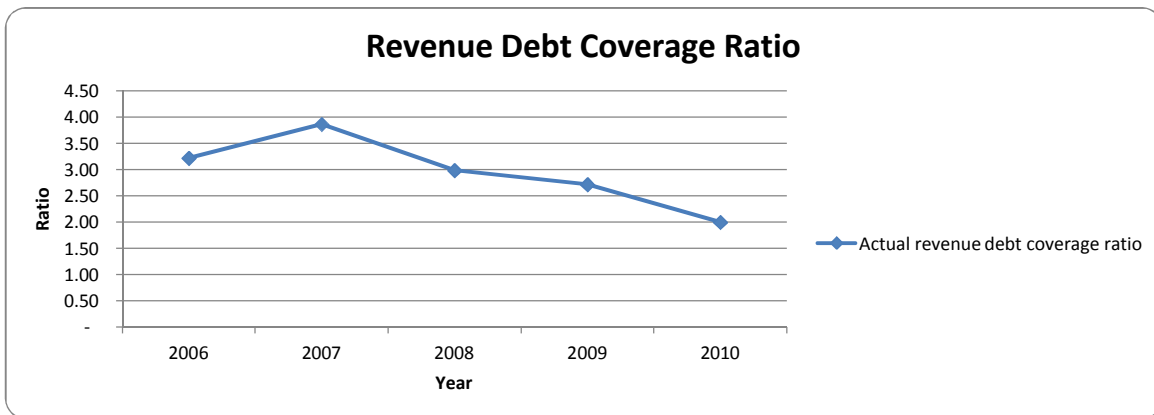
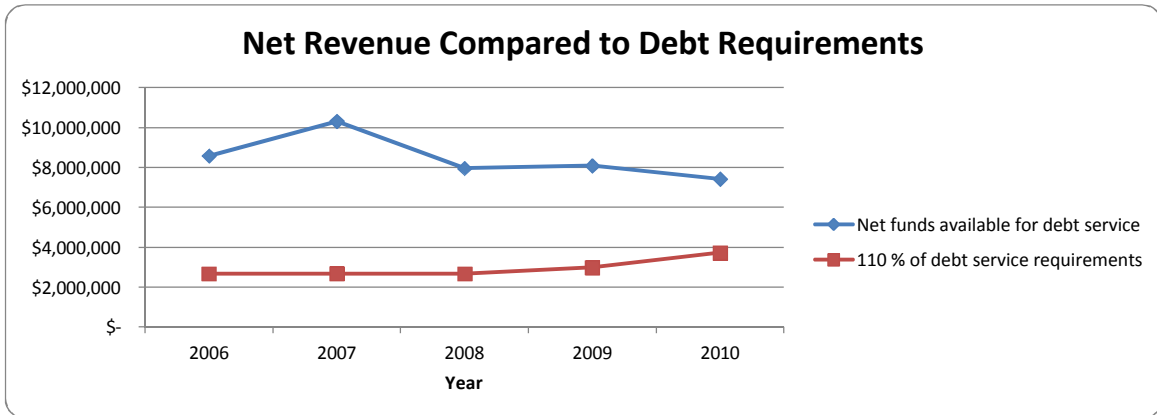
**Eagle River Water and Sanitation District  
Revenue Debt Coverage - Water  
Five Year Comparison  
December 31, 2010  
(Unaudited)**



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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
(Loss) before capital contributions	\$ 29,507	(166,498)	144,640	(1,153,989)	(1,227,086)
Plus:					
Interest expense	711,590	680,337	622,548	993,132	1,176,984
Depreciation	926,091	916,256	1,077,119	1,306,573	1,403,303
Amortization	11,800	15,759	15,759	18,334	28,651
Capital contributions	1,005,768	1,741,024	604,367	1,093,573	421,052
Rate stabilization funds	-	-	-	600,000	600,000
<b>Net funds available for debt service</b>	<u>\$ 2,684,756</u>	<u>3,186,878</u>	<u>2,464,433</u>	<u>2,857,623</u>	<u>2,402,904</u>
Debt service requirements	\$ 1,308,504	1,309,009	1,303,634	1,434,384	1,735,466
Factor	115%	115%	115%	115%	115%
<b>115% of debt service requirements</b>	<u>\$ 1,504,780</u>	<u>1,505,360</u>	<u>1,499,179</u>	<u>1,649,542</u>	<u>1,995,786</u>
<b>Actual revenue debt coverage ratio</b>	<u>1.78</u>	<u>2.12</u>	<u>1.64</u>	<u>1.73</u>	<u>1.20</u>

**Eagle River Water and Sanitation District  
Revenue Debt Coverage - Sanitation  
Five Year Comparison  
December 31, 2010  
(Unaudited)**



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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
(Loss) before capital contributions	\$ 160,027	1,084,669	645,263	337,016	(575,657)
Plus:					
Interest expense	773,613	729,628	660,499	610,851	1,400,562
Depreciation	4,893,052	4,760,622	4,682,141	5,169,048	5,493,090
Amortization	16,128	14,934	13,584	12,846	20,424
Capital contributions	2,740,669	3,729,808	1,956,782	1,352,211	482,403
Rate stabilization funds	-	-	-	600,000	600,000
<b>Net funds available for debt service</b>	<b>\$ 8,583,489</b>	<b>10,319,661</b>	<b>7,958,269</b>	<b>8,081,972</b>	<b>7,420,822</b>
Debt service requirements	\$ 2,428,605	2,430,223	2,427,151	2,708,199	3,383,854
Factor	110%	110%	110%	110%	110%
<b>110 % of debt service requirements</b>	<b>\$ 2,671,466</b>	<b>2,673,245</b>	<b>2,669,866</b>	<b>2,979,019</b>	<b>3,722,239</b>
<b>Actual revenue debt coverage ratio</b>	<b>3.21</b>	<b>3.86</b>	<b>2.98</b>	<b>2.71</b>	<b>1.99</b>



**Eagle River Water and Sanitation District**  
**Assessed Valuation, Property Taxes Levied and Collected - Water**  
**Five Year Comparison**  
**December 31, 2010**  
**(Unaudited)**

<b>Calendar Year Ended December 31</b>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<b>Total Mills Levied</b>		<b>Total Property Tax</b>		<b>% Collected to Levied</b>
		<b>Operating Mills Levied</b>	<b>Debt Service Mills Levied</b>	<b>Levied</b>	<b>Collected</b>	
2006	\$ 607,515,300	0.721	1.636	\$1,431,914	\$1,420,369	99.2%
2007	625,848,963	0.721	1.584	1,442,582	1,433,275	99.4%
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		

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, 2010**  
**(Unaudited)**

<b>Calendar Year Ended December 31</b>	<b>Prior Year Assessed Valuation for Current Year Property Tax Levy</b>	<b>Total Mills Levied</b>		<b>Total Property Tax</b>		<b>% Collected to Levied</b>
		<b>Operating Mills Levied</b>	<b>Debt Service Mills Levied</b>	<b>Levied</b>	<b>Collected</b>	
2006	\$ 1,625,588,090	0.334	0.880	\$ 1,973,464	\$ 1,962,370	99.4%
2007	1,656,530,450	0.334	0.777	1,840,405	1,838,967	99.9%
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 *	0.025	0.545	2,019,876		

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.

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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 Assets 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 at December 31, 2010.

The appraisal value as of December 22, 2010, performed by Porzak, Browning & Bushong, LLP (Special Water Rights Counsel for the District) is recited here solely for informational purposes.

<b>Water Right</b>	<b>Quantity (a.f.)</b>	<b>Price per a.f.</b>	<b>Historical Cost</b>	<b>Appraisal Value</b>
Investment in Eagle Park Reservoir Company	434.5	\$21,000	\$3,466,756	\$9,124,000
Homestake Reservoir	250	21,000	0	5,250,000
Green Mtn. Res. contract	934	1,000	0	934,000
Wolford Mtn. Res. contract	500	2,600	0	1,300,000
Black Lakes storage	425	21,000	0	8,925,000
Conditional storage	7,684.76042	100	0	768,476
In-basin consumptive use	902	6,600	1,496,416	5,953,200
Direct flow HUP water (winter)	89	21,000	0	1,869,000
<b>TOTAL</b>			<b>\$4,963,172</b>	<b>\$34,123,676</b>

**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 \$21,000 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 \$21,000 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.

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(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 contact 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 \$260 per acre-foot per year, or a total of \$2,600 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 IOCW200, 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

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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 \$21,000 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.

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 \$6,600 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 \$21,000 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."

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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.