

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

**Financial Statements
December 31, 2011**

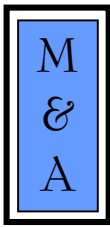


Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District
Financial Statements
December 31, 2011**

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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, 2011, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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, 2011, 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.
August 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS



Eagle River Water & Sanitation District

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2011**

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 2011, net assets in total increased by approximately \$1.5 million. As part of a long term capital improvement program, the District increased capital assets by \$6.8 million. As this construction was partially funded by bond proceeds from the 2009 bond issuance; current and other assets decreased \$1.8 million. In addition, the District's capital assets were depreciated \$6.7 million and Debt Service payments were made as scheduled to reduce total liabilities \$3.0 million. In 2010, net assets in total decreased by approximately \$0.5 million.

Total revenues were \$25.7 million during 2011, which is an increase of \$1.9 million over 2010 levels. In 2011, service fees increased \$0.9 million. This was a direct result of a planned increase in the Debt Service Base rate established in 2010 to fund the 2009 bond issue. Contract services, meter sales and other operations service programs generated an additional \$0.7 million as the demanded service levels to contracting parties increased. Tap fees and other developer contributions increased \$0.3 from 2010 levels. This increase to revenue indicates higher levels of growth related activities.

In 2011, the District's total expenses remained consistent at \$24.2 million, as compare to \$24.3 million in 2010.

The water service rate structure is designed to encourage wise use of water and is based upon the customer's Single Family Equivalents (SFE) usage. Water service rates in 2011 remained unchanged from 2009/2010. 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. The Debt Service base rate is established to provide a reliable revenue source for repayment of the 2009 Water bonds. For 2011 this rate was established at \$5.18 per month per SFE.

Wastewater service rate for 2011 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 2011 this rate is established at \$3.07 per month per SFE.

Overview of the Financial Statements

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

The *Statements of Net 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.

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

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2011
(continued)**

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

	2011			2010		
	Water	Sanitation	Total	Water	Sanitation	Total
Assets:						
Current and other assets	\$ 16,019,209	19,697,662	35,716,871	16,491,680	21,050,545	37,542,225
Capital assets, net	35,092,482	100,576,790	135,669,272	34,837,840	100,501,052	135,338,892
Total Assets	51,111,691	120,274,452	171,386,143	51,329,520	121,551,597	172,881,117
Liabilities:						
Other liabilities	1,875,850	5,138,140	7,013,990	1,989,069	5,354,500	7,343,569
Long-term liabilities	25,485,990	25,908,355	51,394,345	25,930,639	28,128,038	54,058,677
Total Liabilities	27,361,840	31,046,495	58,408,335	27,919,708	33,482,538	61,402,246
Net Assets:						
Invested in capital assets, net of related debt	13,469,564	76,274,668	89,744,232	14,154,199	75,799,100	89,953,299
Restricted:						
Debt	826,958	3,432,520	4,259,478	1,745,900	3,432,475	5,178,375
Capital projects	2,344,033	1,324,216	3,668,249	3,681,902	3,156,731	6,838,633
Unrestricted	7,109,296	8,196,553	15,305,849	3,827,811	5,680,753	9,508,564
Total Net Assets	\$ 23,749,851	89,227,957	112,977,808	23,409,812	88,069,059	111,478,871

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 \$23.7 million and \$89.2 million for water and sanitation, respectively, as of December 31, 2011 and \$23.4 million and \$88.1 million for water and sanitation, respectively, as of December 31, 2010.

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, 2011
(continued)**

During 2011, overall net assets increased \$1.5 million.

Current and other assets decreased \$1.8 million. The major reason for this decrease is the spending of bond proceeds from the 2009 issuance on capital construction projects in 2011 offset by the collection of a note receivable for \$2.4 million.

Capital assets increased \$6.8 million as part of the District's long term capital improvement program. These additions were offset my normal depreciation expense of approximately \$6.7 million.

Total liabilities decreased \$3.0 million. Current liabilities decreased \$0.3 million. Long-term liabilities decreased \$2.7 million as a result of the regular scheduled debt service principal payments and refunding activity for the 2002 general obligation bonds.

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 my 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.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2011
(continued)**

REVIEW OF REVENUES

	2011			2010		
	Water	Sanitation	Total	Water	Sanitation	Total
Revenues:						
Operating revenues:						
Service fees	\$ 4,005,686	10,941,880	14,947,566	3,706,863	10,325,368	14,032,231
Contract services	-	3,543,730	3,543,730	-	3,402,585	3,402,585
Meter sales and rentals	39,328	679,576	718,904	37,098	276,706	313,804
Other	25,495	395,780	421,275	27,971	512,713	540,684
Non-operating revenues:						
Property taxes	1,481,122	1,999,672	3,480,794	1,473,417	1,994,677	3,468,094
Specific ownership taxes	50,260	66,221	116,481	52,309	67,018	119,327
Investment income	33,651	33,834	67,485	131,572	83,262	214,834
Interest credit - Build America Bonds	-	347,298	347,298	-	355,015	355,015
Other	200,109	227,249	427,358	31,560	28,356	59,916
Capital contributions:						
Tap fees	160,635	657,464	818,099	322,576	461,095	783,671
Contributed assets	606,060	50,927	656,987	232,490	156,040	388,530
Other	139,261	21,255	160,516	98,476	21,308	119,784
Total Revenues	6,741,607	18,964,886	25,706,493	6,114,332	17,684,143	23,798,475

In 2011, total revenues were \$25.7 million, which is an increase of \$1.9 million over 2010 levels.

Service fees increased \$0.9 million. This was a direct result of a planned increase in the Debt Service Base rate established in 2010 to fund the 2009 bond issue. Contract services, meter sales and other operations service programs generated an additional \$0.7 million as the demanded service levels to contracting parties increased. Tap fees and other developer contributions increased \$0.3 from 2010 levels. This increase to revenue indicates higher levels of growth related activities.

Service fees increased \$0.9 million. This was a direct result of a planned increase in the Debt Service Base rate established to fund the 2009 Bond issues. These rates are designed to generate revenue equal to the payment amount of the debt service each year for the 2009 bonds. The water and sanitation Debt Service base rates generated an additional \$0.6 million and \$1.0 million respectively.

Contract services, meter sales and other operations service programs generated an additional \$0.7 million as the demanded service levels to contracting parties increased.

Investment income was slightly less by \$0.1 million as cash previously held was spent to fund the capital program.

Tap fees and other developer contributions increased \$0.3 from 2010 levels. This increase to revenue indicates higher levels of growth related activities. During years 2009 and 2010 an anticipated reduction of Tap fee and other developer contributions were experienced due to an economic slowdown.

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 \$0.5 million respectively.

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

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.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2011
(continued)**

REVIEW OF EXPENSES

In 2011, Total operating expenses decreased \$0.1 million (less than 1%). The District anticipated potentially lower revenues as part of the budgeting process for 2011 and therefore, made adjustments to spending in preparation of the general economic conditions indicating less new construction and possible slowing of service demand levels.

	2011			2010		
	Water	Sanitation	Total	Water	Sanitation	Total
Expenses:						
Operating Expenses:						
Maintenance	703,232	2,116,790	2,820,022	690,687	1,842,798	2,533,485
Water operations	2,537,632	1,226,338	3,763,970	2,660,208	1,123,158	3,783,366
Wastewater treatment	-	7,839,196	7,839,196	-	7,772,861	7,772,861
Engineering	113,870	341,610	455,480	130,714	392,141	522,855
Laboratory	119,569	378,462	498,031	103,092	309,277	412,369
General and administrative	1,702,570	4,541,043	6,243,613	1,853,216	4,699,886	6,553,102
Non-operating expenses:						
Interest expense	1,153,948	1,278,024	2,431,972	1,176,984	1,400,562	2,577,546
Bond issue cost amortization	25,996	23,984	49,980	28,651	20,424	49,075
Treasurer's fees	44,751	60,541	105,292	44,324	60,250	104,574
Total Expenses	6,401,568	17,805,988	24,207,556	6,687,876	17,621,357	24,309,233
Change in Net Assets	340,039	1,158,898	1,498,937	(573,544)	62,786	(510,758)
Net Assets - Beginning of Year	23,409,812	88,069,059	111,478,871	23,983,356	88,006,273	111,989,629
Net Assets - End of Year	\$ 23,749,851	89,227,957	112,977,808	23,409,812	88,069,059	111,478,871

In 2011, total operating expenses decreased \$0.1 million. The District anticipated potentially lower revenues as part of the budgeting process for 2011 and therefore, held spending levels consistent with 2010 in preparation of continued economic conditions indicating less new construction and possible slowing of service demand levels.

In 2010, the District's expenses increased \$2.6 million, overall. Operating expenses increased \$1.6 million due to a \$0.7 million increase in consulting work for litigation, easement acquisition and engineering studies for sanitation permitting and capital planning activities, \$0.4 million increase in Salaries and Benefits (as noted earlier, additional contract services revenue of \$0.3 million was generated from this increased staff activity), \$0.4 million increase in depreciation expense and \$0.1 million increase in various other items. Non operating expenses increase \$1.0 million due to the new debt service on the 2009 bond issuance.

For 2011, the District's combined operating activities, prior to depreciation expense, provided \$4.7 million increase in net assets. This was offset by \$6.7 million in depreciation expense which led to a loss from operations of \$2.0 million.

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.

**Eagle River Water and Sanitation District
Management's Discussion and Analysis
December 31, 2011
(continued)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets at December 31, 2011, 2010, and 2009 amounted to \$135.7 million, \$135.3 million, and \$129.8 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, 2011. See the Schedule of Water and Storage Rights in the Statistical Section (page F14-17) for additional information.

	Water				Sanitation			
	1/1/11 Beginning Balance	Additions	Retirements	12/31/11 Ending Balance	1/1/11 Beginning Balance	Additions	Retirements	12/31/11 Ending Balance
Capital assets, not being depreciated:								
Water rights	\$ 1,496,416	-	-	1,496,416	-	-	-	-
Land and easements	-	-	-	-	2,947,148	451,488	-	3,398,636
Construction in progress	1,538,383	1,483,578	(269,080)	2,752,881	15,509,644	3,778,621	(2,152,299)	17,135,966
Total capital assets, not being depreciated	3,034,799	1,483,578	(269,080)	4,249,297	18,456,792	4,230,109	(2,152,299)	20,534,602
Capital assets, being depreciated:								
Treatment plants	2,476,387	81,535	-	2,557,922	78,726,006	1,613,097	-	80,339,103
Distribution systems	39,465,646	676,136	(406,601)	39,735,181	48,873,203	484,601	-	49,357,804
Computers, equipment and vehicles	1,290,913	33,704	-	1,324,617	3,872,738	101,113	-	3,973,851
Employee housing	501,676	84,242	(121,248)	464,670	6,218,259	1,479,270	(484,992)	7,212,537
Total capital assets being depreciated	43,734,622	875,617	(527,849)	44,082,390	137,690,206	3,678,081	(484,992)	140,883,295
Less accumulated depreciation for:								
Treatment plants	(931,042)	(142,884)	-	(1,073,926)	(36,896,825)	(3,365,715)	-	(40,262,540)
Distribution systems	(10,104,021)	(1,143,561)	81,320	(11,166,262)	(15,792,594)	(1,347,702)	-	(17,140,296)
Computers, equipment and vehicles	(815,446)	(125,596)	-	(941,042)	(2,446,337)	(376,788)	-	(2,823,125)
Employee housing	(81,072)	5,779	17,318	(57,975)	(510,190)	(174,227)	69,271	(615,146)
Total accumulated depreciation	(11,931,581)	(1,406,262)	98,638	(13,239,205)	(55,645,946)	(5,264,432)	69,271	(60,841,107)
Total capital assets, being depreciated, net	31,803,041	(530,645)	(429,211)	30,843,185	82,044,260	(1,586,351)	(415,721)	80,042,188
Total capital assets, net	\$ 34,837,840	952,933	(698,291)	35,092,482	100,501,052	2,643,758	(2,568,020)	100,576,790

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

The District's major capital additions in 2011 include:

- Sanitation Treatment plant upgrades for 2011 of \$3.2 million were capitalized.
- Water Treatment plant upgrades for 2011 of \$2.6 million were capitalized.
- Employee housing increased \$1.0 million due to the net effect of the sale and repurchase program. The increase represents five additional units being owned by the District at year end.
- Information system upgrade spending of \$0.2 million in 2011 was part of an ongoing five year project.

The District's major capital additions 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.

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

Long-term Debt

At December 31, 2011, the District had loans payable to the Colorado Water Resources and Power Development Authority (Authority) of \$8.6 million for sanitation facilities. The water loan for Eagle Park Reservoir shares from the Colorado Water Conservation Board (CWCB) had \$1.4 million outstanding. Also, the Water General Obligation Bonds issued in 2004 and 2011 for water system improvements have an outstanding balance at December 31, 2011 of \$10.5 million. The 2009 District Revenue Bonds have principal outstanding of \$30.1 million. Other changes in debt in the current year are representative of scheduled reductions on long term obligations.

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.

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

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

BUDGET VARIANCES AND FUTURE CONSIDERATIONS

Budget Variances

In 2011, the budget was amended to increase appropriations for spending by \$6.8 million. This was to allow for changed timing of multi-year capital projects. Although the total capital program costs are within budget; spending is not in the year originally planned. Actual total expenditures were \$2.8 million less than the amended budget.

2012 Budget Considerations

The Water service rates are to increase 3% from 2011 rates. The Series 2009 Bonds Debt Service Base Rate is determined on an annual basis by dividing the net annual debt service requirements on the Series 2009 water bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2009 Bonds debt service is scheduled. The 2012 water rates are \$14.02 service base rate per SFE, plus \$7.27 debt service base rate per SFE and tiered usage rates of \$2.12 per 1,000 gallons for tier one, \$4.04 per 1,000 gallons for tier two, and \$6.35 per 1,000 gallons for tier three.

Water tap fee rates will increase by 3%.

The existing Wastewater service rates are unchanged from 2011 rates (monthly minimum of \$24.35 per SFE). The Series 2009 Bonds Debt Service Base Rate is determined on an annual basis by dividing the net annual debt service requirements on the Series 2009 wastewater bonds by the actual number of SFE's receiving service as of January 1 of the year the Series 2009 Bonds debt service is scheduled. The 2012 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 \$3.05 per SFE per month.

Wastewater tap fee rates will increase by 3%.

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

REQUESTS FOR INFORMATION

This report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Becky Bultemeier, Director of Customer and Financial Services, 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, 2011
(With Comparative Totals for 2010)

	2011			2010
	Water	Sanitation	Total	Total
Assets:				
Current Assets:				
Cash and cash equivalents - Unrestricted	4,664,621	7,950,334	12,614,955	5,669,851
Cash and cash equivalents - Restricted	3,170,991	4,756,736	7,927,727	12,017,008
Investments - Unrestricted	1,585,340	1,115,268	2,700,608	4,368,688
Receivables, net of allowance for uncollectibles:				
Service	386,318	1,790,121	2,176,439	2,048,259
Property taxes	1,403,218	1,882,873	3,286,091	3,512,256
Current portion of notes receivable	-	23,997	23,997	25,606
Interest	3,043	38,072	41,115	49,268
Other	98,037	358,772	456,809	1,017,978
Inventory	33,949	361,791	395,740	392,973
Prepaid expenses	72,334	217,002	289,336	70,528
Total Current Assets	11,417,851	18,494,966	29,912,817	29,172,415
Non-current Assets:				
Other Assets:				
Notes receivable - Due in more than one year	96,564	470,557	567,121	3,073,087
Patronage dividend receivable	161,764	395,951	557,715	559,117
Other receivables	197,908	60,905	258,813	316,171
Debt issue costs, net of accumulated amortization	678,366	275,283	953,649	954,679
Investment in Eagle Park Reservoir Company	3,466,756	-	3,466,756	3,466,756
Total Other Assets	4,601,358	1,202,696	5,804,054	8,369,810
Capital Assets:				
Land and easements	-	3,398,636	3,398,636	2,947,148
Water rights	1,496,416	-	1,496,416	1,496,416
Construction in progress	2,752,881	17,135,966	19,888,847	17,048,027
Treatment plants	2,557,922	80,339,103	82,897,025	81,202,393
Distribution systems	39,735,181	49,357,804	89,092,985	88,338,849
Computers, equipment, and vehicles	1,324,617	3,973,851	5,298,468	5,163,651
Employee housing	464,670	7,212,537	7,677,207	6,719,935
Less: Accumulated depreciation	(13,239,205)	(60,841,107)	(74,080,312)	(67,577,527)
Total Capital Assets	35,092,482	100,576,790	135,669,272	135,338,892
Total Non-current Assets	39,693,840	101,779,486	141,473,326	143,708,702
Total Assets	51,111,691	120,274,452	171,386,143	172,881,117

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

Eagle River Water and Sanitation District
Statement of Net Assets
December 31, 2011
(With Comparative Totals for 2010)
(Continued)

	<u>2011</u>			<u>2010</u>
	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>	<u>Total</u>
Liabilities:				
Current Liabilities:				
Accounts payable	357,990	1,774,512	2,132,502	2,211,726
Service fees payable	-	1,181,872	1,181,872	1,169,173
Accrued payroll and related liabilities	7,761	23,283	31,044	11,948
Deferred property taxes	1,403,218	1,882,873	3,286,091	3,512,256
Interest payable	106,881	251,516	358,397	418,872
Loans and bonds payable - Due within one year	828,018	2,314,369	3,142,387	2,764,889
Deposits	-	24,084	24,084	19,594
Total Current Liabilities	<u>2,703,868</u>	<u>7,452,509</u>	<u>10,156,377</u>	<u>10,108,458</u>
Non-current Liabilities:				
Compensated absences - Due in more than one year	94,006	282,017	376,023	359,140
Loans and bonds payable - Due in more than one year	<u>24,563,966</u>	<u>23,311,969</u>	<u>47,875,935</u>	<u>50,934,648</u>
Total Non-current Liabilities	<u>24,657,972</u>	<u>23,593,986</u>	<u>48,251,958</u>	<u>51,293,788</u>
Total Liabilities	<u>27,361,840</u>	<u>31,046,495</u>	<u>58,408,335</u>	<u>61,402,246</u>
Net Assets:				
Invested in capital assets, net of related debt	13,469,564	76,274,668	89,744,232	89,953,299
Restricted for:				
Debt	826,958	3,432,520	4,259,478	5,178,375
Capital projects	2,344,033	1,324,216	3,668,249	6,838,633
Unrestricted	<u>7,109,296</u>	<u>8,196,553</u>	<u>15,305,849</u>	<u>9,508,564</u>
Total Net Assets	<u>23,749,851</u>	<u>89,227,957</u>	<u>112,977,808</u>	<u>111,478,871</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, 2011
(With Comparative Totals for 2010)

	2011			2010
	Water	Sanitation	Total	Total
Operating Revenues:				
Service fees	4,005,686	10,941,880	14,947,566	14,032,231
Contract services	-	3,543,730	3,543,730	3,402,585
Meter sales and rental income	39,328	679,576	718,904	313,804
Other charges for services	25,495	395,780	421,275	540,684
Total Operating Revenues	4,070,509	15,560,966	19,631,475	18,289,304
Operating Expenses:				
Maintenance	703,232	2,116,790	2,820,022	2,533,485
Water operations	2,537,632	1,226,338	3,763,970	3,783,366
Wastewater treatment	-	7,839,196	7,839,196	7,772,861
Engineering	113,870	341,610	455,480	522,855
Laboratory	119,569	378,462	498,031	412,369
General and administrative	1,702,570	4,541,043	6,243,613	6,553,102
Total Operating Expenses	5,176,873	16,443,439	21,620,312	21,578,038
Operating Income (Loss)	(1,106,364)	(882,473)	(1,988,837)	(3,288,734)
Non-operating Revenues (Expenses):				
Property taxes	1,481,122	1,999,672	3,480,794	3,468,094
Specific ownership taxes	50,260	66,221	116,481	119,327
Investment income	33,651	33,834	67,485	214,834
Interest credit - Build America Bonds	-	347,298	347,298	355,015
Gain (loss) on disposal of capital assets	76,318	65,828	142,146	(32,013)
Other non-operating revenues	123,791	161,421	285,212	91,929
Interest expense, net of amortization expense	(1,153,948)	(1,278,024)	(2,431,972)	(2,577,546)
Treasurer's fees	(44,751)	(60,541)	(105,292)	(104,574)
Amortization of bond issue costs	(25,996)	(23,984)	(49,980)	(49,075)
Total Non-operating Revenues (Expenses)	540,447	1,311,725	1,852,172	1,485,991
Income (Loss) Before Capital Contributions	(565,917)	429,252	(136,665)	(1,802,743)
Capital Contributions:				
Tap fees	160,635	657,464	818,099	783,671
Contributed assets - physical assets	606,060	50,927	656,987	388,530
Fees in lieu of water and sewer lines	139,261	11,255	150,516	119,784
Contributed assets - cash	-	10,000	10,000	-
Total Capital Contributions	905,956	729,646	1,635,602	1,291,985
Change in Net Assets	340,039	1,158,898	1,498,937	(510,758)
Net Assets - Beginning of Year	23,409,812	88,069,059	111,478,871	111,989,629
Net Assets - End of Year	23,749,851	89,227,957	112,977,808	111,478,871

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, 2011
(With Comparative Totals for the Year Ended 2010)

	2011			2010
	Water	Sanitation	Total	Total
Cash Flows From Operating Activities:				
Cash received from customers and others	4,273,924	15,847,896	20,121,820	17,964,107
Cash payments for goods and services	(2,079,815)	(4,525,510)	(6,605,324)	(6,904,594)
Cash payments to employees and for benefits	(1,720,672)	(6,550,903)	(8,271,575)	(7,817,877)
Net Cash Provided (Used) by Operating Activities	<u>473,437</u>	<u>4,771,483</u>	<u>5,244,921</u>	<u>3,241,636</u>
Cash Flows From Non-capital Financing Activities:				
Property taxes levied for operations, net	484,057	610,827	1,094,884	1,091,454
Specific ownership taxes received	16,938	20,860	37,798	38,754
Patronage dividend received	10,972	28,045	39,017	46,599
Other cash receipts	21,142	133,346	154,488	27,132
Net Cash Provided (Used) by Non-capital Financing Activities	<u>533,109</u>	<u>793,078</u>	<u>1,326,187</u>	<u>1,203,939</u>
Cash Flows From Capital and Related Financing Activities:				
Proceeds from bond issuance, including premium	3,163,065	-	3,163,065	-
Property taxes levied for debt service, net	952,314	1,328,305	2,280,619	2,272,066
Specific ownership taxes received	33,322	45,361	78,683	80,573
Cash received from tap fees	160,635	657,464	818,099	783,671
Proceeds from sale of capital assets	489,314	497,763	987,077	818,212
Interest subsidy payment received - Build America Bonds	-	318,357	318,357	326,074
Cash received (paid) related to capital asset deposit	-	4,490	4,490	(5,325)
Fees in lieu of water and sewer lines	139,261	21,255	160,516	119,784
Cash paid for principal on debt	(535,278)	(2,229,611)	(2,764,889)	(2,365,111)
Cash paid for interest on debt	(1,241,198)	(1,533,038)	(2,774,236)	(2,755,027)
Debt issuance cost	(90,317)	-	(90,317)	-
Cash paid to refunded bond escrow agent to retire bond principal	(2,935,000)	-	(2,935,000)	-
Cash paid for capital acquisitions	(1,368,139)	(5,873,844)	(7,241,984)	(12,907,962)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,232,021)</u>	<u>(6,763,498)</u>	<u>(7,995,519)</u>	<u>(13,633,045)</u>
Cash Flows From Investing Activities:				
Interest income received	58,325	100,083	158,408	173,456
Proceeds from sales and maturities of investments	1,245,195	1,769,805	3,015,000	3,075,000
Principal received on notes receivable	2,711,500	(35,656)	2,675,844	89,301
Purchase of stock in Eagle Park Reservoir Company	-	-	-	(1,387,500)
Purchase of investments	(1,326,394)	(74,355)	(1,400,749)	(3,175,184)
Issuance of notes receivable	(55,342)	(112,927)	(168,269)	(198,822)
Net Cash Provided (Used) by Investing Activities	<u>2,633,284</u>	<u>1,646,950</u>	<u>4,280,234</u>	<u>(1,423,749)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,407,810	448,013	2,855,823	(10,611,219)
Cash and Cash Equivalents - Beginning of Year	<u>5,427,802</u>	<u>12,259,057</u>	<u>17,686,859</u>	<u>28,298,078</u>
Cash and Cash Equivalents - End of Year	<u><u>7,835,612</u></u>	<u><u>12,707,070</u></u>	<u><u>20,542,682</u></u>	<u><u>17,686,859</u></u>
Represented by Balance Sheet captions:				
Cash and cash equivalents - Unrestricted	4,664,621	7,950,334	12,614,955	5,669,851
Cash and cash equivalents - Restricted	3,170,991	4,756,736	7,927,727	12,017,008
Cash and Cash Equivalents - End of Year	<u><u>7,835,612</u></u>	<u><u>12,707,070</u></u>	<u><u>20,542,682</u></u>	<u><u>17,686,859</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, 2011
(With Comparative Totals for the Year Ended 2010)
(Continued)

	2011			2010
	Water	Sanitation	Total	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	(1,106,364)	(882,473)	(1,988,837)	(3,288,734)
Adjustments:				
Depreciation	1,422,477	5,248,217	6,670,694	6,896,393
(Increase) decrease in accounts receivable	203,416	286,931	490,347	(325,193)
(Increase) decrease in inventory	64,294	(67,061)	(2,767)	(27,257)
(Increase) decrease in prepaid expenses	(54,702)	(164,106)	(218,808)	201,444
Increase (decrease) in accounts payable	(64,679)	310,292	245,614	(344,426)
Increase (decrease) in service fees payable	-	12,699	12,699	94,252
Increase (decrease) in payroll liabilities	1,659	4,976	6,635	(1,740)
Increase (decrease) in accrued compensated absences	7,336	22,008	29,344	36,897
Total Adjustments	<u>1,579,801</u>	<u>5,653,956</u>	<u>7,233,758</u>	<u>6,530,370</u>
Net Cash Provided (Used) by Operating Activities	<u>473,437</u>	<u>4,771,483</u>	<u>5,244,921</u>	<u>3,241,636</u>
Non-cash Investing, Capital, and Financing Activities:				
Contribution of capital assets from developers	<u>606,060</u>	<u>50,927</u>	<u>656,987</u>	<u>388,530</u>
Unrealized gain (loss) on investments	<u>(22,231)</u>	<u>(31,598)</u>	<u>(53,829)</u>	<u>(54,225)</u>

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

NOTES TO THE FINANCIAL STATEMENTS



Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

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 upon these criteria, the District is not a component unit of any other government. The District has one blended component unit and while it is a legally separate entity it is in substance part of the District's operations:

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

B. Fund Accounting

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

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

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

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

1. Long-term Economic Focus and Accrual Basis

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

2. Financial Statement Presentation

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies

1. Cash and Cash Equivalents

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

2. Investments

The investments for the District are reported at fair value.

3. Receivables

Receivables are reported net of an allowance for uncollectible accounts. An allowance for doubtful accounts in the amount of \$82,049 has been established at December 31, 2011, 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 2011, the District capitalized interest of \$271,873 as part of capital assets.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

6. Capital Assets (continued)

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

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

7. Net 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.

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts and Accounting Policies (continued)

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

In April 2012, the District and the Town of Red Cliff mutually discontinued their operations agreement.

Management has evaluated subsequent events through August 27, 2012, the date these financial statements were available to be issued.

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, 2011, from which comparative totals were derived.

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

As required by Colorado statutes, the District followed the required timetable noted below in preparing, approving, and enacting its budget for 2011.

1. For the 2011 budget year, prior to August 25, 2010, 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, 2010, 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, 2010, after a required publication of "Notice of Proposed Budget" and a public hearing, the District certified to the County Commissioners a levy rate that derived the necessary property taxes as computed in the proposed budget, and the District adopted the proposed budget and an appropriating resolution that legally appropriated expenditures for the upcoming year.
4. After adoption of the budget resolution, the District may make the following changes: a) approve supplemental appropriations to the extent of revenues in excess of estimated revenues in the budget; b) approve emergency appropriations; and c) reduce appropriations for which originally estimated revenues are insufficient.

Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2010 were collected in 2011 and taxes certified in 2011 will be collected in 2012. Taxes are due on January 1 in the year of collection; however, they may be paid in either one installment (no later than April 30) or two equal installments (not later than February 28 and June 15) without interest or penalty. Taxes that are not paid within the prescribed time bear interest at the rate of one percent (1%) per month until paid. Unpaid amounts and the accrued interest thereon become delinquent on June 16.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment

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

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

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

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(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 \$23,243,290 and \$22,055,548 as of December 31, 2011 and 2010, respectively.

At December 31, 2011, the District had the following cash and investments with the following maturities:

	<u>Standard & Poors Rating</u>	<u>Carrying Amounts</u>	<u>Maturities</u>	
			<u>Less than one year</u>	<u>1 - 5 years</u>
<i>Petty cash</i>	Not rated	2,600	2,600	-
<i>Deposits:</i>				
Checking	Not rated	4,083,719	4,083,719	-
<i>Investment pool</i>	AAAm	16,456,363	16,456,363	-
<i>Investments:</i>				
United States Treasury notes	AAA	653,046	653,046	-
Federal agency securities	AAA	2,047,562	1,244,649	802,913
Total		<u>23,243,290</u>	<u>22,440,377</u>	<u>802,913</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, 2011
(Continued)**

III. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

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

- Obligations of the U.S. and certain U.S. governmental agency securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local governmental entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The District's investment policy has further restricted the investment of District funds to U.S. Treasury obligations, Federal agency securities, commercial paper, eligible bankers acceptances, written repurchase agreements collateralized by certain authorized securities, local government investment pools, time certificates of deposit, and certain money market funds.

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

	Required Ratings
Federal agency securities	AAA
Commercial paper	A-1
Eligible bankers acceptances	A-1
Local government pools	AAA _m
Money market mutual funds	AAA _m

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, 2011
(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%

There were no investments in any one issuer (other than U.S. Treasury obligations, mutual funds, and external investment pools) that represented 5% or more of the total District investments at December 31, 2011.

B. Restricted Cash and Cash Equivalents

At December 31, 2011, cash has been restricted for the following purposes:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Unspent bond proceeds	2,344,033	1,324,216	3,668,249
Debt service reserves	226,958	2,832,520	3,059,478
Rate stabilization funds	600,000	600,000	1,200,000
Total	<u>3,170,991</u>	<u>4,756,736</u>	<u>7,927,727</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	4,664,621	7,950,334	12,614,955
Cash and cash equivalents - Restricted	3,170,991	4,756,736	7,927,727
Investments - Unrestricted	1,585,340	1,115,268	2,700,608
Total	<u>9,420,952</u>	<u>13,822,338</u>	<u>23,243,290</u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(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, 2011:

	1/1/11 Beginning Balance	Additions	Reductions	12/31/11 Ending Balance
Flat Tops	2,547,302	17,699	(2,565,001)	-
Red Cliff	181,900	-	(25,000)	156,900
Red Sandstone Creek	83,806	-	(35,843)	47,963
Employees	285,685	150,570	(50,000)	386,255
	<u>3,098,693</u>	<u>168,269</u>	<u>(2,675,844)</u>	<u>591,118</u>
Less: Current portion	(25,606)	-	1,609	(23,997)
Long-term portion	<u>3,073,087</u>	<u>168,269</u>	<u>(2,674,235)</u>	<u>567,121</u>

The following notes receivable were outstanding as of December 31, 2011:

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 was 4% and was paid off during 2011.

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, 2011
(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, 2011, the District received a refund of \$39,016 from Holy Cross. The balance due to the District at December 31, 2011 and 2010 was \$557,715 and \$559,117, respectively.

F. Investment in Eagle Park Reservoir Company

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

In 1998, the District acquired 3,300 Class A Shares (approximately 16.4%) and 125 Class B shares of the stock in the Reservoir Company for \$1,909,732 and the contribution/pledge of certain water rights. The \$1,909,732 was financed through an assessment obligation payable to the Reservoir Company, which is explained in Note III.H.1, and is recorded as an investment in Eagle Park Reservoir Company, along with \$130,000 of legal costs related to the issuance of the assessment payable. Since 1998, the District has acquired additional shares of the Reservoir Company through various transactions. As of December 31, 2010, the District held 4,345 Class A Shares, 125 Class B Series 1 and 125 Class B Series 2 shares of the stock in the Reservoir Company at a cost of \$3,466,756.

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

As of December 31, 2011, 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, 2011
(Continued)

III. Detailed Notes on All Funds (continued)

G. Capital Assets

Capital asset activity related to water services for 2011 was as follows:

	<u>1/1/11 Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/11 Ending Balance</u>
Water				
Capital assets, not being depreciated:				
Water rights	1,496,416	-	-	1,496,416
Construction in progress	1,538,383	1,483,579	(269,081)	2,752,881
Total capital assets, not being depreciated	<u>3,034,799</u>	<u>1,483,579</u>	<u>(269,081)</u>	<u>4,249,297</u>
Capital assets, being depreciated:				
Treatment plants	2,476,387	81,535	-	2,557,922
Distribution systems	39,465,646	676,136	(406,601)	39,735,181
Computers, equipment and vehicles	1,290,913	33,704	-	1,324,617
Employee housing	501,676	84,242	(121,248)	464,670
Total capital assets being depreciated	<u>43,734,622</u>	<u>875,617</u>	<u>(527,849)</u>	<u>44,082,390</u>
Less accumulated depreciation for:				
Treatment plants	(931,042)	(142,884)	-	(1,073,926)
Distribution systems	(10,104,021)	(1,143,561)	81,320	(11,166,262)
Computers, equipment and vehicles	(815,446)	(125,596)	-	(941,042)
Employee housing	(81,072)	5,779	17,318	(57,975)
Total accumulated depreciation	<u>(11,931,581)</u>	<u>(1,406,262)</u>	<u>98,638</u>	<u>(13,239,205)</u>
Total capital assets, being depreciated, net	<u>31,803,041</u>	<u>(530,645)</u>	<u>(429,211)</u>	<u>30,843,185</u>
Total capital assets, net - Water	<u><u>34,837,840</u></u>	<u><u>952,934</u></u>	<u><u>(698,292)</u></u>	<u><u>35,092,482</u></u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

III. Detailed Notes on All Funds (continued)

G. Capital Assets (continued)

Capital asset activity related to sanitation services for 2011 was as follows:

	<u>1/1/11 Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/11 Ending Balance</u>
Sanitation				
Capital assets, not being depreciated:				
Land and easements	2,947,148	451,488	-	3,398,636
Construction in progress	15,509,644	3,778,621	(2,152,299)	17,135,966
Total capital assets, not being depreciated	<u>18,456,792</u>	<u>4,230,109</u>	<u>(2,152,299)</u>	<u>20,534,602</u>
Capital assets, being depreciated:				
Treatment plants	78,726,006	1,613,097	-	80,339,103
Distribution systems	48,873,203	484,601	-	49,357,804
Computers, equipment and vehicles	3,872,738	101,113	-	3,973,851
Employee housing	6,218,259	1,479,270	(484,992)	7,212,537
Total capital assets being depreciated	<u>137,690,206</u>	<u>3,678,081</u>	<u>(484,992)</u>	<u>140,883,295</u>
Less accumulated depreciation for:				
Treatment plants	(36,896,825)	(3,365,714)	-	(40,262,539)
Distribution systems	(15,792,594)	(1,347,703)	-	(17,140,297)
Computers, equipment and vehicles	(2,446,337)	(376,788)	-	(2,823,125)
Employee housing	(510,190)	(174,227)	69,271	(615,146)
Total accumulated depreciation	<u>(55,645,946)</u>	<u>(5,264,432)</u>	<u>69,271</u>	<u>(60,841,107)</u>
Total capital assets, being depreciated, net	<u>82,044,260</u>	<u>(1,586,351)</u>	<u>(415,721)</u>	<u>80,042,188</u>
Total capital assets, net - Sanitation	<u><u>100,501,052</u></u>	<u><u>2,643,758</u></u>	<u><u>(2,568,020)</u></u>	<u><u>100,576,790</u></u>

Depreciation expense for the year ended December 31, 2011 was charged to the following departments:

	<u>Water</u>	<u>Sanitation</u>	<u>Total</u>
Maintenance	63,130	189,391	252,521
Water operations	1,286,445	-	1,286,445
Wastewater treatment	-	4,713,418	4,713,418
General and administrative	56,687	361,623	418,310
Total	<u><u>1,406,262</u></u>	<u><u>5,264,432</u></u>	<u><u>6,670,694</u></u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(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, through the Water Subdistrict, entered into 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 was being retired through property taxes rather than increased service charges. Principal and variable interest payments were due April 1st and October 1st. The loan bore interest between 3.00% and 5.38% annually. During 2011, proceeds from the General Obligation Water Refunding Bonds, Series 2011, were used to prepay this loan as mentioned in Note III.H.5. Prepayment of the loan was permitted upon written notice to CWRPDA and upon payment of certain administrative fees and a redemption premium.

3. General Obligation Water Bonds, Series 2004

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

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(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, through the Water Subdistrict, issued \$13,225,000 of water enterprise revenue bonds in May 2009, with annual interest rates ranging from 3.00% to 5.13%. Interest is payable June 1 and December, through 2039. The principal is payable on December 1 and matures in various increments through 2039. The proceeds of these bonds were used for the construction of new water mains, the enhancement of wells, the enlargement of a dam, and other water system improvements.

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

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

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

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

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(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, 2011 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.

5. General Obligation Water Refunding Bonds, Series 2011

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

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

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

The District is maintaining a reserve equal to interest accrued through December 31, 2011 plus one twelfth (1/12) of the first principal payment due in the subsequent year for this debt.

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-Term Debt – Sanitation

1. 1992 CWRPDA Loan

In June 1992, the District entered into a \$7,368,840 loan agreement with CWRDPA, the proceeds of which were used for the design and construction of bio-solid handling facility improvements. Interest 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 bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

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

2. 1995 CWRPDA Loan

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

Upon written notice to CWRPDA, the District has the option to prepay the loan in whole or 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 bond documents include a Rate Maintenance Covenant, which requires the District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

III. Detailed Notes on All Funds (continued)

I. Long-Term Debt – Sanitation (continued)

3. 1998 CWRPDA Governmental Agency Bond

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

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

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

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, 2011
(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 District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

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

In conjunction with the issuance of the 2009 Bonds, 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, 2011 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, 2011, the District recognized revenue of \$347,298 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, 2011
(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 District to establish service rates at a level sufficient to cover operating and maintenance expenses, as well as 110% of each fiscal year's debt service requirements of outstanding District bonds.

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

In conjunction with the issuance of the 2009 Bonds, 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, 2011 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, 2011
(Continued)

III. Detailed Notes on All Funds (continued)

J. Long-term Liability Activity Schedule

Long-term liability activity for 2011 was as follows:

	<u>1/1/11</u> Beginning Balance	Additions	Reductions	12/31/11 Ending Balance	Due Within One Year
Water					
1998 assessment obligation note	1,475,311	-	(50,278)	1,425,033	53,018
2002 CWRPDA loan	3,140,000	-	(3,140,000)	-	-
2004 general obligation bonds	7,845,000	-	(280,000)	7,565,000	290,000
2009 water enterprise revenue bonds	13,225,000	-	-	13,225,000	260,000
2011 refunding general obligation bonds	-	2,930,000	-	2,930,000	225,000
Unamortized bond premiums	155,543	225,374	-	380,917	-
Unamortized deferred cost on refunding	-	-	(133,966)	(133,966)	-
Accrued compensated absences	89,785	4,221	-	94,006	-
Subtotal - Water	<u>25,930,639</u>	<u>3,159,595</u>	<u>(3,604,244)</u>	<u>25,485,990</u>	<u>828,018</u>
Sanitation					
1992 CWRPDA loan	1,566,103	-	(487,328)	1,078,775	524,535
1995 CWRPDA loan	1,910,330	-	(352,184)	1,558,146	362,856
1998 CWRPDA loan	7,058,032	-	(1,075,100)	5,982,932	1,101,978
2009A wastewater revenue bonds	1,460,000	-	(315,000)	1,145,000	325,000
2009B wastewater revenue bonds	15,785,000	-	-	15,785,000	-
Unamortized bond premiums	79,218	-	(2,733)	76,485	-
Accrued compensated absences	269,355	12,662	-	282,017	-
Subtotal - Sanitation	<u>28,128,038</u>	<u>12,662</u>	<u>(2,232,345)</u>	<u>25,908,355</u>	<u>2,314,369</u>
Total	<u><u>54,058,677</u></u>	<u><u>3,172,257</u></u>	<u><u>(5,836,589)</u></u>	<u><u>51,394,345</u></u>	<u><u>3,142,387</u></u>

K. Debt Service Schedules

Debt service requirements at December 31, 2011, were as follows for water operations:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Water			
2012	828,018	1,142,664	1,970,682
2013	850,908	1,117,042	1,967,950
2014	878,955	1,085,972	1,964,927
2015	917,168	1,052,545	1,969,713
2016	950,556	1,018,408	1,968,964
2017 - 2021	5,345,429	4,502,475	9,847,904
2022 - 2026	5,202,547	3,328,136	8,530,683
2027 - 2031	4,521,452	2,026,851	6,548,303
2032 - 2036	3,265,000	1,125,081	4,390,081
2037 - 2040	2,385,000	248,563	2,633,563
Total water debt service	<u><u>25,145,033</u></u>	<u><u>16,647,737</u></u>	<u><u>41,792,770</u></u>

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(Continued)

III. Detailed Notes on All Funds (continued)

K. Debt Service Schedules (continued)

Debt service requirements at December 31, 2011, were as follows for sanitation operations:

			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Sanitation					
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			1,703,123	1,028,379	2,731,502
2017	-	2021	2,040,000	4,599,002	6,639,002
2022	-	2026	2,435,000	3,989,949	6,424,949
2027	-	2031	2,970,000	3,164,286	6,134,286
2032	-	2036	3,655,000	2,101,905	5,756,905
2037	-	2040	3,955,000	634,186	4,589,186
Total sanitation debt service			<u>25,549,853</u>	<u>20,776,311</u>	<u>46,326,164</u>

Aggregate debt service requirements at December 31, 2011, were as follows for the District:

			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Combined					
2012			3,142,387	2,594,933	5,737,320
2013			3,248,243	2,487,532	5,735,775
2014			2,930,351	2,365,205	5,295,556
2015			2,945,798	2,209,157	5,154,955
2016			2,653,679	2,046,787	4,700,466
2017	-	2021	7,385,429	9,101,477	16,486,906
2022	-	2026	7,637,547	7,318,085	14,955,632
2027	-	2031	7,491,452	5,191,137	12,682,589
2032	-	2036	6,920,000	3,226,986	10,146,986
2037	-	2040	6,340,000	882,749	7,222,749
Total combined debt service			<u>50,694,886</u>	<u>37,424,048</u>	<u>88,118,934</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, 2011
(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 \$304,093 for plan members and \$674,920 for the District for the year ended December 31, 2011.

2. Deferred Compensation Plan

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

Eagle River Water and Sanitation District
Notes to the Financial Statements
December 31, 2011
(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, 2011 and 2010, the net amount due from the Authority to the District was \$148,410 and \$205,768, 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 \$3,513,190 and \$3,367,845 of contract fees from the Authority during 2011 and 2010, respectively. The District has outstanding management fees due from the Authority as of December 31, 2011 and 2010 totaling \$161,964 and \$204,034, respectively, included in other receivables. There were other outstanding receivables, for operations services, due from the Authority as of December 31, 2011 and 2010 totaling \$147,133 and \$396,816, respectively, included in other accounts receivables. As of December 31, 2011 there was \$1,105,977, 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, 2011
(Continued)

IV. Other Information (continued)

D. Intergovernmental Agreements (continued)

2. Contract for Water Services (continued)

The District earned \$30,540 and \$34,070 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 2011 and 2010, 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, 2011, the District collected \$27,575 of tap fees, which are subject to developer reimbursement, and reimbursed \$0 to developers.

Capital contributions subject to cost recovery at December 31, 2011, including taps collected and not paid, amounts to \$1,688,534.

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, 2011
(With Comparative Totals for the Year Ended 2010)

	2011			Final Budget Variance Positive (Negative)	2010
	Original Budget	Final Budget	Actual		Actual
Revenues:					
Water:					
Service fees	4,125,939	4,125,939	4,005,686	(120,253)	3,706,863
Rental income	31,000	31,000	39,328	8,328	37,098
Other charges for services	69,176	69,176	83,068	13,892	25,446
Property taxes	1,453,321	1,453,321	1,481,122	27,801	1,473,417
Specific ownership taxes	61,521	61,521	50,260	(11,261)	52,309
Investment income	42,056	42,056	33,651	(8,405)	36,572
Proceeds from sale of assets	-	-	505,530	505,530	139,525
Tap fees	236,957	236,957	160,635	(76,322)	322,576
Fees in lieu of water lines	-	-	139,261	139,261	98,476
Proceeds from bond issue	-	-	2,930,000	2,930,000	-
Other	12,000	12,000	122,242	110,242	19,654
Total Water Revenues	6,031,970	6,031,970	9,550,783	3,518,813	5,911,936
Sanitation:					
Service fees	11,064,044	11,064,044	10,941,880	(122,164)	10,325,368
Contract services	3,500,000	3,500,000	3,543,730	43,730	3,402,585
Rental income	234,000	234,000	265,983	31,983	211,780
Meter sales	168,114	168,114	413,592	245,478	64,926
Other charges for services	442,143	442,143	395,873	(46,270)	512,713
Property taxes	1,984,089	1,984,089	1,999,672	15,583	1,994,677
Specific ownership taxes	78,261	78,261	66,221	(12,040)	67,018
Investment income	179,329	179,329	33,834	(145,495)	83,262
Interest credit - Build America Bonds	347,298	347,298	347,298	-	355,015
Proceeds from sale of assets	-	-	481,549	481,549	678,687
Tap fees	351,191	351,191	657,464	306,273	461,095
Fees in lieu of sewer lines	-	-	11,255	11,255	21,308
Contributed assets - cash	-	-	10,000	10,000	-
Other	34,216	34,216	151,909	117,693	54,077
Total Sanitation Revenues	18,382,685	18,382,685	19,320,260	937,575	18,232,511
Total Revenues	24,414,655	24,414,655	28,871,043	4,456,388	24,144,447
Expenditures - Water:					
Maintenance:					
Salaries and benefits	368,286	368,286	419,493	(51,207)	358,725
Supplies and materials	67,588	67,588	117,108	(49,520)	85,219
Repairs and maintenance	40,000	40,000	72,410	(32,410)	117,620
Other	75,000	75,000	29,609	45,391	61,821
Subtotal - Maintenance	550,874	550,874	638,620	(87,746)	623,385
Water Operations:					
Salaries and benefits	387,320	387,320	392,679	(5,359)	362,983
Supplies and materials	10,890	10,890	14,490	(3,600)	8,212
Utilities	316,000	316,000	217,328	98,672	239,562
Chemicals	47,150	47,150	48,947	(1,797)	50,172
Repairs and maintenance	69,500	69,500	63,620	5,880	117,164
Meter replacement	100,000	100,000	109,632	(9,632)	99,410
Other	377,407	377,407	403,684	(26,277)	527,433
Subtotal - Water Operations	1,308,267	1,308,267	1,250,380	57,887	1,404,936

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, 2011
(With Comparative Totals for the Year Ended 2010)
(Continued)

	2011			2010	
	Original Budget	Final Budget	Actual	Final Budget Variance Positive (Negative)	Actual
Expenditures - Water (continued):					
Engineering:					
Salaries and benefits	130,387	130,387	113,444	16,943	126,371
Supplies and materials	250	250	271	(21)	441
Other	5,913	5,913	3,259	2,654	5,236
Subtotal - Engineering	<u>136,550</u>	<u>136,550</u>	<u>116,974</u>	<u>19,576</u>	<u>132,048</u>
Laboratory:					
Salaries and benefits	78,221	78,221	95,132	(16,911)	73,234
Supplies and materials	21,750	21,750	20,068	1,682	22,353
Outside services	6,250	6,250	1,200	5,050	5,463
Other	1,489	1,489	2,711	(1,222)	2,719
Subtotal - Laboratory	<u>107,710</u>	<u>107,710</u>	<u>119,111</u>	<u>(11,401)</u>	<u>103,769</u>
General and Administrative:					
Office:					
Salaries and benefits	340,588	340,588	334,563	6,025	324,003
Supplies and materials	18,628	18,628	14,879	3,749	17,575
Telephone and radio service	53,000	53,000	44,375	8,625	42,327
Insurance	47,100	47,100	44,609	2,491	43,695
Other	83,664	83,664	79,679	3,985	71,210
Subtotal - Office	<u>542,980</u>	<u>542,980</u>	<u>518,105</u>	<u>24,875</u>	<u>498,810</u>
Accounting:					
Salaries and benefits	115,331	115,331	114,541	790	111,175
Supplies and materials	2,788	2,788	1,024	1,764	1,363
Subtotal - Accounting	<u>118,119</u>	<u>118,119</u>	<u>115,565</u>	<u>2,554</u>	<u>112,538</u>
Customer Service:					
Salaries and benefits	131,461	131,461	129,657	1,804	129,460
Supplies and materials	88,515	88,515	52,374	36,141	48,333
Subtotal - Customer Service	<u>219,976</u>	<u>219,976</u>	<u>182,031</u>	<u>37,945</u>	<u>177,793</u>
Information Technology:					
Salaries and benefits	133,475	133,475	122,962	10,513	130,120
Supplies and materials	90,168	90,168	53,696	36,472	81,438
Subtotal - Information Technology	<u>223,643</u>	<u>223,643</u>	<u>176,658</u>	<u>46,985</u>	<u>211,558</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, 2011
(With Comparative Totals for the Year Ended 2010)
(Continued)

	2011			Final Budget Variance Positive (Negative)	2010
	Original Budget	Final Budget	Actual		Actual
Expenditures - Water (continued):					
General and Administrative (continued):					
Other:					
Legal	37,500	37,500	82,477	(44,977)	106,211
Accounting and audit	13,750	13,750	9,750	4,000	25,083
Engineering	10,000	10,000	33,096	(23,096)	48,930
Management and consulting	240,000	240,000	245,158	(5,158)	413,882
Benefit administration	17,500	17,500	19,843	(2,343)	17,485
Community relations	4,529	4,529	3,977	552	4,138
On-call housing	16,375	16,375	23,461	(7,086)	19,660
Directors fees and expenses	4,300	4,300	3,872	428	3,587
Maintenance contracts	56,000	56,000	27,924	28,076	59,369
Water quality	93,250	93,250	119,124	(25,874)	61,505
Treasurer's fees	59,377	59,377	44,751	14,626	44,324
Net loan advances (repayments)	(2,200,000)	(2,200,000)	(2,522,159)	322,159	28,738
Subtotal - Other	<u>(1,647,419)</u>	<u>(1,647,419)</u>	<u>(1,908,726)</u>	<u>261,307</u>	<u>832,912</u>
Total General and Administrative	<u>(542,701)</u>	<u>(542,701)</u>	<u>(916,367)</u>	<u>373,666</u>	<u>1,833,611</u>
Debt Service:					
Principal	535,279	535,279	535,278	1	512,680
Interest	1,193,560	1,193,560	1,206,385	(12,825)	1,219,419
Principal paid to refunded bond escrow agent	-	-	2,795,180	(2,795,180)	-
Issue costs	-	-	90,317	(90,317)	-
Subtotal - Debt Service	<u>1,728,839</u>	<u>1,728,839</u>	<u>4,627,160</u>	<u>(2,898,321)</u>	<u>1,732,099</u>
Eagle Park Reservoir Company Stock Purchases - Water Rights	-	-	-	-	1,387,500
Capital Outlay	<u>724,000</u>	<u>724,000</u>	<u>1,611,828</u>	<u>(887,828)</u>	<u>2,216,582</u>
Total Water Expenditures	<u>4,013,539</u>	<u>4,013,539</u>	<u>7,447,706</u>	<u>(3,434,167)</u>	<u>9,433,930</u>
Expenditures - Sanitation:					
Maintenance:					
Salaries and benefits	1,104,858	1,104,858	1,258,479	(153,621)	1,076,177
Supplies and materials	202,763	202,763	351,325	(148,562)	255,658
Repairs and maintenance	220,000	220,000	184,954	35,046	194,668
Other	184,040	184,040	128,196	55,844	114,391
Subtotal - Maintenance	<u>1,711,661</u>	<u>1,711,661</u>	<u>1,922,954</u>	<u>(211,293)</u>	<u>1,640,894</u>
Water Operations:					
Salaries and benefits	1,161,961	1,161,961	1,178,038	(16,077)	1,088,948
Supplies and materials	32,670	32,670	43,470	(10,800)	24,636
Subtotal - Water Operations	<u>1,194,631</u>	<u>1,194,631</u>	<u>1,223,924</u>	<u>(29,293)</u>	<u>1,113,584</u>
Wastewater Treatment:					
Salaries and benefits	1,387,973	1,387,973	1,388,322	(349)	1,351,857
Supplies and materials	342,275	342,275	349,609	(7,334)	279,026
Repairs and maintenance	447,500	447,500	380,514	66,986	295,432
Utilities	935,200	935,200	940,160	(4,960)	786,692
Permits	34,520	34,520	45,072	(10,552)	57,364
Other	35,571	35,571	21,538	14,033	21,356
Subtotal - Wastewater Treatment	<u>3,183,039</u>	<u>3,183,039</u>	<u>3,125,215</u>	<u>57,824</u>	<u>2,791,727</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, 2011
(With Comparative Totals for the Year Ended 2010)
(Continued)

	2011			Final Budget Variance Positive (Negative)	2010
	Original Budget	Final Budget	Actual		Actual
Expenditures - Sanitation (continued):					
Engineering:					
Salaries and benefits	391,162	391,162	340,331	50,831	379,113
Supplies and materials	750	750	813	(63)	1,323
Other	17,738	17,738	9,777	7,961	15,708
Subtotal - Engineering	409,650	409,650	350,921	58,729	396,144
Laboratory:					
Salaries and benefits	234,664	234,664	285,396	(50,732)	219,701
Supplies and materials	65,250	65,250	60,204	5,046	67,058
Outside services	18,750	18,750	23,356	(4,606)	16,389
Other	4,466	4,466	8,133	(3,667)	8,157
Subtotal - Laboratory	323,130	323,130	377,089	(53,959)	311,305
General and Administrative:					
Office:					
Salaries and benefits	1,021,763	1,021,763	1,003,691	18,072	972,008
Supplies and materials	55,883	55,883	44,637	11,246	52,726
Telephone and radio service	159,000	159,000	133,126	25,874	126,982
Insurance	141,300	141,300	133,828	7,472	131,086
Other	270,991	270,991	239,037	31,954	213,630
Subtotal - Office	1,648,937	1,648,937	1,554,319	94,618	1,496,432
Accounting:					
Salaries and benefits	345,994	345,994	343,623	2,371	333,524
Supplies and materials	8,363	8,363	3,072	5,291	4,090
Subtotal - Accounting	354,357	354,357	346,695	7,662	337,614
Customer Service:					
Salaries and benefits	394,382	394,382	388,971	5,411	388,380
Supplies and materials	265,545	265,545	541,030	(275,485)	144,999
Subtotal - Customer Service	659,927	659,927	930,001	(270,074)	533,379
Information Technology:					
Salaries and benefits	400,426	400,426	368,886	31,540	390,361
Supplies and materials	270,503	270,503	161,089	109,414	244,313
Subtotal - Information Technology	670,929	670,929	529,975	140,954	634,674
Other:					
Legal	112,500	112,500	89,220	23,280	95,515
Accounting and audit	41,250	41,250	9,752	31,498	25,083
Engineering	17,000	17,000	12,408	4,592	13,710
Management and consulting	70,000	70,000	31,614	38,386	31,904
Benefit administration	52,500	52,500	59,528	(7,028)	52,454
Community relations	13,588	13,588	11,930	1,658	12,413
On-call housing	49,125	49,125	70,384	(21,259)	58,979
Directors fees and expenses	12,900	12,900	11,617	1,283	10,762
Maintenance contracts	168,000	168,000	83,772	84,228	178,107
Sanitation quality	531,000	531,000	424,700	106,300	744,399
Treasurer's fees	60,274	60,274	60,541	(267)	60,250
Net loan advances (repayments)	-	-	16,192	(16,192)	85,062
Subtotal - Other	1,128,137	1,128,137	881,658	246,479	1,368,638
Total General and Administrative	4,462,287	4,462,287	4,242,648	219,639	4,370,737

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, 2011
(With Comparative Totals for the Year Ended 2010)
(Continued)

	2011			Final Budget Variance Positive (Negative)	2010
	Original Budget	Final Budget	Actual		Actual
Expenditures - Sanitation (continued):					
Debt Service:					
Principal	2,209,046	2,209,046	2,229,611	(20,565)	1,852,431
Interest	1,507,990	1,507,990	1,507,238	752	1,577,361
Subtotal - Debt Service	<u>3,717,036</u>	<u>3,717,036</u>	<u>3,736,849</u>	<u>(19,813)</u>	<u>3,429,792</u>
Capital Outlay	<u>4,769,500</u>	<u>11,562,304</u>	<u>5,373,756</u>	<u>6,188,548</u>	<u>10,643,431</u>
Total Sanitation Expenditures	<u>19,770,934</u>	<u>26,563,738</u>	<u>20,353,356</u>	<u>6,210,382</u>	<u>24,697,614</u>
Total District Expenditures	<u>23,784,473</u>	<u>30,577,277</u>	<u>27,801,062</u>	<u>2,776,215</u>	<u>34,131,544</u>
Excess (Deficiency) of Revenues Over Expenditures	630,182	(6,162,622)	1,069,981	7,232,603	(9,987,097)
Fund Available - Beginning of Year	<u>12,697,080</u>	<u>12,697,080</u>	<u>21,828,846</u>	<u>9,131,766</u>	<u>31,815,943</u>
Funds Available - End of Year	<u>13,327,262</u>	<u>6,534,458</u>	<u>22,898,827</u>	<u>16,364,369</u>	<u>21,828,846</u>
Funds available at year-end is computed as follows:					
Current assets			29,912,817		29,172,415
Current liabilities			(10,156,377)		(10,108,458)
Current portion of long-term obligations			3,142,387		2,764,889
			<u>22,898,827</u>		<u>21,828,846</u>

Reconciliation to GAAP Basis

	Water	Sanitation		
Excess (deficiency) of revenues over expenditures	2,103,077	(1,033,096)	1,069,981	(9,987,097)
Contributed assets from developers	606,060	50,927	656,987	388,530
Proceeds from bond issue	(2,930,000)	-	(2,930,000)	-
Change in patronage dividends receivable	(1,568)	166	(1,402)	18,198
Change in other long-term receivables	(57,358)	-	(57,358)	2,525
Proceeds from disposition of capital assets	(505,530)	(481,549)	(987,079)	(818,212)
Gain (loss) on disposition of property	76,237	65,909	142,146	(32,013)
Change in accrued interest on long-term note receivable	-	-	-	95,000
Depreciation	(1,422,476)	(5,248,218)	(6,670,694)	(6,896,393)
Bond and loan issue cost amortization	(25,997)	(23,984)	(49,981)	(49,075)
Amortization of bond premiums, discounts, and refunding costs	7,185	2,597	9,782	9,391
Net loan advances (repayments)	(2,522,159)	16,192	(2,505,967)	113,800
Debt principal payments	535,278	2,229,611	2,764,889	2,365,111
Principal payment to refunded bond escrow agent	2,795,180	-	2,795,180	-
Increase in investment in Eagle Park Reservoir Company	-	-	-	1,387,500
Capitalized assets	1,611,828	5,373,756	6,985,584	12,860,013
Prior year construction in progress expensed in the current year	(61,070)	(7,368)	(68,438)	(140,982)
Capitalized interest	45,256	226,617	271,873	209,843
Change in compensated absences	(4,221)	(12,662)	(16,883)	(36,897)
Capitalized debt issue costs	90,317	-	90,317	-
Change in Net Assets - GAAP Basis	<u>340,039</u>	<u>1,158,898</u>	<u>1,498,937</u>	<u>(510,758)</u>

**Eagle River Water and Sanitation District
Schedule of Debt Service Requirements to Maturity - Water
December 31, 2011**

**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>
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>1,425,033</u>	<u>796,578</u>	<u>2,221,611</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, 2011

2004 General Obligation Water Bonds			
Original Principal - \$9,335,000			
Interest Rate - 3.25% to 5.00%			
Year Ending December 31,	Principal Due June 1 and December 1	Interest Due June 1 and December 1	Total
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>7,565,000</u>	<u>3,841,084</u>	<u>11,406,084</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, 2011

2009 Water Enterprise Revenue Bonds

Original Principal - \$13,225,000

Interest Rate - 3.00% to 5.13%

Year Ending December 31,	Principal Due June 1 and December 1	Interest Due June 1 and December 1	Total
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>11,326,594</u>	<u>24,551,594</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, 2011

2011 Water Refunding General Obligation Bond			
Original Principal - \$2,930,000			
Interest Rate - 3.00% to 4.00%			
Year Ending December 31,	Principal Due April 1 and October 1	Interest Due June 1 and December 1	Total
2012	225,000	104,281	329,281
2013	230,000	99,500	329,500
2014	235,000	90,300	325,300
2015	250,000	80,900	330,900
2016	260,000	70,900	330,900
2017	265,000	63,100	328,100
2018	270,000	55,150	325,150
2019	280,000	47,050	327,050
2020	300,000	35,850	335,850
2021	300,000	23,850	323,850
2022	315,000	12,600	327,600
	<u>2,930,000</u>	<u>683,481</u>	<u>3,613,481</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, 2011

1992 Loan			
Payable to Colorado Water Resources and			
Power Development Authority			
Principal - \$7,368,840			
Interest Rate - 4.15% to 6.25%			
Year Ending	Principal Due	Interest Due	Total
December 31,	May 1 and	February 1,	
	August 1	May 1, August 1	
		and November 1	
2012	524,535	53,144	577,679
2013	554,240	25,248	579,488
	1,078,775	78,392	1,157,167

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, 2011

1995 Loan			
Payable to Colorado Water Resources and			
Power Development Authority			
Principal After Refinancing - \$6,099,183			
Interest Rate - 4.58%			
Year Ending	Principal Due	Interest Due	
December 31,	February 1 and	February 1 and	
	August 1	August 1	Total
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>1,558,146</u>	<u>257,010</u>	<u>1,815,156</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, 2011

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

<u>Year Ending</u> <u>December 31,</u>	<u>Principal Due</u> <u>February 1 and</u> <u>August 1</u>	<u>Interest Due</u> <u>February 1 and</u> <u>August 1</u>	<u>Total</u>
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>5,982,933</u>	<u>915,490</u>	<u>6,898,423</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, 2011

2009 Wastewater Revenue Bonds			
Principal - \$1,460,000			
Interest Rate - 3.00% - 4.00%			
Year Ending December 31,	Principal Due December 1	Interest Due June 1 and December 1	Total
2012	325,000	40,900	365,900
2013	330,000	31,150	361,150
2014	490,000	19,600	509,600
	<u>1,145,000</u>	<u>91,650</u>	<u>1,236,650</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, 2011

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

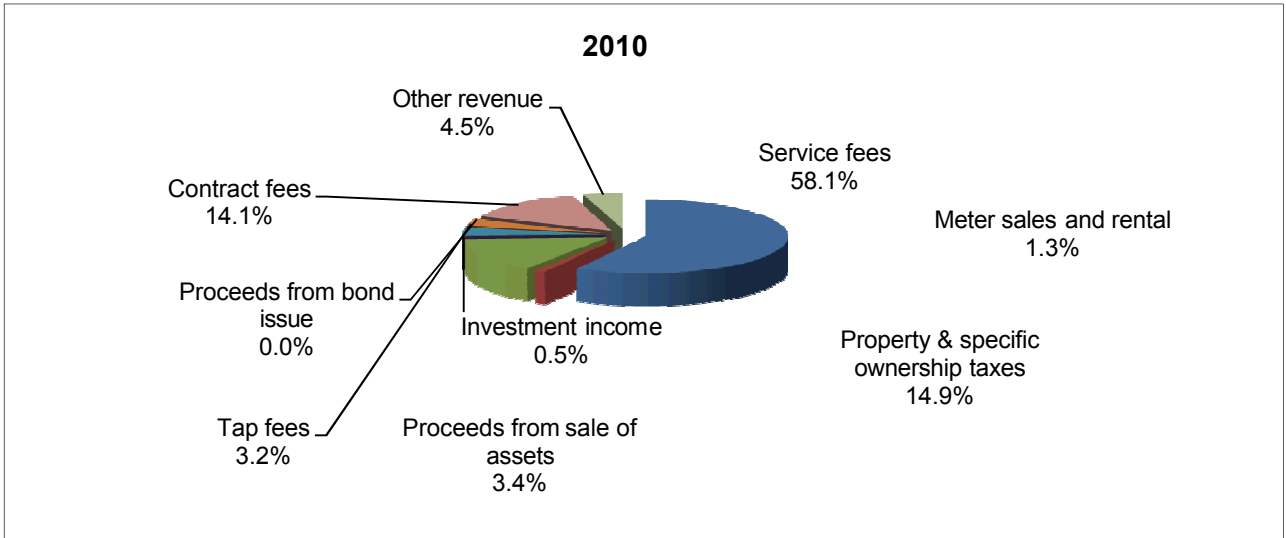
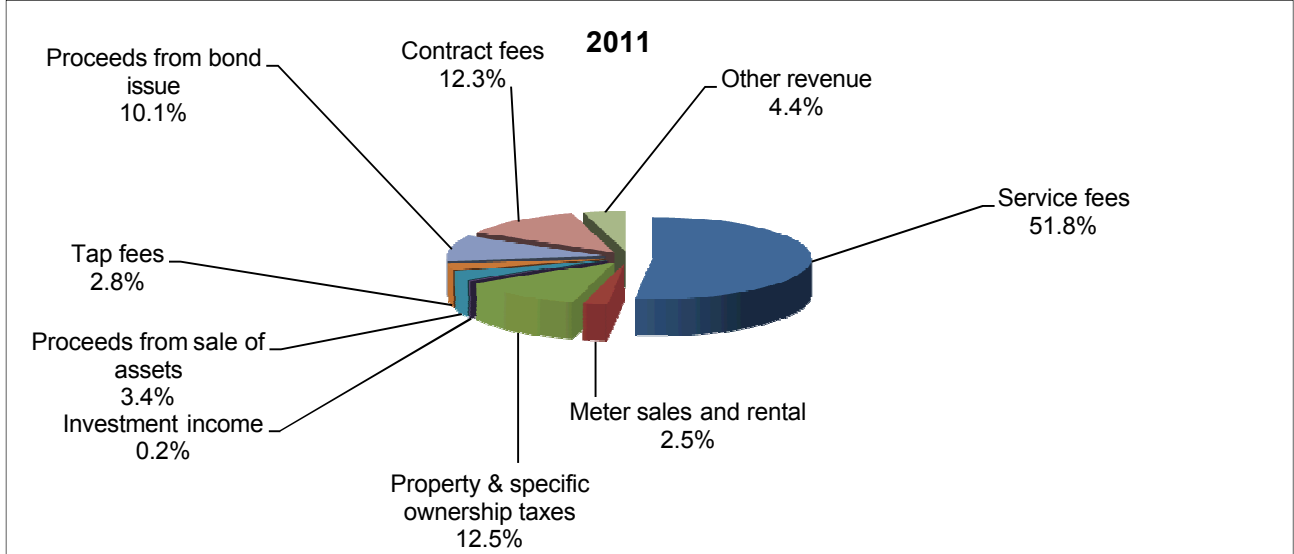
<u>Year Ending December 31,</u>	<u>Principal Due December 1</u>	<u>Interest Due June 1 and December 1</u>	<u>Total</u>
2012	-	992,279	992,279
2013	-	992,280	992,280
2014	-	992,279	992,279
2015	360,000	992,280	1,352,280
2016	370,000	975,323	1,345,323
2017	385,000	957,897	1,342,897
2018	395,000	939,763	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>19,433,769</u>	<u>35,218,769</u>

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

STATISTICAL SECTION

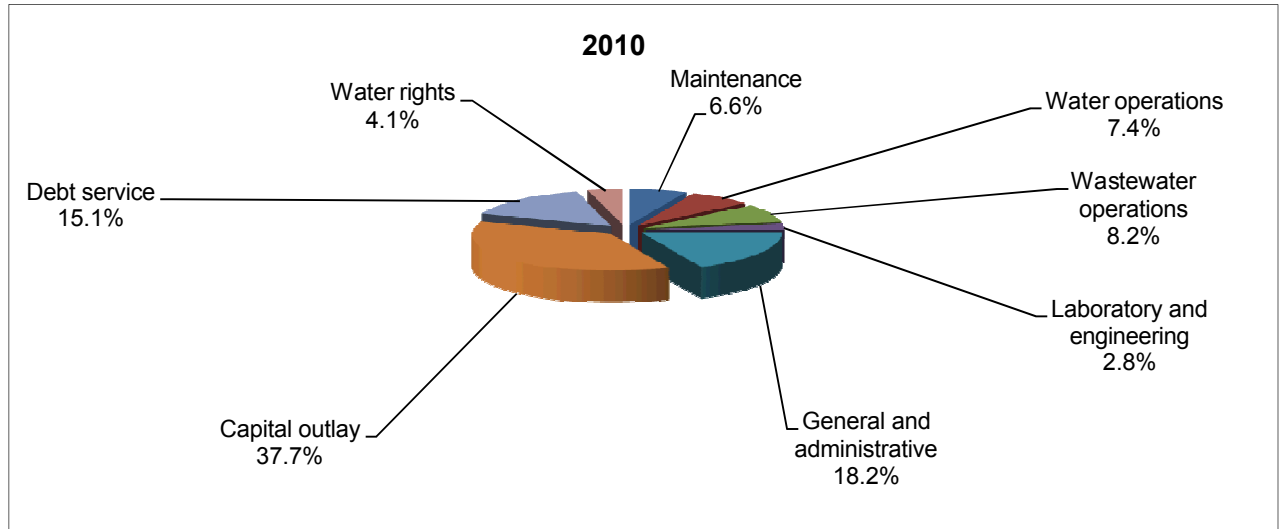
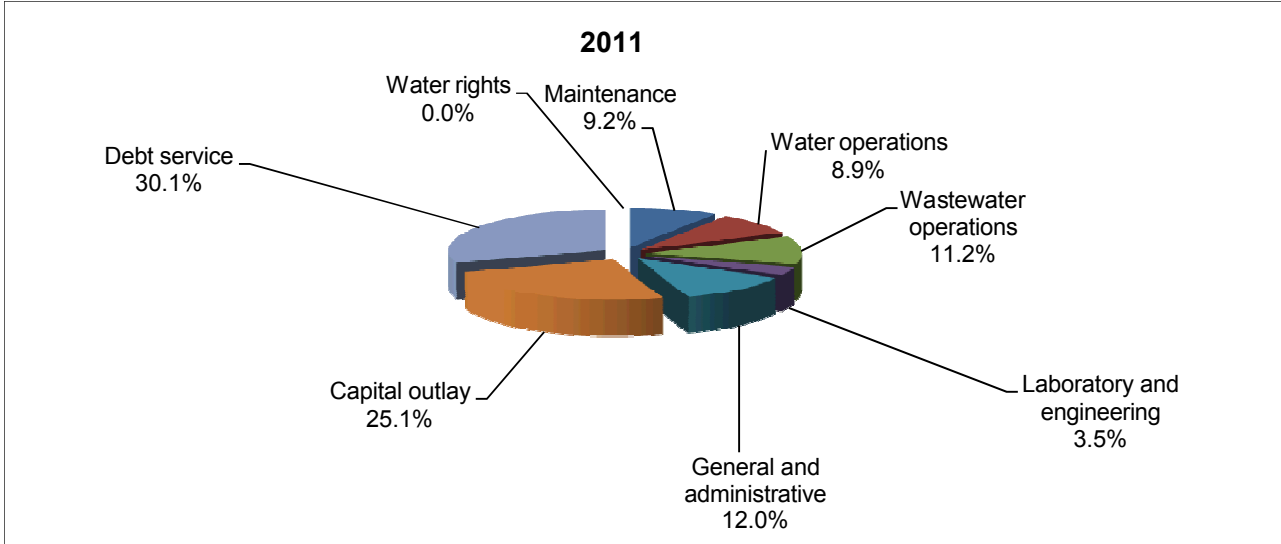


**Eagle River Water and Sanitation District
Budgetary Revenue Analysis
Two Year Comparison
December 31, 2011
(Unaudited)**



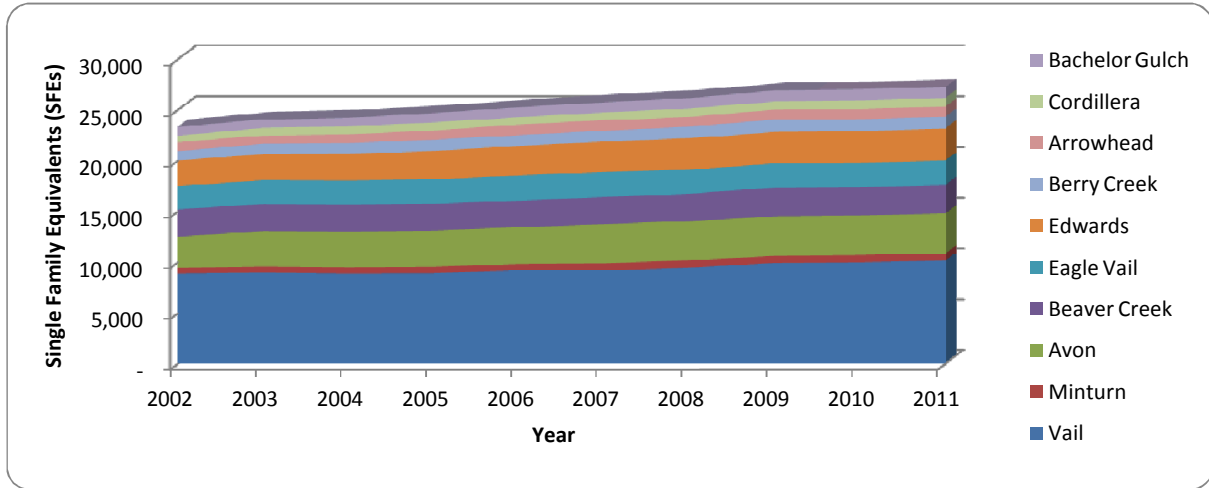
	<u>2011</u>	<u>2010</u>
Service fees	\$ 14,947,567	14,032,231
Meter sales and rental	718,903	313,804
Property & specific ownership taxes	3,597,275	3,587,421
Investment income	67,485	119,834
Proceeds from sale of assets	987,079	818,212
Tap fees	818,099	783,671
Proceeds from bond issue	2,930,000	-
Contract fees	3,543,730	3,402,585
Other revenue	1,260,905	1,086,689
Total revenue (budgetary basis)	<u><u>\$ 28,871,043</u></u>	<u><u>24,144,447</u></u>

**Eagle River Water and Sanitation District
 Budgetary Expenditures Analysis
 Two Year Comparison
 December 31, 2011
 (Unaudited)**



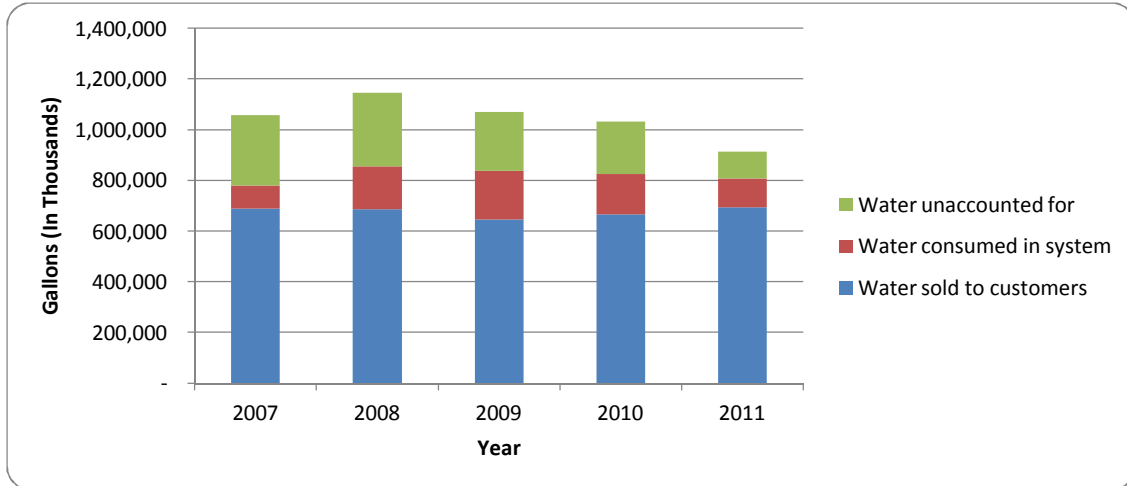
	<u>2011</u>	<u>2010</u>
Maintenance	\$ 2,561,574	2,264,279
Water operations	2,474,304	2,518,520
Wastewater operations	3,125,215	2,791,727
Laboratory and engineering	964,095	943,266
General and administrative	3,326,281	6,204,348
Capital outlay	6,985,584	12,860,013
Debt service	8,364,009	5,161,891
Water rights	-	1,387,500
Total expenditures (budgetary basis)	<u>\$ 27,801,062</u>	<u>34,131,544</u>

**Eagle River Water and Sanitation District
Single Family Equivalents (SFEs) in Service
Ten Year Comparison
December 31, 2011
(Unaudited)**



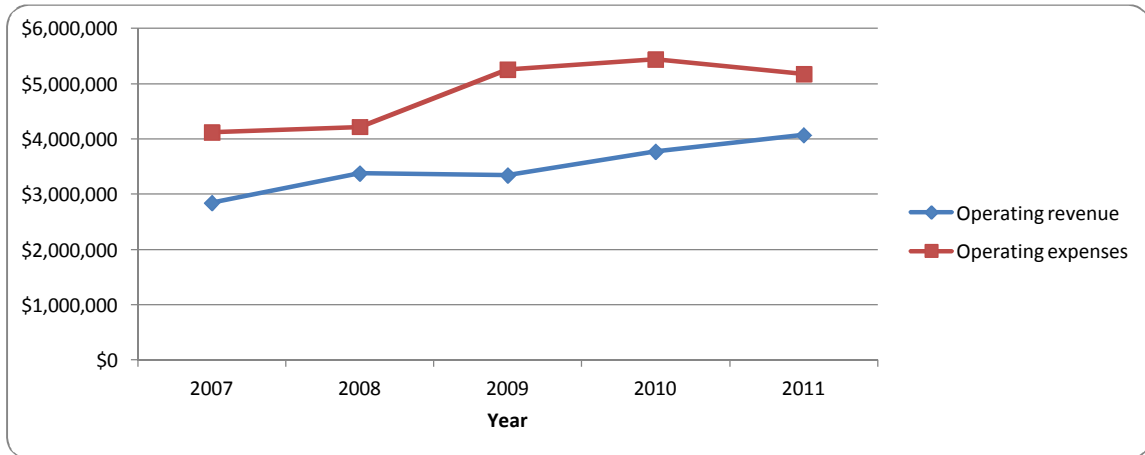
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Vail	8,858	8,932	8,853	8,883	9,135	9,198	9,502	9,932	10,004	10,184
Minturn	621	667	674	696	704	698	705	699	697	710
Avon	3,075	3,489	3,507	3,546	3,587	3,801	3,821	3,913	3,916	3,932
Beaver Creek	2,649	2,664	2,665	2,676	2,704	2,745	2,715	2,779	2,781	2,794
Eagle Vail	2,324	2,326	2,333	2,361	2,382	2,391	2,392	2,401	2,402	2,409
Edwards	2,497	2,581	2,671	2,852	2,953	3,025	3,075	3,111	3,119	3,125
Berry Creek	967	997	1,021	1,039	1,078	1,102	1,106	1,162	1,165	1,169
Arrowhead	806	843	887	930	973	986	998	1,017	1,025	1,021
Cordillera	692	718	729	736	766	791	829	845	845	853
Bachelor Gulch	792	812	882	963	984	1,043	1,044	1,055	1,058	1,065
Total SFEs	<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>	<u>27,262</u>
Percent increase	<u>4.35%</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>	<u>0.93%</u>

**Eagle River Water and Sanitation District
Water Production Analysis - Gallons
Five Year Comparison
December 31, 2011
(Unaudited)**



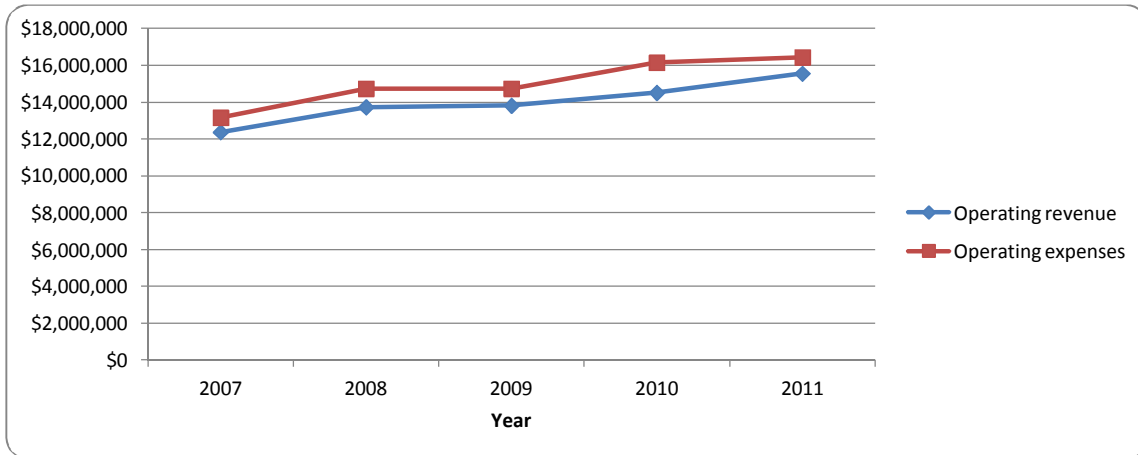
	Gallons (in Thousands)				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water sold to customers	687,356	684,684	645,704	664,798	692,565
Water consumed in system	92,144	171,633	192,670	159,536	114,494
Water unaccounted for	<u>277,637</u>	<u>289,458</u>	<u>231,809</u>	<u>207,242</u>	<u>105,878</u>
Total water treated	<u>1,057,137</u>	<u>1,145,775</u>	<u>1,070,183</u>	<u>1,031,576</u>	<u>912,937</u>
Unaccounted for water percentage	<u>26.26%</u>	<u>25.26%</u>	<u>21.66%</u>	<u>20.09%</u>	<u>11.60%</u>

Eagle River Water and Sanitation District
Comparison of Operating Revenue to Operating Expenses - Water
Five Year Comparison
December 31, 2011
(Unaudited)



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Water service fees	\$ 2,773,984	3,045,352	3,274,177	3,706,863	4,005,686
Other revenue	68,914	332,967	69,106	65,069	64,823
Operating revenue	<u>2,842,898</u>	<u>3,378,319</u>	<u>3,343,283</u>	<u>3,771,932</u>	<u>4,070,509</u>
Maintenance	507,936	613,206	501,606	690,687	703,232
Water operations	2,054,912	2,011,125	2,464,297	2,660,208	2,537,632
Engineering and lab	199,770	166,045	254,368	233,806	233,439
General and administrative	1,355,446	1,429,569	2,040,804	1,853,216	1,702,570
Operating expenses	<u>4,118,064</u>	<u>4,219,945</u>	<u>5,261,075</u>	<u>5,437,917</u>	<u>5,176,873</u>
Operating income (loss)	<u>\$ (1,275,166)</u>	<u>(841,626)</u>	<u>(1,917,792)</u>	<u>(1,665,985)</u>	<u>(1,106,364)</u>
Depreciation expense (included above)	\$ 916,256	1,077,119	1,306,573	1,403,303	1,406,262

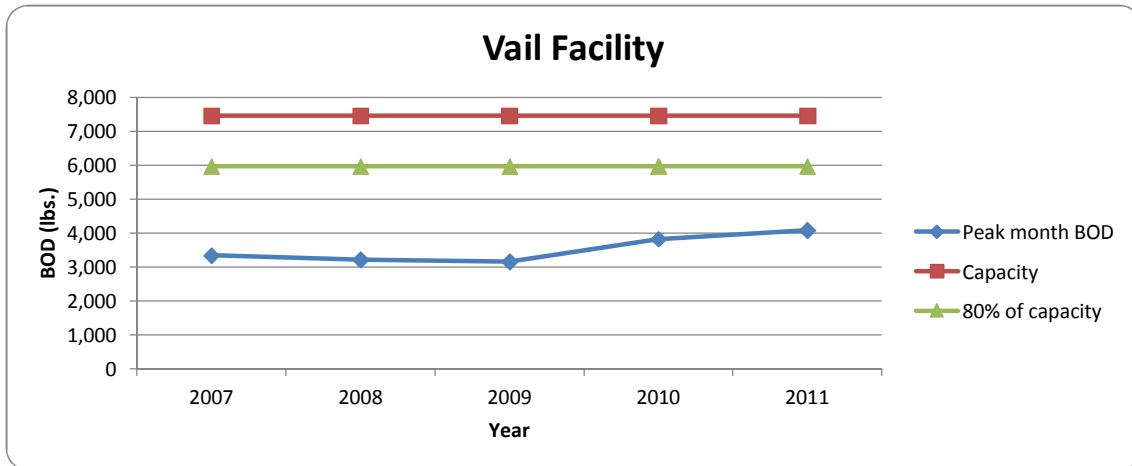
Eagle River Water and Sanitation District
Comparison of Operating Revenues to Operating Expenses - Sanitation
Five Year Comparison
December 31, 2011
(Unaudited)



	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Service fees	\$ 9,251,049	9,911,510	9,969,905	10,325,368	10,941,880
Contract services	2,391,930	2,764,400	3,054,062	3,402,585	3,543,730
Other revenue	728,027	1,051,463	785,899	789,419	1,075,355
Operating revenue	<u>12,371,006</u>	<u>13,727,373</u>	<u>13,809,866</u>	<u>14,517,372</u>	<u>15,560,965</u>
Maintenance	1,513,198	2,002,236	1,657,846	1,842,798	2,116,790
Water operations	939,724	931,366	1,016,054	1,123,158	1,226,338
Wastewater treatment	7,014,471	7,614,338	7,473,713	7,772,861	7,839,196
Engineering and lab	945,847	906,873	763,102	701,418	720,072
General and administrative	2,745,886	3,285,870	3,826,837	4,699,886	4,541,042
Operating expenses	<u>13,159,126</u>	<u>14,740,683</u>	<u>14,737,552</u>	<u>16,140,121</u>	<u>16,443,438</u>
Operating income (loss)	<u>\$ (788,120)</u>	<u>(1,013,310)</u>	<u>(927,686)</u>	<u>(1,622,749)</u>	<u>(882,473)</u>
Depreciation expense (included above)	<u>\$ 4,760,622</u>	<u>4,682,141</u>	<u>5,169,048</u>	<u>5,493,090</u>	<u>5,264,432</u>

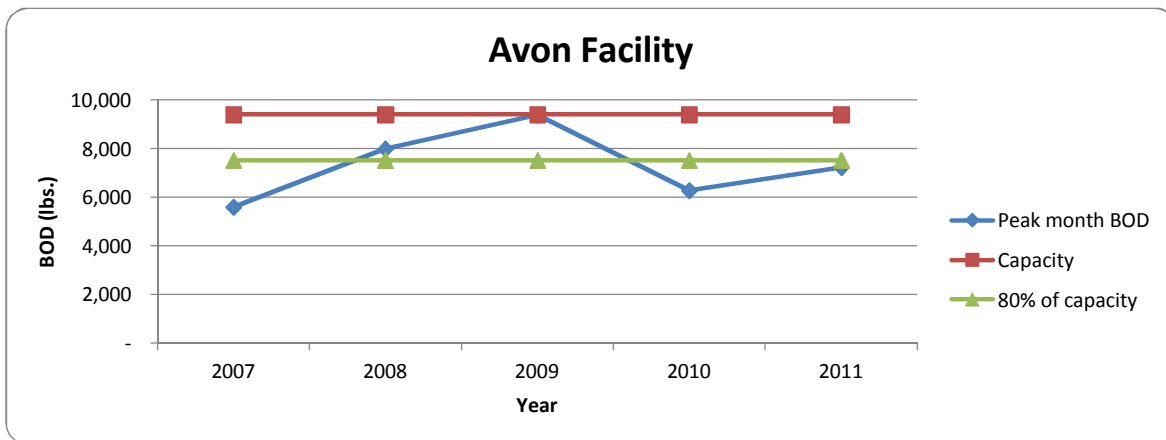
Eagle River Water and Sanitation District
Wastewater Loadings Compared to Facility Capacity
Five Year Comparison
December 31, 2011
(Unaudited)

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



Vail Facility

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Peak month BOD	3,334	3,215	3,149	3,821	4,084
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	45%	43%	42%	51%	55%

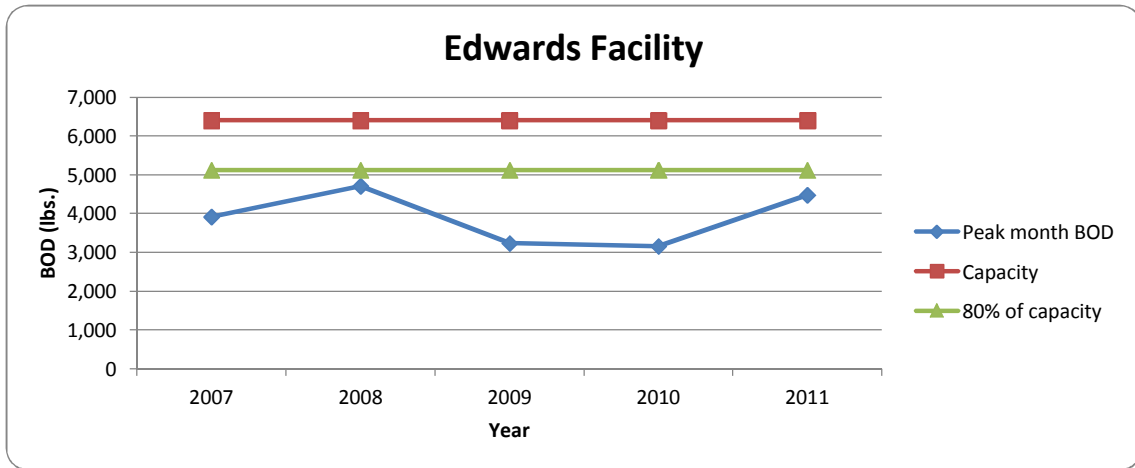


Avon Facility

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Peak month BOD	5,596	7,997	9,390	6,273	7,223
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	60%	85%	100%	67%	77%

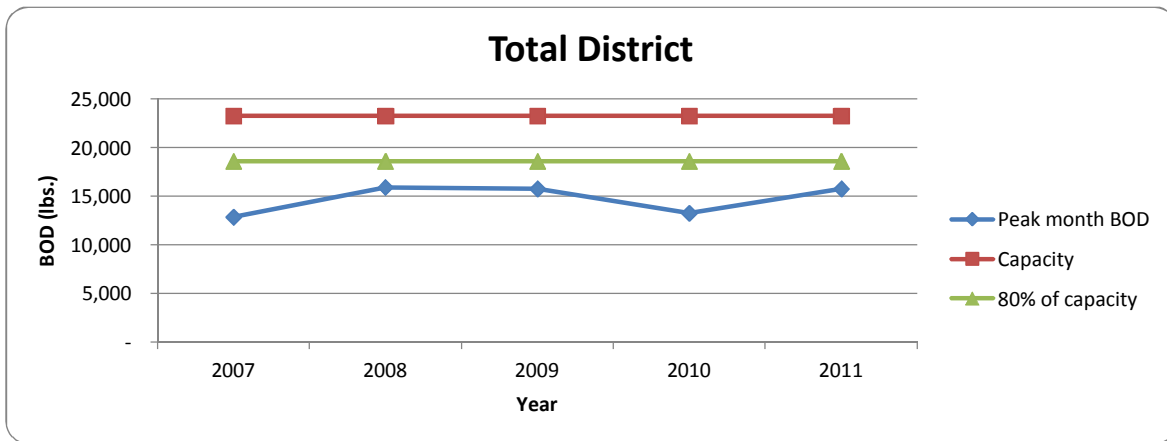
Eagle River Water and Sanitation District
Wastewater Loadings Compared to Facility Capacity
Five Year Comparison
December 31, 2011
(Continued)
(Unaudited)

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Peak month BOD	3,913	4,706	3,231	3,156	4,474
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	61%	74%	50%	49%	70%



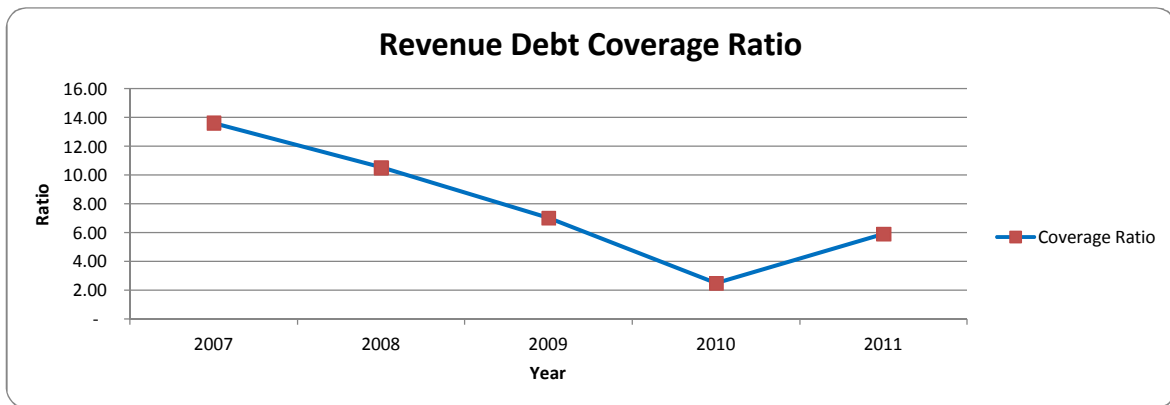
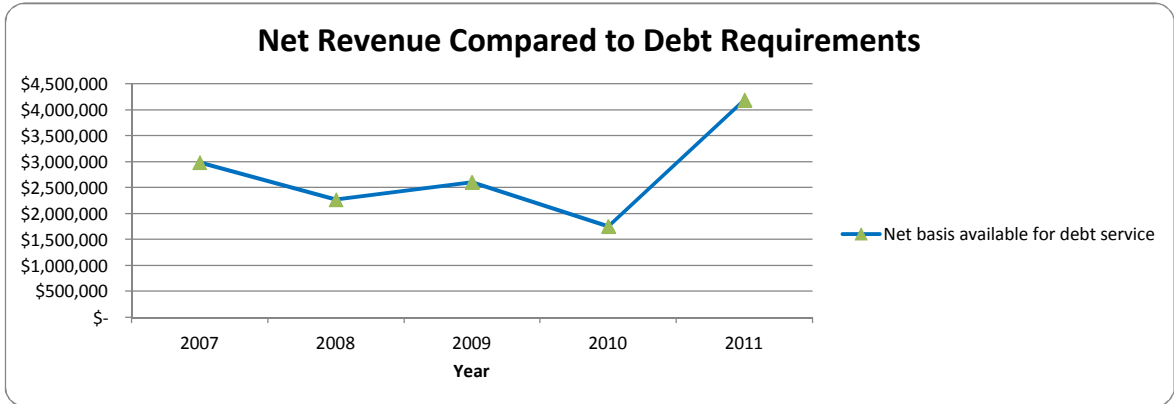
Total District

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Peak month BOD	12,843	15,918	15,770	13,250	15,781
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	55%	68%	68%	57%	68%

**Eagle River Water and Sanitation District
Top 10 Customers
Five Year Comparison
December 31, 2011
(Unaudited)**

Customer Type	1,000 Gallons	Sales Dollar Amount	% of Total Sales Dollars
<u>Vail Water Sales</u>			
Ski Company / Resort	63,990	\$ 129,851	3.2%
Town of Vail	18,823	102,828	2.6%
Hotel / Resort	18,325	85,942	2.1%
Condominiums / Resort	12,396	78,842	2.0%
Hospital	17,946	72,181	1.8%
Hotel / Resort	15,955	61,502	1.5%
Hotel / Resort	13,764	56,480	1.4%
Hotel / Resort	15,614	55,663	1.4%
Condominiums / Resort	13,460	48,407	1.2%
Condominiums / Resort	8,634	43,386	1.1%
Total - Top 10 Customers	198,907	\$ 735,082	18.4%
Total - All Other Customers	493,658	3,270,604	81.6%
Total Service Fees	692,565	\$ 4,005,686	100.0%
<u>Wastewater Sales</u>			
Ski Company / Resort		\$223,526.23	2.0%
Mobile Home Park		177,330.36	1.6%
Hotel / Resort		172,105.80	1.6%
Hotel / Resort		135,342.17	1.2%
Avon Drinking Water Facility		132,987.04	1.2%
Apartment Complex		109,092.87	1.0%
Condominiums / Resort		95,724.72	0.9%
Hotel / Resort		92,851.42	0.8%
Apartment Complex		90,771.93	0.8%
Edwards Drinking Water Facility		86,381.14	0.8%
Total - Top 10 Customers		\$ 1,316,114	12.0%
Total - All Other Customers		9,625,766	88.0%
Total Service Fees		\$ 10,941,880	100.0%

**Eagle River Water and Sanitation District
Revenue Debt Coverage - Water
Five Year Comparison
December 31, 2011
(Unaudited)**



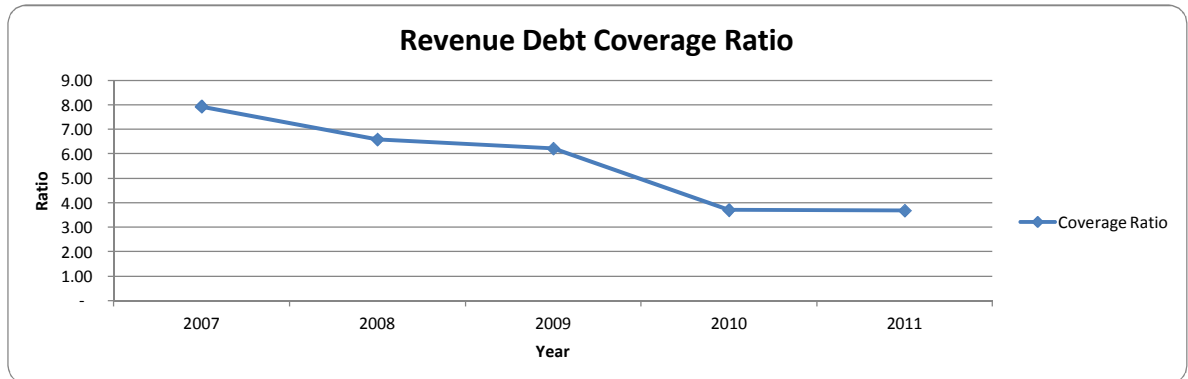
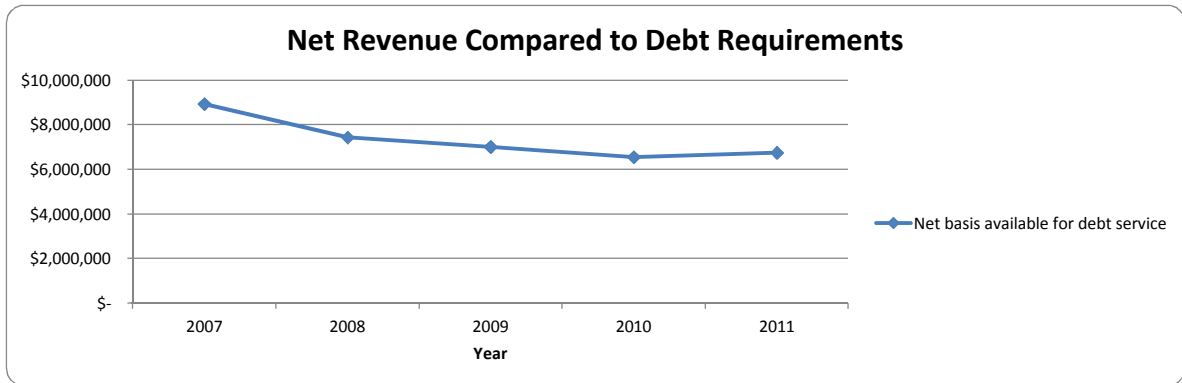
Per the bond covenants, the District is to assess a fee to cover operations and maintenance and 115% of water debt service.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Income (Loss)	\$ (1,275,166)	(841,626)	(1,917,792)	(1,665,985)	(1,106,364)
Plus:					
Property taxes for general operating	456,899	483,467	468,958	512,644	516,076
Investment income	680,337	622,548	993,132	131,572	33,651
Depreciation	916,256	1,077,119	1,306,573	1,403,302	1,422,477
Tap fees and other contributed cash	1,695,564	560,093	1,049,473	322,576	160,635
Life cycle capital expenses	15,269	25,977	-	159,851	11,148
Non-reoccurring or replacement expenses	493,159	338,338	702,545	289,824	177,599
Proceeds from sale of system	-	-	-	-	2,375,000
Rate stabilization funds	-	-	-	600,000	600,000
Net basis available for debt service	<u>\$ 2,982,318</u>	<u>2,265,916</u>	<u>2,602,889</u>	<u>1,753,784</u>	<u>4,190,222</u>
Actual annual debt service (excluding general obligation debt)	\$ 190,485	187,600	323,450	618,162	618,162
Rate maintenance covenant factor	115%	115%	115%	115%	115%
115% of annual debt service requirement to be covered	<u>\$ 219,058</u>	<u>215,740</u>	<u>371,968</u>	<u>710,886</u>	<u>710,886</u>
Coverage Ratio	<u>13.61</u>	<u>10.50</u>	<u>7.00</u>	<u>2.47</u>	<u>5.89</u>

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

The above Rate Maintenance Covenant is tested annually. It is the District's policy to use unrestricted cash (\$4,664,621 at December 31, 2011) to meet the Rate Maintenance Covenant if necessary

Eagle River Water and Sanitation District
Revenue Debt Coverage - Sanitation
Five Year Comparison
December 31, 2011
(Unaudited)



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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Income (Loss)	\$ (788,120)	(1,013,310)	(927,686)	(1,622,749)	(882,473)
Plus:					
Property taxes for general operating	523,218	605,475	619,079	651,496	650,756
Investment income	729,628	660,499	610,851	83,262	33,834
Depreciation	4,760,622	4,682,141	5,169,048	5,493,091	5,248,218
Tap fees and other contributed cash	3,486,009	1,750,716	1,336,452	461,095	667,464
Life cycle capital expenses	11,657	461,448	-	37,787	-
Non-reoccurring or replacement expenses	209,986	277,941	205,315	849,014	429,580
Rate stabilization funds	-	-	-	600,000	600,000
Net basis available for debt service	<u>\$ 8,933,000</u>	<u>7,424,910</u>	<u>7,013,059</u>	<u>6,552,996</u>	<u>6,747,379</u>
Actual annual debt service (net of BAB interest credit and excluding general obligation debt)	\$ 1,024,302	1,023,726	1,025,726	1,608,290	1,665,985
Rate maintenance covenant factor	110%	110%	110%	110%	110%
110% of annual debt service requirement to be covered	<u>\$ 1,126,732</u>	<u>1,126,099</u>	<u>1,128,299</u>	<u>1,769,119</u>	<u>1,832,584</u>
Coverage Ratio	<u>7.93</u>	<u>6.59</u>	<u>6.22</u>	<u>3.70</u>	<u>3.68</u>

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

The above Rate Maintenance Covenant is tested annually. It is the District's policy to use unrestricted cash (\$7,950,334 at December 31, 2011) to meet the Rate Maintenance Covenant if necessary.

Eagle River Water and Sanitation District
Assessed Valuation, Property Taxes Levied and Collected - Water
Five Year Comparison
December 31, 2011
(Unaudited)

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Total Mills Levied		Total Property Tax		% Collected to Levied
		Operating Mills Levied	Debt Service Mills Levied	Levied	Collected	
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	1,481,122	99.2%
2012	871,564,200 *	0.475	1.135	1,403,218		

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, 2011
(Unaudited)

Calendar Year Ended December 31	Prior Year Assessed Valuation for Current Year Property Tax Levy	Total Mills Levied		Total Property Tax		% Collected to Levied
		Operating Mills Levied	Debt Service Mills Levied	Levied	Collected	
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 *	0.251	0.545	2,019,876	1,999,673	99.0%
2012	2,020,250,180 *	0.247	0.685	1,882,873		

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

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

**Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2011
(Unaudited)**

Most of the water and storage rights currently used by the District were provided by the previous water utilities at no cost to the District. In accordance with Governmental Accounting Standards Board (GASB), only owned water and storage rights are shown on the District's Statement of Net 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 as of December 31, 2011.

The appraisal value as of December 22, 2011, performed by Porzak Browning & Bushong LLP (Special Water Rights Counsel for the District) is recited here solely for informational purposes.

Water Right	Quantity (a.f.)	Price per a.f.	Historical Cost	Appraisal Value
Investment in Eagle Park Reservoir Company	434.5	\$21,600	\$3,466,756	\$9,385,200
Homestake Reservoir	250	21,600	0	5,400,000
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	21,600	0	9,180,000
Conditional storage	7,684.76042	100	0	768,476
In-basin consumptive use	902	6,800	1,496,416	6,133,600
Direct flow HUP water (winter)	89	21,600	0	1,922,400
TOTAL			\$4,963,172	\$35,023,676

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 \$21,600 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 \$21,600 per acre-foot for non-irrigation season in-basin storage. That replacement cost is established by the District's water dedication policy, which is the basis by which water service is approved for and provided to all new development in the District's service area.

Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2011
(unaudited)
(continued)

Green Mountain Reservoir

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

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

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

Wolford Mountain Reservoir

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

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

Wolford Mountain Reservoir contract water value is based on a ten (10) year cost at \$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 10CW200, the District's interest in the Black Lake No.1 water right is 352 a.f. absolute, and its interest in the Black Lake No.2 water right is 73 a.f. absolute. These structures and water rights are subject to two agreements: the Memorandum of Agreement dated January 30, 1986, between the Vail Valley Consolidated Water District and the Colorado Department of Natural Resources; and the Memorandum of Agreement dated June 23, 2005, between the Eagle River Water & Sanitation District and the Colorado Department of Natural Resources (together, the "MOAs").

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

Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2011
(unaudited)
(continued)

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

The value of Black Lakes storage is based on the District's dedication replacement cost of \$21,600 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 \$6,800 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 \$21,600 to these rights, equivalent to the District's non-irrigation season dedication cost.

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

Eagle River Water and Sanitation District
Schedule of Water & Storage Rights
December 31, 2011
(unaudited)
(continued)

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