

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2004

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO**

CONTENTS

	<u>Page</u>
Independent Auditor’s Report	
Management’s Discussion and Analysis	i-iii
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities.....	2
Statement of Cash Flows	3
Notes to Financial Statements	4-9
Supplementary Information	
Schedule of Revenues, Expenditures and Changes in Net assets	
Budget (Non - US GAAP) Basis and Actual– Proprietary - Enterprise (Water) Fund	10

INDEPENDENT AUDITOR'S REPORT

Board of Directors
East Dillon Water District
Frisco, Colorado

We have audited the accompanying financial statements of the business-type activities of the East Dillon Water District (the District), Frisco, Colorado, as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

As described in Note 1, the District has implemented a new financial reporting model as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of June 30, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i - iii, and the budgetary comparison information on page 10 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Hiratsuka & Schmitt, LLP

Denver, Colorado
September 2, 2005

Management's Discussion and Analysis

As management of the East Dillon Water District, Frisco, Colorado we offer readers of the East Dillon Water District's (the District) financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our annual audited financial statements.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,381,055 (net assets). Of this amount, \$4,854,252 was invested in capital assets of the District and may not be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets increased by \$156,090.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) government-wide financial statements, 2) notes to the financial statements, and 3) Supplementary Information that provide comparisons of budget on the non-GAAP (Generally Accepted Accounting Principles) budgetary basis to actual.

Business Type Activities financial statements. These financial statements are designed to provide readers with a broad overview of the District in a manner similar to a private-sector business.

The *statement of net assets* presents 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 net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The business-type activities of the District include the water distribution operation.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the District are reported in one fund. The District adopts an annual appropriated budget as required by State Statute. The budgetary comparison statement is provided for the fund to demonstrate compliance with this budget.

Proprietary Funds - The District uses an Enterprise fund to account for its water operation.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Stand-alone Enterprise Fund Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a district's financial position. In the case of the District, assets exceeded liabilities by \$5,381,055 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (90 percent) reflects its investment in capital assets (e.g., land, medians, water rights, water lines, water pump stations, water storage tanks, equipment and meters). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The remaining balance of unrestricted net assets (\$439,786) may be used to meet the district's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the District is able to report positive balances in both categories of net assets.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Depreciation expense (32 percent) and interest on long-term debt (29 percent) were the largest components of operating expenses. Other financial highlights include:

- The District expended \$136,247 for capital assets. These expenditures were necessary to maintain and up-grade the water distribution system and related equipment.
- Investments increases of \$176,592 more than offset the decrease in operating cash.

FUTURE PLANS:

- Expand user education on water usage and conservation. Promote prudent landscaping utilizing xeriscape techniques. Participate in the development of water conservation examples of which would be the entrance medians reflecting low maintenance and minimal water landscaping.
- Continue the use of escalating water rates to encourage water conservation.
- Work on the development of long-term options for additional water resources utilizing existing water rights.
- Plan for the operational changes in the District from capital growth funded by developmental tap fees to capital replacement programs funded by user fees and the mill levy.

Requests for Information

This financial report is designed to provide a general overview of the Wheat Ridge Water District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:

East Dillon Water District
Attn: Mr. Bob Polich District Manager
P.O. Box 627
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Phone 970-668-5500
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**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Proprietary Fund - Enterprise (Water) Fund
Statement of Net Assets
December 31, 2004**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 45,826
Investments	362,694
Accounts receivable:	
Customer	103,894
Taxes	175,465
Inventory	5,622
Total current assets	693,501
Fixed assets:	
Water lines	1,799,387
Water pump stations	1,573,441
Water storage tanks	2,837,564
Equipment	556,486
Meters	250,274
	7,017,152
Less: accumulated depreciation	2,446,264
	4,570,888
Land	39,916
Medians	48,594
Water rights	3,465,530
Net fixed assets	8,124,928
Other assets:	
Note escrow account	53,179
Total other assets	53,179
Total assets	8,871,608
LIABILITIES	
Current liabilities:	
Accounts payable	26,181
Current portion long-term debt	138,110
Accrued interest payable	19,207
Deferred property taxes	174,489
Total current liabilities	357,987
Long-term debt:	
Notes payable - net of current portion	3,132,566
Total liabilities	3,490,553
NET ASSETS	
Invested in capital assets, net of related debt	4,854,252
Restricted for:	
TABOR	18,640
Reserved for Colorado Water Conservation Board - note	15,198
Reserved for Wells Fargo - loan	53,179
Unreserved	439,786
Total net assets	\$ 5,381,055

The accompanying notes are an integral part of this statement.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Proprietary Fund - Enterprise (Water) Fund
Statement of Activities
For the Year Ended December 31, 2004**

Operating revenues:	
User charges	\$ 359,445
Meters and supplies	1,315
Tap fees	255,500
Miscellaneous	1,112
Total operating revenues	617,372
Operating expenses:	
Operations:	
Water purchases	17,472
Depreciation	223,428
Repair and maintenance	23,112
Supplies and tests	5,935
Utilities - water pumping	17,705
Total operations expense	287,652
Administration:	
Accounting	3,900
Administration	47,498
Meter reading	1,200
Directors fees	1,725
Engineering	7,002
Insurance and bonds	16,160
Loan expense	5,000
Legal fees	7,214
Office supplies	5,288
Dues and subscriptions	1,929
Operations contract	96,000
Telephone	2,314
Total administration	195,230
Debt service:	
Interest	155,575
County Treasurer fees	8,540
Total debt service	164,115
Total operating expenses	646,997
Net (loss) from operations	(29,625)
Non operating revenues:	
Property, specific ownership taxes	181,375
Interest on investments	4,340
Total non operating revenues	185,715
Net income	156,090
Net assets, beginning of year	5,224,965
Net assets, end of year	\$ 5,381,055

The accompanying notes are an integral part of this statement.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Proprietary - Enterprise (Water) Fund
Statement of Cash Flows
For the Year Ended December 31, 2004**

Cash flows from operating activities:	
Cash received from customers	\$ 662,351
Cash paid to suppliers	(413,183)
Net cash provided by operating activities	249,168
Cash flows from capital financing activities:	
Property and specific ownership taxes received	181,375
Acquisition of capital assets	(136,247)
Principal payments on notes and loans	(112,990)
Net cash (used) by capital financing activities	(67,862)
Cash flows from investing activities:	
Redemption (Purchase) of investments	(176,592)
Change in bond escrow account	503
Interest on investments	4,340
Net cash (used) by investing activities	(171,749)
Net (decrease) in cash	9,557
Cash and cash equivalents, beginning of year	36,269
Cash and cash equivalents, end of year	\$ 45,826
Reconciliation of net operating income to net cash provided by operations	
Net (loss) from operations	\$ (29,625)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	223,428
(Increase) decrease in:	
Accounts receivable	206
Other accounts receivable	44,773
Inventory	3,858
(Decrease) increase in:	
Accounts payable	6,998
Deferred property taxes	(1,078)
Accrued interest payable	608
Total adjustments	278,793
Net cash provided by operating activities	\$ 249,168

The accompanying notes are an integral part of this statement.

1. **Summary of significant accounting policies**

The accounting policies of the East Dillon Water District, (the District) Frisco, Colorado, conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Reporting entity

The District was established by state statute in 1966 and is governed by a five member elected Board of Directors. As required by US GAAP, these financial statements present the activities of the District that is legally separate and financially independent of other state and local governments. The District supplies water for the geographical area organized as the East Dillon Water District.

The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement No 14, *The Financial Reporting Entity* and GASB No. 39, *Determining Whether Certain Organizations Are Component Units*.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements (i.e. the statement of net assets and the statement of revenues, expenses, and changes in fund net assets) report information on the *business-type activities* of the District, which rely to a significant extent on user fees and charges for support. The statement of activities demonstrates the degree to which expenses of the *business-type activities* are supported by user fees.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, where revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow.

The District generally applies all applicable GASB pronouncements as well as relevant Financial Accounting Standards (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements, in which case GASB prevails.

The *business-type* fund distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations, the delivery of water. Operating expenses for the District include costs of sales and services, operating expenses, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including interest income are reported as nonoperating revenues and expenses.

The District has one proprietary fund. District water is provided on a metered rate. The District accounts for tap fees as operating revenue to be expended for capital improvements.

1. Summary of significant accounting policies (continued)

Measurement focus, basis of accounting and basis of presentation (continued)

Assets, liabilities and net assets

Cash and cash equivalents

For purposes of the statement of cash flows the District considers demand deposits to be cash equivalents.

Fair value of financial instruments

The District's financial instruments include cash and cash equivalents, investments, accounts receivable, accounts payable, accrued interest and long-term debt. The District estimates that the fair value of all financial instruments at December 31, 2003 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Estimates

The preparation of financial statements in conformity with US GAAP requires District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property taxes

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property as of January 1. Taxes are due as of January 1 of the following year and are payable in two equal installments due February 28 and June 15 if paid in installments, or April 30 with a single payment. Taxes are delinquent as of August 1. If the taxes are not paid within subsequent statutory periods, the property will be sold at public auction. The County bills and collects the property taxes and remits collections, on a monthly basis, to the District. No provision has been made for uncollected taxes, as all taxes are deemed fully collectible.

Inventories

Inventories are valued at cost using the first-in/first-out method.

Capital assets

All purchased capital assets of the water distribution system and related equipment is valued at cost. These assets are depreciated using the straight-line method over their estimated useful lives of 5 to 40 years.

2. Stewardship, compliance and accountability

Budgetary information

Budgets are adopted on a non-GAAP basis. Bond principal payments and capital expenditures are budgeted as expenses. Depreciation expense is not budgeted

The District conforms to the following procedures, in compliance with Colorado Revised Statutes, in establishing the budgetary data reflected in the financial statements:

Prior to October 15, of each year the District manager (not an elected official) submits a proposed operating budget for the fiscal year commencing the following January 1 to the Board of Directors (elected officials). The operating budget, for the fund, includes proposed expenses and the means of financing them.

Public hearings are held at the regular Board of Directors meetings to obtain taxpayer input. Prior to December 15 the budget is legally enacted through passage of a budget resolution. The Board of Directors must approve revisions that change total expenditures of the fund.

No supplemental budgetary appropriations were made during the period. Colorado statutes require a balanced budget.

3. Detailed notes concerning the fund

Deposits and investments – Custodial Credit Risk

Deposits

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be equal to 102% of the aggregate uninsured deposits.

As of December 31, 2004, all of the District's deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments include State regulated local government investment pools. As of December 31, 2004, all District investments were deposited in a regulated local government investment pool. This investment is not categorized because the investment is not evidenced by securities that exist in physical or book entry form.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Notes to Financial Statements
December 31, 2004**

3. Detailed notes concerning the fund (continued)

Contract services

The District has no employees and contracts for all management services.

Loan escrow account

Per the loan agreement with the Wells Fargo Bank the District has restricted cash deposited in a money market account with a fair value of \$53,179 at December 1, 2004. See also long-term debt.

Capital assets

Capital asset activity for the year ended December 31, 2004 was as follows:

	Beginning Balance	Additions	Ending Balance
Water lines	\$ 1,759,387	\$ 40,000	\$ 1,799,387
Water pump stations	1,573,441	--	1,573,441
Water storage tanks	2,837,564	--	2,837,564
Equipment	526,045	30,441	556,486
Meters	233,062	17,212	250,274
	<u>6,929,499</u>	<u>87,653</u>	<u>7,017,152</u>
Less:			
Accumulated depreciation	<u>2,222,836</u>	<u>223,428</u>	<u>2,446,264</u>
Total depreciable assets	\$ 4,706,663	\$ (135,775)	\$ 4,570,888

Long-term debt

In 2003 the District acquired 86 acre-feet of senior water rights from the Vidler Water Company including the rights to five acre-feet of storage water in the Dillon Reservoir, and ten wells located in the Soda Creek alluvium. The District had acquired 20 acre-feet of senior water rights from the City of Golden in 2001. These rights were acquired with financing provided by a loan and an Enterprise Revenue Note.

On November 10, 2003 the District executed a loan in the principal amount of \$2,550,000 with the State of Colorado, Department of Natural Resources, Colorado Water Conservation Board as authorized by the voters in the District at a May 7, 2003 election. The note bears an interest rate of 4.25%, payable in yearly installments of \$151,976 for a period of thirty years. The District pledges to repay the note from general revenues from taxes received each year as authorized by the District's election and resolution dated May 7, 2003.

On May 17, 2003 the District executed an Enterprise Revenue Note in the principal amount of \$1,017,500 with NOSEC & Co. The note bears an interest rate of 5.25%, payable in 20 bi-annual installments of \$66,043. The note is a limited and special obligation of the District payable from all legally available pledged revenues of the District.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Notes to Financial Statements
December 31, 2004**

3. Detailed notes concerning the fund (continued)

Long-term debt (continued)

Annual debt service requirements to maturity are as follows:

	Water Resources Note			Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 47,385	\$ 104,590	\$ 151,976	\$ 90,725	\$ 41,361	\$ 132,086
2006	49,399	102,576	151,976	95,550	36,536	132,086
2007	51,499	100,477	151,976	100,633	31,453	132,086
2008	53,687	98,288	151,976	105,985	26,101	132,086
2009	55,969	96,006	151,976	111,622	20,464	132,086
2010-14	317,613	442,265	749,878	305,214	24,490	329,704
2015-19	391,092	368,786	759,878			
2020-24	481,570	278,308	759,878			
2026-29	592,979	166,899	759,878			
2030-32	419,753	36,174	455,927			
Total	\$ 2,460,946	\$ 1,794,369	\$ 4,255,315	\$ 809,729	\$ 180,405	\$ 990,123

Changes in long-term debt

The following is an analysis of changes in long term debt for the period ended December 31, 2004.

	Balance January 1, 2003	Additions	Payments	Balance December 31, 2003
Water Resources note	\$ 2,506,400	\$ --	\$ 45,454	\$ 2,460,946
Revenue note	893,373	--	40,014	853,359
	\$ 3,399,773	\$ --	\$ 85,468	\$ 3,314,305

4. Other information

Insurance pools

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, public official's liability, and boiler and machinery coverage's to the District. Members of the Pool may be required to make additional surplus contributions. 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.

4. Other information (continued)

Contractual services agreement

The District is obligated under an agreement dated March 6, 1995, for the maintenance, repair and general operation of its facilities to include well fields, pumping and plant equipment, water and service lines, and controls. The initial agreement was for the three years ending December 31, 1994, and automatically renews for three additional years. In compliance with the terms of the agreement now in force the District paid \$96,000 for the year ended December 31, 2004. The current term of the agreement runs from January 1, 2004 to December 31, 2006, either party may terminate this contract, for any reason, with ninety days written notice.

In addition the District is leasing office space to the party providing the contractual services in exchange for snow plowing of the office access driveway, installation of a telephone, and providing office furniture. The basic term of the lease, including renewal provisions, corresponds to the contractual service agreement.

TABOR Amendment

In November 1992, Colorado voters approved Amendment 1 to the State Constitution, which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The Amendment applies to all units of local government and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The amendment does not apply to units of local government that are defined as an "enterprise."

The Amendment defined the District's year-end, December 31, 1992, as the initial base year for purposes of defining compliance with the Amendment. The Amendment defines inflation and local growth. Future year's revenue, based upon prior year's revenue, is only allowed to increase based upon the inflationary and local growth factors. The District must refund revenue received in excess of the prior year's revenue to the voters, unless the voters approve retention of the excess revenue.

The amendment also requires the District to establish an "Emergency Reserve" which must be equal to 3% of current year's revenue. Conditions under which these reserves may be spent are severity limited.

The property tax levy relates to pre-TABOR debt that was incurred to retire the revenue bonds (see Note 3, Note Payable), which ceases upon the retirement of the debt. The District is exempt from the 10% property tax rule and qualifies as an "enterprise".

The District believes that it complies with the provisions of TABOR, as it is currently understood. Many of the provisions may not become fully understood without judicial review.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Proprietary Fund - Enterprise (Water) Fund
Schedule of Revenues, Expenditures and Changes in Net Assets
Budget (Non - US GAAP) Basis and Actual
For the Year Ended December 31, 2004**

	Original and Final Budget	Actual	Variance Positive (Negative)
Operating revenues:			
User charges	\$ 350,000	\$ 359,445	\$ 9,445
Property, specific ownership taxes	179,422	181,375	1,953
Interest on investments	2,500	4,340	1,840
Tap fees	70,000	255,500	185,500
Meters and supplies	--	1,315	1,315
Miscellaneous	750	1,112	362
Total operating revenues	602,672	803,087	200,415
Operating expenses:			
Operations:			
Water purchases	--	17,472	(17,472)
Repair and maintenance	30,000	23,112	6,888
Supplies and tests	5,000	5,935	(935)
Utilities - water pumping	20,000	17,705	2,295
Total operating expense	55,000	64,224	(9,224)
Administration:			
Accounting	4,000	3,900	100
Administration	47,500	47,498	2
Capital expenditures	47,500	87,653	(40,153)
Meter reading	1,200	1,200	--
Directors fees	1,875	1,725	150
Engineering	2,500	7,002	(4,502)
Insurance and bonds	15,000	16,160	(1,160)
Median expense	--	5,000	(5,000)
Principal payments on notes and loans	131,596	85,468	46,128
Legal fees	10,000	7,214	2,786
Miscellaneous	1,000	--	1,000
Office supplies	6,000	5,288	712
Dues and subscriptions	2,250	1,929	321
Operations contract	96,000	96,000	--
Telephone	2,250	2,314	(64)
Contingency	6,000	--	6,000
Total administration	374,671	368,351	6,320
Debt service:			
Interest	152,466	155,575	(3,109)
County Treasurer fees	8,547	8,540	7
Total debt service	161,013	164,115	(3,102)
Total expenses	590,684	596,690	(6,006)
Net income non US GAAP budgetary basis	\$ 11,988	206,397	\$ 194,409
Adjustments to GAAP basis:			
Add:			
Principal payments on notes and loans		85,468	
Capital expenditures		87,653	
Less:			
Depreciation		(223,428)	
Net income		156,090	
Net assets- beginning of the year		5,224,965	
Net assets, end of year		\$ 5,381,055	