

PARKER WATER AND SANITATION DISTRICT
Douglas County, Colorado

FINANCIAL STATEMENTS
December 31, 2011 and 2010

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Independent Auditor's Report

Board of Directors
Parker Water and Sanitation District
Douglas County, Colorado

We have audited the accompanying basic financial statements of Parker Water and Sanitation District as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide 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 Parker Water and Sanitation District as of December 31, 2011 and 2010 and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other post-employment benefit information on pages III through XI and 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Parker Water and Sanitation District's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Greenwood Village, Colorado
June 14, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Parker Water and Sanitation District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011 and 2010. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The assets of the Parker Water and Sanitation District exceeded its liabilities at the close of the most recent fiscal year by \$414,282,470 (net assets). Of this amount, \$50,711,444 (unrestricted net assets) may be used to meet the District's ongoing obligations to customers and creditors.
- The Water and Sewer Enterprises of the District are business type activities that are intended to recover all or a significant portion of their costs through user fees and charges. In 2011, the District changed to a five tier rate structure and increased the monthly water service charge from \$25.16 to \$26.16. Also in 2011, in order to shift a portion of the District's wastewater revenue from a fixed monthly rate to a volume-based rate, the District reduced the fixed monthly sewer rate from \$56.93 per month to \$8.62 per month and added a sewer volume rate of \$8 per 1000 gallons, based on winter months consumption. During 2010, the water rates increased from the levels set in January 2005 and the sewer rates increased from the levels set in January 2006.
- The District collected tap fees for 251 and 138 Single Family Equivalents (SFE's) sold during 2011 and 2010, respectively, for new construction in the District.
- The District levies taxes for operations. By law, the District is generally prohibited from levying a greater amount of revenue than was levied in the preceding year plus five and one-half percent or the limits defined under the Colorado constitutional amendment known as TABOR, whichever is less. The certified 2011 mill levy for operations was 2.053 mills and the 2012 mill levy for operations is .797 mills, which includes a temporary mill levy rate reduction for 2012 of .930 mills. The certified 2011 mill levy for the 2004 voter-approved general obligation debt for the construction of Rueter-Hess Reservoir was 12.872 mills and the 2012 mill levy for the general obligation debt is 9.417 mills. The mill levy for the general obligation debt is lower in 2012 because the District will be using a portion of the District's capital reserves to pay the debt service.
- Contributed assets from developers consisting of contributed water and sewer lines and water rights acquired by inclusions totaled \$2,214,560 in 2011 and \$1,075,035 in 2010.
- At December 31, 2011 and 2010, the District is carrying a receivable in the amount of \$5,827,300 and \$6,992,760, respectively, for the outstanding inclusion fee due for RidgeGate. The balance to the District is due over the next five years.
- The District's long-term debt in the form of loans from Colorado Water Resources and Power Development Authority (CWRPDA) increased by \$51,485,000 in 2010. These funds will be used for the construction of the 10 MGD water treatment plant to be used in conjunction with Rueter-Hess Reservoir. In addition, the District took the final draw of \$12.2 million on the 2002 Colorado Water Conservation Board (CWCB) loan in 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

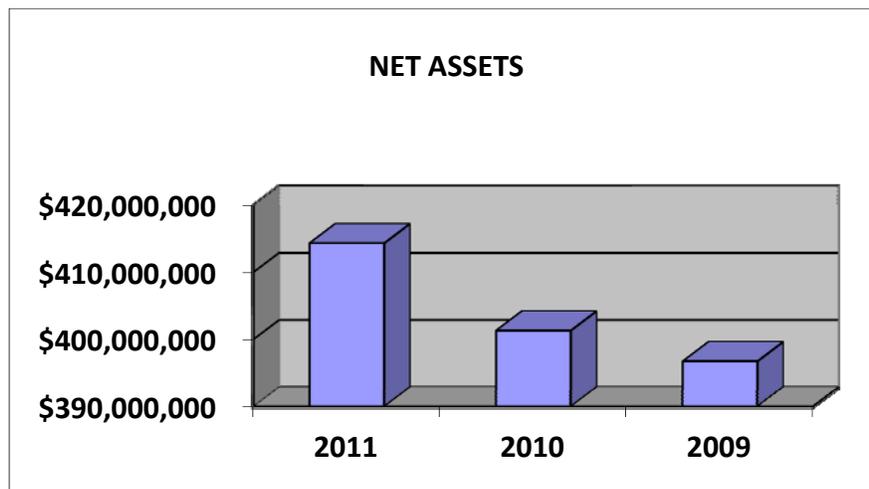
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Assets, 2) Statement of Revenues, Expenses and Changes in Fund Net Assets, and 3) Statement of Cash Flows. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets are prepared using the economic resource measurement focus and the accrual basis of accounting.

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 and decreases in net assets can serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the District.

The **Statement of Revenues, Expenses and Changes in Fund Net Assets** reports the changes that have occurred during the year to the District's net assets. 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. Revenues and expenses are reported for some items that will only result in cash flows in the subsequent years.

The **Statement of Cash Flows** as the name implies, is concerned solely with flows of cash and cash equivalents. Only transactions that affect the District's cash position are reflected in this statement. Transactions are segregated into four sections on the statement: 1) cash flows from operating activities, 2) cash flows from noncapital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

FINANCIAL SUMMARY AND ANALYSIS



NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS			
Current nonrestricted assets	\$ 59,154,211	\$ 66,066,035	\$ 67,585,306
Current restricted assets	51,708,832	55,496,169	5,215,861
Capital assets	522,780,583	504,485,441	482,703,132
Other long-term assets	<u>5,175,406</u>	<u>6,362,566</u>	<u>6,992,760</u>
Total assets	<u>638,819,032</u>	<u>632,410,211</u>	<u>562,497,059</u>
LIABILITIES			
Current liabilities	17,421,855	19,514,184	13,616,416
Long term obligations	<u>207,114,707</u>	<u>211,617,863</u>	<u>152,181,860</u>
Total liabilities	<u>224,536,562</u>	<u>231,132,047</u>	<u>165,798,276</u>
NET ASSETS			
Invested in capital assets, net of related debt	358,673,440	339,648,473	327,295,679
Restricted	4,897,586	5,044,828	5,215,861
Unrestricted	<u>50,711,444</u>	<u>56,584,863</u>	<u>64,187,243</u>
Total net assets	<u>\$ 414,282,470</u>	<u>\$ 401,278,164</u>	<u>\$ 396,698,783</u>

NET ASSETS

Current nonrestricted assets decreased in 2011 due to expenses incurred on the continued enlargement phase construction of Rueter-Hess Reservoir. Current restricted assets decreased in 2011 due to preliminary design and construction costs for the 10 MGD water treatment plant. The increase in capital assets and invested in capital assets, net of related debt was due primarily to construction in progress on Rueter-Hess Reservoir. Long term obligations decreased in 2011 due to scheduled principal payments of approximately \$4.4 million.

Current restricted assets increased in 2010 by approximately \$50 million due to proceeds from the 2010 CWRPDA loan being held for construction of the 10 MGD water treatment plant. The increase in capital assets in 2010 was due primarily to construction in progress on Rueter-Hess Reservoir. Total liabilities increased in 2010 due to the 2010 CWRPDA loan and the final draw on the 2002 CWCB loan of approximately \$12.2 million.

CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES			
Operating revenue	\$ 21,657,566	\$ 21,267,144	\$ 16,472,802
Nonoperating revenues			
Taxes, net of collection fees	7,744,439	1,852,280	931,076
Net investment income	1,164,754	478,461	965,462
Farm land revenue	356,131	319,391	350,537
Other	<u>2,033,671</u>	<u>693,180</u>	<u>497,738</u>
Total nonoperating revenue	<u>11,298,995</u>	<u>3,343,312</u>	<u>2,744,813</u>
Total revenues	<u>32,956,561</u>	<u>24,610,456</u>	<u>19,217,615</u>
EXPENSES			
Operating			
Salaries	4,047,121	4,086,870	4,061,469
Employee benefits	1,407,791	1,434,690	1,321,649
Insurance	184,241	186,393	209,368
Professional services	1,226,852	776,409	825,769
Support services	165,341	184,990	226,580
Utilities	3,207,981	3,140,689	2,476,831
Contract labor and maintenance	1,529,704	1,826,695	1,639,313
Supplies	1,178,432	1,155,096	1,422,420
Community education	103,023	147,652	36,240
Information technology	325,229	311,060	229,508
Miscellaneous	674,300	515,677	565,473
Depreciation	<u>8,995,268</u>	<u>8,544,980</u>	<u>8,676,301</u>
Total operating expenses	<u>23,045,283</u>	<u>22,311,201</u>	<u>21,690,921</u>
Nonoperating expenses			
Water resource farms	135,543	150,188	133,359
Interest	2,691,577	1,151,772	2,581,482
Loss on disposal of assets	<u>1,125,768</u>	<u>135,964</u>	<u>100,941</u>
Total nonoperating expenses	<u>3,952,888</u>	<u>1,437,924</u>	<u>2,815,782</u>
Total expenses	<u>26,998,171</u>	<u>23,749,125</u>	<u>24,506,703</u>
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	5,958,390	861,331	(5,289,088)
CAPITAL CONTRIBUTIONS	<u>7,045,916</u>	<u>3,718,050</u>	<u>5,222,476</u>
CHANGES IN NET ASSETS	13,004,306	4,579,381	(66,612)
NET ASSETS - BEGINNING OF YEAR	<u>401,278,164</u>	<u>396,698,783</u>	<u>396,765,395</u>
NET ASSETS - END OF YEAR	<u>\$414,282,470</u>	<u>\$401,278,164</u>	<u>\$396,698,783</u>

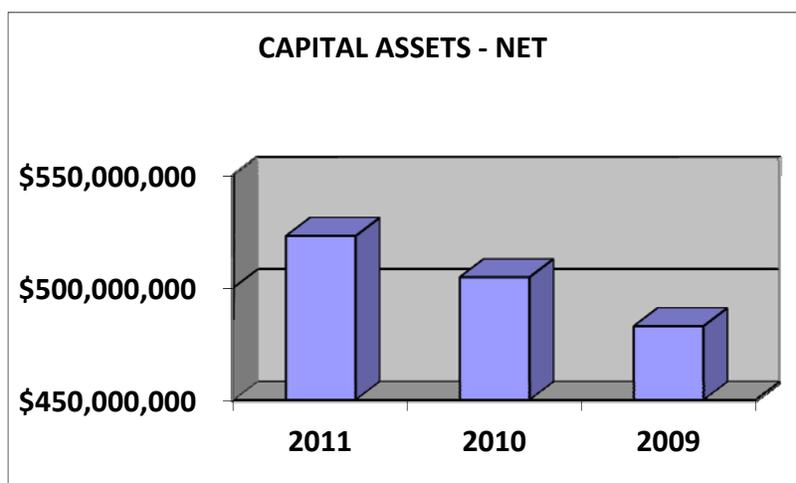
CHANGES IN NET ASSETS

The certified mill levy for the 2004 voter-approved general obligation debt increased to 12.872 mills in 2011, resulting in additional tax revenue of approximately \$5.5 million to pay the debt service on the 2004 CWRPDA loan. Net investment income increased by \$.7 million primarily due to investment income earned on the proceeds from the 2010 CWRPDA loan being held for construction of the 10 MGD water treatment plant. Other income increased in 2011 due to the Build America Bond subsidy of approximately \$1.1 million and inclusion fees of approximately \$.4 million. Professional services expenses increased primarily due to legal work required to respond to the proposed permit renewal for the District's wastewater plants and the legal work required to respond to various water legal issues. The increase in interest expense in 2011 is due to a full year's worth of interest expense for the 2010 CWRPDA loan. The loss on the disposal of assets is largely due to the disposal and release of ownership of A-3 well house. Capital contributions in the form of contributed water rights increased by approximately \$1.2 million in 2011 due to an inclusion of land into the District. Capital contributions in the form of tap fees and system development fees increased in 2011 by approximately \$2 million.

Operating revenue increased in 2010 by approximately \$4.8 million due to water and sewer rate increases and the decrease in average precipitation during the irrigation months of 2010, resulting in more irrigation revenue. Tax revenue increased by approximately \$.9 million due to the certification of the mill levy for the 2004 voter-approved general obligation debt. The decrease in net investment income was attributed to the current rate environment and the use of invested funds on the continuing construction of Rueter-Hess Reservoir. Utility expenses increased due to an electricity rate increase and to the additional amount of water being pumped to meet the higher demand during the irrigation months. Interest expense decreased by approximately \$1.4 million but approximately \$2 million of interest expense was capitalized in addition to the interest normally capitalized for the 2004 CWRPDA loan for the construction of Rueter-Hess Reservoir. Capital contributions in the form of contributed assets from developers also decreased in 2010 by approximately \$2.5 million. Capital contributions in the form of tap fees and system development fees increased in 2010 by approximately \$1 million.

CAPITAL ASSETS

The District's investment in capital assets at December 31, 2011 amounted to \$522,780,583 (net of accumulated depreciation). This investment in capital assets includes land, water rights, buildings, distribution systems and furniture and equipment. Analysis of changes in capital assets is as follows:



CAPITAL ASSETS

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 16,903,615	\$ 16,903,615	\$ 16,850,192
Water rights	133,490,263	132,328,263	132,189,511
Construction in progress	208,400,360	183,107,087	154,768,752
Land improvements - Non-Depreciable	1,559,406	-	-
Land improvements - Depreciable	9,357,731	10,049,948	10,737,789
Buildings	53,504,783	46,726,677	48,492,787
Infrastructure	84,012,775	85,716,521	87,484,075
Diversion structure	-	14,116,623	14,116,623
Machinery and equipment	15,412,702	15,331,969	17,681,473
Vehicles	138,948	204,738	381,930
Total capital assets - Net	<u>\$522,780,583</u>	<u>\$ 504,485,441</u>	<u>\$ 482,703,132</u>

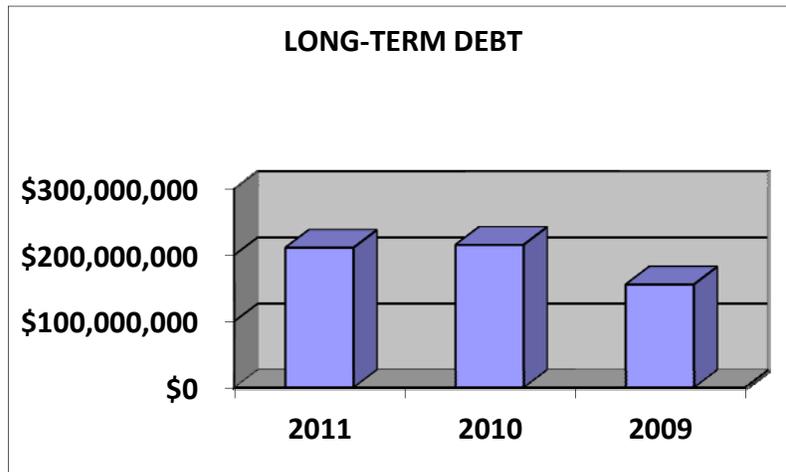
The major capital additions during 2011 and 2010 include:

	<u>2011</u>	<u>2010</u>
• Rueter-Hess Reservoir Project (in process)	\$15.4 million	\$20.6 million
• Water Treatment Plant (in process)	\$1.8 million	\$.1 million
• Contributed Water/Sewer Lines	\$2.2 million	\$1.1 million
• Water Development (in process)	\$.3 million	\$.4 million
• Wells and Well Houses	\$.2 million	\$.4 million
• Wastewater Plants Upgrades	\$.1 million	\$.3 million

The amounts listed above for the Rueter-Hess Reservoir Project do not include capitalized interest. Additional information on the District's capital assets can be found in the notes to financial statements.

LONG-TERM DEBT

The District's long-term debt consists of the following:



LONG-TERM DEBT

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue Bonds	\$ 2,365,000	\$ 2,890,000	\$ 3,390,000
Colorado Water Resources and Power Development Authority loans	194,096,253	197,465,766	149,217,202
Less bond discount	(64,722)	(67,457)	-
Colorado Water Conservation Board loan	<u>14,521,858</u>	<u>15,000,000</u>	<u>2,800,251</u>
Total outstanding debt	<u>\$210,918,389</u>	<u>\$ 215,288,309</u>	<u>\$ 155,407,453</u>

The reduction in debt in 2011 was due to principal repayment. No new debt was added in 2011. The District's revenue bond rating is AA- from Standard & Poor's rating services. More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

In 2010, the increase in debt was due to the addition of the 2010 CWRPDA loan for the construction of the new 10 MGD water treatment plant and due to the District utilizing the remaining balance of the 2002 CWCB loan. In 2010, the District's revenue bond rating was AA- from Standard & Poor's rating services.

ECONOMIC FACTORS AND RATES

Rates for the water and sewer enterprises are set by the Board of Directors to meet the cost of operations and to fund debt service, except for the financing for the Rueter-Hess Reservoir. In 2011, the District changed to a five tier rate structure and increased the monthly water service charge by 4%, from \$25.16 to \$26.16. Also in 2011, in order to shift a portion of the District's wastewater revenue from a fixed monthly rate to a volume-based rate, the District reduced the fixed monthly sewer rate from \$56.93 per month to \$8.62 per month and added a sewer volume rate of \$8 per 1000 gallons, based on winter months consumption.

The District is continuing to experience some growth in residential and commercial developments with a 1.3% and 1.2% increase in single family equivalent (SFE) connections during 2011 and 2010, respectively. Water development fees remained unchanged in 2011. In 2010, water development fees increased by approximately 6% and sewer development fees ceased.

The District's long-term planning clearly spells out an expansion program that can be best categorized in two components; Short-Term Capital Improvements (10 years or less) and Long-Term Capital Improvements (10 years and beyond).

Short-Term Capital Improvements

The current 10 year Capital Improvement Plan (CIP) anticipates \$53.5 million in improvements to the water system and \$33 million in improvements to the waste water system over the next ten years. Anticipated improvements include but are not limited to: construction of an additional 5 million gallons of potable water storage, construction of a new 10 MGD water treatment plant, construction of additional sanitary sewer interceptor lines, and additional treatment capacity at either the north or south water reclamation plants.

Long-Term Capital Improvements

The Long-Term Plan of the District recognizes the need to replace the District's current water source (ground water) with a renewable surface water supply. Over the last 20 years the District has investigated many different possible sources of surface water and currently is involved in pursuing four possible options including: purchase, treatment and transmission of water from the lower South Platte River, purchase and transmission of water from Flaming Gorge Reservoir, purchase, treatment and transmission of water from the lower Arkansas River Basin, and purchase, treatment and transmission of water from the upper South Platte River in conjunction with Denver Water, the City of Aurora and South Metro Water Supply Authority.

Preliminary planning for the Lower South Platte project indicates that the District could need between \$700 million and \$1 billion in order to fully accomplish the replacement of its ground water supply. Preliminary analysis of other potential projects indicates that this same capital requirement will be required regardless of which potential project might come to completion.

Additionally, during this period of time the District will be faced with the need to replace or upgrade aging infrastructure/equipment, continue to increase capacity of water and wastewater treatment in response to increased growth and demand, and provide for routine maintenance of its systems.

REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or request for additional financial information should be addressed to: District Manager, Parker Water and Sanitation District, 19801 E. Mainstreet, Parker, Colorado 80138.

BASIC FINANCIAL STATEMENTS

PARKER WATER AND SANITATION DISTRICT
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 37,756,686	\$ 49,829,929
Cash and cash equivalents - Restricted	342,365	5,458,601
Investments	14,367,190	6,508,686
Investments - Restricted	51,366,467	50,037,568
Accounts receivable		
Service fees	338,245	439,607
Inclusion fee	1,165,460	1,165,460
Other	594,822	473,162
Accrued interest receivable	263,206	235,636
Property taxes receivable	4,664,902	7,409,855
Other assets	3,700	3,700
Total current assets	<u>110,863,043</u>	<u>121,562,204</u>
CAPITAL ASSETS		
Not being depreciated	360,353,644	346,455,588
Being depreciated (net of accumulated depreciation)	<u>162,426,939</u>	<u>158,029,853</u>
Total capital assets	522,780,583	504,485,441
BOND ISSUE COSTS		
	513,566	535,266
INCLUSION FEE RECEIVABLE		
	<u>4,661,840</u>	<u>5,827,300</u>
Total long-term assets	<u>527,955,989</u>	<u>510,848,007</u>
TOTAL ASSETS	<u>638,819,032</u>	<u>632,410,211</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts and retainage payable	3,887,230	4,089,556
Accrued expenses	302,687	301,038
Accrued interest payable	3,767,387	3,277,676
Deferred property taxes	4,664,902	7,409,855
Construction deposits	227,441	63,404
Current portion of long-term debt		
Bonds and notes payable	<u>4,572,208</u>	<u>4,372,655</u>
Total current liabilities	<u>17,421,855</u>	<u>19,514,184</u>
NONCURRENT LIABILITIES		
Long-term debt		
Bonds and notes payable	206,346,181	210,915,654
Compensated absences	503,679	490,805
Other post employment benefit	<u>264,847</u>	<u>211,404</u>
Total long-term liabilities	<u>207,114,707</u>	<u>211,617,863</u>
TOTAL LIABILITIES	<u>224,536,562</u>	<u>231,132,047</u>
NET ASSETS		
Invested in capital assets, net of related debt	358,673,440	339,648,473
Restricted for loan agreement requirements	4,325,412	4,304,272
Restricted for debt service	396,089	389,827
Restricted for employment contract	176,085	350,729
Unrestricted	<u>50,711,444</u>	<u>56,584,863</u>
TOTAL NET ASSETS	<u>\$ 414,282,470</u>	<u>\$ 401,278,164</u>

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

**PARKER WATER AND SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS**

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Charges for services	\$ 21,314,802	\$ 20,925,595
Other operating income	342,764	341,549
Total operating revenue	<u>21,657,566</u>	<u>21,267,144</u>
OPERATING EXPENSES		
Salaries	4,047,121	4,086,870
Employee benefits	1,407,791	1,434,690
Insurance	184,241	186,393
Professional services	1,226,852	776,409
Support services	165,341	184,990
Utilities	3,207,981	3,140,689
Contract labor and maintenance	1,529,704	1,826,695
Supplies	1,178,432	1,155,096
Community education	103,023	147,652
Information technology	325,229	311,060
Miscellaneous	674,300	515,677
Depreciation	8,995,268	8,544,980
Total operating expenses	<u>23,045,283</u>	<u>22,311,201</u>
OPERATING (LOSS)	<u>(1,387,717)</u>	<u>(1,044,057)</u>
NONOPERATING REVENUES AND (EXPENSES)		
Property taxes	7,253,967	1,729,517
Specific ownership taxes	490,472	122,763
Farm land revenue	356,131	319,391
Water resource farms	(135,543)	(150,188)
Net investment income	1,164,754	478,461
Interest expenses/fees	(2,691,577)	(1,151,772)
(Loss) on disposal of assets	(1,125,768)	(135,964)
Other income	2,033,671	693,180
Total nonoperating revenues and (expenses)	<u>7,346,107</u>	<u>1,905,388</u>
GAIN BEFORE CAPITAL CONTRIBUTIONS	<u>5,958,390</u>	<u>861,331</u>
CAPITAL CONTRIBUTIONS		
Tap fees received	1,271,950	725,190
Contributed assets from developers	2,214,560	1,075,035
Water resource fees	189,821	60,000
System development fees	3,369,585	1,857,825
Total capital contributions	<u>7,045,916</u>	<u>3,718,050</u>
CHANGE IN NET ASSETS	13,004,306	4,579,381
NET ASSETS - BEGINNING OF YEAR	<u>401,278,164</u>	<u>396,698,783</u>
NET ASSETS - END OF YEAR	<u>\$ 414,282,470</u>	<u>\$ 401,278,164</u>

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

**PARKER WATER AND SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers/operations	\$ 21,801,305	\$ 20,860,639
Cash payments to suppliers for goods and services	(8,142,828)	(8,131,208)
Cash payments to employees for services	(5,386,946)	(5,398,260)
Net cash flows provided from operating activities	<u>8,271,531</u>	<u>7,331,171</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property and specific ownership tax, net of fees	1,493,489	1,056,937
Other nonoperating revenue	3,555,262	2,178,031
Other nonoperating expenses	(135,543)	(150,188)
Net cash provided by noncapital financing activities	<u>4,913,208</u>	<u>3,084,780</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees collected	1,271,950	725,190
Water resource fees received	189,821	60,000
System development fees received	3,369,585	1,857,825
Property tax revenue for debt service, net of fees	6,250,950	795,343
Acquisition of property and equipment	(18,584,175)	(23,206,209)
Proceeds on sales of capital assets	24,978	-
Debt proceeds, including discount	-	63,616,836
Bond issue costs	-	(538,883)
Principal paid	(4,372,655)	(3,736,436)
Interest paid	(10,474,450)	(7,685,675)
Net cash provided (required) by capital and related financing activities	<u>(22,323,996)</u>	<u>31,887,991</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	20,884,000	13,850,000
Purchase of investments	(30,606,683)	(56,183,615)
Interest received	1,672,461	767,353
Net cash (required) by investing activities	<u>(8,050,222)</u>	<u>(41,566,262)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,189,479)	737,680
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>55,288,530</u>	<u>54,550,850</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 38,099,051</u>	<u>\$ 55,288,530</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) from operations	\$ (1,387,717)	\$ (1,044,057)
Adjustments to reconcile (loss) from operations to net cash provided by operating activities		
Depreciation and amortization	8,995,268	8,544,980
Changes in assets and liabilities related to operations		
Accounts receivable	(20,298)	(329,085)
Accounts and retainage payable	452,275	113,453
Accrued expenses	1,649	21,195
Compensated absences	12,874	31,637
Other post employment benefits	53,443	70,468
Construction deposits	164,037	(77,420)
Total adjustments	<u>9,659,248</u>	<u>8,375,228</u>
Net cash provided by operating activities	<u>\$ 8,271,531</u>	<u>\$ 7,331,171</u>

Cash flows from capital and related financing activities do not include \$2,214,560 and \$1,075,035 of water rights, water and sewer lines contributed to the District during 2011 and 2010, respectively, and \$(535,278) and \$(461,931) of market value adjustment on investments for 2011 and 2010, respectively.

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

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 - DEFINITION OF REPORTING ENTITY

Parker Water and Sanitation District (District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Douglas County, Colorado. The District was established to provide water and sanitation services.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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

The more significant accounting policies of the District are described as follows:

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Fund Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for services provided.

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

It is the District's policy to apply restricted resources first when expenses are incurred for purposes for which both restricted and unrestricted resources are available for use.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end. Contributions of water and/or sewer lines are not reflected as a budgetary revenue or expenditure as they do not generate or require the use of funds available.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

Capital Assets

Capital assets, which include land, buildings, water and sewer distribution and collection systems and furniture and equipment, are reported by the District. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Land improvements	10-20 years
Buildings	25-50 years
Infrastructure	30-65 years
Machinery and equipment	5-30 years
Vehicles	5-8 years

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalized Interest

Interest incurred during construction is reflected in the capitalized value of the asset constructed, net of investment earnings on invested loan proceeds during the same period. Total interest incurred during the years ended December 31, 2011 and 2010 was \$10,699,451 and \$8,189,670, respectively. Interest expense capitalized during the year ended December 31, 2011 amounted to \$8,297,020. Net interest expense capitalized during the year ended December 31, 2010 amounted to \$7,327,045.

Water Rights

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 amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of December 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred revenue in the year they are levied and measurable. The deferred property tax revenue are recorded as revenue in the year they are available or collected.

Capital Contributions

Capital contributions are comprised of tap fees, water resource fees and other development fees and are recorded as capital contributions when received. Lines contributed to the District by developers are recorded as capital contributions and additions to the systems at the estimated fair value when received.

Compensated Absences

Full-time employees, who have been employed by the District for one or more years, receive annual vacation leave with pay. Part-time employees are not entitled to paid vacations. Vacation time of five to fifteen days may be carried over from one year to the next depending upon the employee's length of service. No more than 25 days may be accumulated at any point in time. The District's sick leave policy permits the accumulation of four hours per pay period up to a maximum of 96 hours per year. Part-time employees are not entitled to any sick leave.

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees with less than five years of service are not paid for unused sick days upon termination of employment. Employees with five to fourteen years of service are paid for 50% of unused sick days upon termination of employment. Employees with fifteen years of service are paid for 100% of unused sick days upon termination of employment. The District's sick leave policy permits a maximum accumulation of 520 sick hours.

NOTE 3 - CASH AND INVESTMENTS

Cash Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. 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 for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The total market value of all pledged assets must exceed 102% of the banks aggregate uninsured public deposits at all times.

The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2011 and 2010, the District's cash deposits had a carrying balance of \$12,013,313 and \$8,699,489, respectively.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments, and entities such as the District, may invest. The District has adopted an investment policy which is more restrictive and limits investments to:

- Obligations of the United States and certain U.S. government agency securities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Local government investment pools

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk

The District owned the following investments as of December 31, 2011:

	Fair Value	Remaining Maturity		
		12 Months or Less	13 - 24 Months	25 - 36 Months
U.S. Government Agencies	\$ 55,625,253	\$ 38,264,263	\$ 14,482,947	\$ 2,878,043
US Treasury Strips	5,142,993	5,142,993	-	-
US Treasury Notes	3,167,519	752,403	603,117	1,811,999
Commercial Paper	1,797,891	1,797,891	-	-
Investments held in trust	269	269	-	-
Local government investment pool	26,085,470	26,085,470	-	-
	<u>\$ 91,819,395</u>	<u>\$ 72,043,289</u>	<u>\$ 15,086,064</u>	<u>\$ 4,690,042</u>

The District owned the following investments as of December 31, 2010:

	Fair Value	Remaining Maturity		
		12 Months or Less	13 - 24 Months	25 - 36 Months
U.S. Government Agencies	\$ 56,546,254	\$ 13,184,793	\$ 29,540,614	\$ 13,820,847
Investments held in trust	761	761	-	-
Local government investment pool	46,588,280	46,588,280	-	-
	<u>\$103,135,295</u>	<u>\$ 59,773,834</u>	<u>\$ 29,540,614</u>	<u>\$ 13,820,847</u>

Concentration of Credit Risk

The District does not have a policy that addresses specific limitations on the amount that can be invested in any one issuer, but does require diversification of investments, excluding U.S. Treasury securities. As of December 31, 2011, more than 5% of the District's investments are concentrated in Federal Home Loan Mortgage Corporation securities (28.2%), Federal Home Loan Bank securities (14.5%), Federal National Mortgage Association securities (12.5%), and Federal Farm Credit Bank securities (5.5%). As of December 31, 2010, more than 5% of the District's investments are concentrated in Federal Home Loan Mortgage Corporation securities (26.6%), Federal National Mortgage Association securities (11.7%), Federal Home Loan Bank securities (10.4%) and Federal Farm Credit Bank securities (6.0%).

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Credit Risk

As of December 31, 2011 and 2010, the District had invested \$26,085,470 and \$46,588,280, respectively, in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The two funds of the Trust are rated AAAM by Standard & Poor's.

The U.S. agency securities, U.S. Treasury strips, and U.S. Treasury notes are rated AA+ by Standard & Poor's. The commercial paper is rated A-1+ by Standard & Poor's.

Cash and investments are restricted for the following purposes:

Debt Service

Cash and investments in the amount of \$395,820 and \$389,066 at December 31, 2011 and 2010, respectively, were restricted for debt service applicable to various debt obligations.

Employment Agreement

In November 2008, the District entered into a four year employment agreement with the District Manager. The PWSD Board set aside the sum of \$700,000 into a separate account to satisfy the financial obligations of the District to fund this employment agreement. The District's financial obligation is reduced by \$175,000 each year over the life of the agreement. Cash in the amount of \$176,085 and \$350,729 was restricted at December 31, 2011 and 2010, respectively, for this agreement.

Trust for Capital Improvements

Cash and investments in the amount of \$269 and \$761 were held in trust at December 31, 2011 and 2010, respectively, by the Colorado Water Resources and Power Development Authority. Interest earnings held by the Power Development Authority, which the District has chosen to use for debt service, totaled \$269 in 2011 and \$761 in 2010.

Operating Reserve

The loan agreements with the Colorado Water Resources and Power Development Authority generally require that the District maintain a three month operating reserve. For this purpose, the District had restricted cash and investments of \$4,325,412 and \$4,304,272 at December 31, 2011 and 2010, respectively.

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Water Treatment Plant

The loan documents for the 2010 loan with the Colorado Water Resources and Power Development Authority require that the proceeds from the loan be applied only to the expenses of acquiring, constructing, and equipping the project. In the event that all of the proceeds of the loan are not required to pay such expenses, any remaining amount shall be used for paying principal and interest on the loan. For this purpose, the District had restricted cash and investments of \$46,811,246 and \$50,451,341 at December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, cash deposits and investments are classified on the statements of net assets as follows:

	2011	2010
Cash and cash equivalents	\$ 37,756,686	\$ 49,829,929
Cash and cash equivalents - Restricted	342,365	5,458,601
Investments	14,367,190	6,508,686
Investments - Restricted	51,366,467	50,037,568
	\$ 103,832,708	\$ 111,834,784
Cash deposits	\$ 12,013,313	\$ 8,699,489
Investments	91,819,395	103,135,295
	\$ 103,832,708	\$ 111,834,784

NOTE 4 - INCLUSION FEES

The District carried a receivable for the RidgeGate inclusion fee for \$5,827,300 and \$6,992,760 at December 31, 2011 and 2010, respectively. The receivable bears interest at 6.25%. At December 31, 2011, the current and noncurrent portions of the receivable were \$1,165,460 and \$4,661,840, respectively. At December 31, 2010, the current and noncurrent portions of the receivable were \$1,165,460 and \$5,827,300, respectively. At December 31, 2011, there were five remaining annual inclusion fee payments of \$1,165,460 due to the District.

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5 - CAPITAL ASSETS

An analysis of the changes in capital assets for the years ended December 31, 2011 and 2010 follows:

	2011			Balance at December 31, 2011
	Balance at December 31, 2010	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 16,903,615	\$ -	\$ -	\$ 16,903,615
Water rights	132,328,263	1,162,000	-	133,490,263
Diversion structure	14,116,623	-	14,116,623	-
Land improvements	-	1,559,406	-	1,559,406
Construction in progress	<u>183,107,087</u>	<u>25,526,387</u>	<u>233,114</u>	<u>208,400,360</u>
Total capital assets, not being depreciated	<u>346,455,588</u>	<u>28,247,793</u>	<u>14,349,737</u>	<u>360,353,644</u>
Capital assets, being depreciated:				
Land improvements	13,798,852	6,351	52,300	13,752,903
Buildings	63,579,639	9,682,598	1,758,697	71,503,540
Infrastructure	107,139,649	1,306,860	95,494	108,351,015
Machinery and equipment	51,270,819	3,481,494	1,877,660	52,874,653
Vehicles	<u>1,546,989</u>	<u>65,796</u>	<u>86,088</u>	<u>1,526,697</u>
Total capital assets, being depreciated	<u>237,335,948</u>	<u>14,543,099</u>	<u>3,870,239</u>	<u>248,008,808</u>
Less accumulated depreciation for:				
Land improvements	3,748,904	687,670	41,402	4,395,172
Buildings	16,852,962	2,117,988	972,193	17,998,757
Infrastructure	21,423,128	2,948,992	33,880	24,338,240
Machinery and equipment	35,938,850	3,109,032	1,585,931	37,461,951
Vehicles	<u>1,342,251</u>	<u>131,586</u>	<u>86,088</u>	<u>1,387,749</u>
Total accumulated depreciation	<u>79,306,095</u>	<u>8,995,268</u>	<u>2,719,494</u>	<u>85,581,869</u>
Total capital assets, being depreciated, net	<u>158,029,853</u>	<u>5,547,831</u>	<u>1,150,745</u>	<u>162,426,939</u>
Capital assets, net	<u>\$ 504,485,441</u>	<u>\$ 33,795,624</u>	<u>\$ 15,500,482</u>	<u>\$ 522,780,583</u>

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 5 - CAPITAL ASSETS (CONTINUED)

	2010			
	Balance at December 31, 2009	Increases	Decreases	
Capital assets, not being depreciated:				
Land	\$ 16,850,192	\$ 53,423	\$ -	\$ 16,903,615
Water rights	132,189,511	138,752	-	132,328,263
Diversion structure	14,116,623	-	-	14,116,623
Construction in progress	<u>154,768,752</u>	<u>28,338,335</u>	<u>-</u>	<u>183,107,087</u>
Total capital assets, not being depreciated	<u>317,925,078</u>	<u>28,530,510</u>	<u>-</u>	<u>346,455,588</u>
Capital assets, being depreciated:				
Land improvements	13,798,852	-	-	13,798,852
Buildings	63,604,497	35,800	60,658	63,579,639
Infrastructure	106,008,952	1,130,697	-	107,139,649
Machinery and equipment	51,182,420	766,247	677,848	51,270,819
Vehicles	<u>1,551,189</u>	<u>-</u>	<u>4,200</u>	<u>1,546,989</u>
Total capital assets, being depreciated	<u>236,145,910</u>	<u>1,932,744</u>	<u>742,706</u>	<u>237,335,948</u>
Less accumulated depreciation for:				
Land improvements	3,061,063	687,841	-	3,748,904
Buildings	15,111,710	1,744,652	3,400	16,852,962
Infrastructure	18,524,877	2,898,251	-	21,423,128
Machinery and equipment	33,500,947	3,037,044	599,141	35,938,850
Vehicles	<u>1,169,259</u>	<u>177,192</u>	<u>4,200</u>	<u>1,342,251</u>
Total accumulated depreciation	<u>71,367,856</u>	<u>8,544,980</u>	<u>606,741</u>	<u>79,306,095</u>
Total capital assets, being depreciated, net	<u>164,778,054</u>	<u>(6,612,236)</u>	<u>135,965</u>	<u>158,029,853</u>
Capital assets, net	<u>\$ 482,703,132</u>	<u>\$ 21,918,274</u>	<u>\$ 135,965</u>	<u>\$ 504,485,441</u>

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 6 - LONG-TERM LIABILITIES

The following is an analysis of the changes in the District's long-term obligations for the years ended December 31, 2011 and 2010.

	Balance at January 1, 2011	New Issues	Retirements	Balance at December 31, 2011	Due Within One Year
1994 CWRPDA Clean Water Loan	\$ 465,537	\$ -	\$ 107,020	\$ 358,517	\$ 112,371
1994 CWRPDA Small Water Loan	168,333	-	40,000	128,333	40,833
1997 CWRPDA Clean Water Loan	1,398,320	-	176,124	1,222,196	181,461
1997 CWRPDA Small Water Loan	2,258,333	-	282,500	1,975,833	297,500
Water and Sewer Revenue					
Refunding Bonds,					
Series 1998	2,285,000	-	415,000	1,870,000	435,000
2000 CWRPDA Clean Water Loan	7,099,320	-	588,078	6,511,242	609,270
2000 CWRPDA Small Water Loan	10,174,999	-	424,167	9,750,832	448,334
2001 CWRPDA Clean Water Loan	3,078,936	-	230,652	2,848,284	241,380
Water and Sewer Revenue					
Refunding Bonds,					
Series 2001	605,000	-	110,000	495,000	115,000
2002 CWRPDA Clean Water Loan	12,326,988	-	265,972	12,061,016	271,400
2002 CWRPDA Small Water Loan	10,055,000	-	-	10,055,000	-
2002 CWCBC Loan	15,000,000	-	478,142	14,521,858	499,659
2004 CWRPDA Small Water and Clean Water Loan	98,955,000	-	1,255,000	97,700,000	1,320,000
2010 CWRPDA Loan	51,485,000	-	-	51,485,000	-
Less Bond Discount	<u>(67,457)</u>	<u>-</u>	<u>(2,735)</u>	<u>(64,722)</u>	<u>-</u>
Total long-term debt	<u>\$ 215,288,309</u>	<u>\$ -</u>	<u>\$ 4,369,920</u>	<u>\$ 210,918,389</u>	<u>\$ 4,572,208</u>

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

	Balance at January 1, <u>2010</u>	<u>New Issues</u>	<u>Retirements</u>	Balance at December 31, <u>2010</u>	Due Within One <u>Year</u>
1994 CWRPDA Clean Water Loan	\$ 567,206	\$ -	\$ 101,669	\$ 465,537	\$ 107,020
1994 CWRPDA Small Water Loan	208,333	-	40,000	168,333	40,000
1997 CWRPDA Clean Water Loan	1,569,107	-	170,787	1,398,320	176,124
1997 CWRPDA Small Water Loan	2,525,833	-	267,500	2,258,333	282,500
Water and Sewer Revenue					
Refunding Bonds,					
Series 1998	2,680,000	-	395,000	2,285,000	415,000
2000 CWRPDA Clean Water Loan	7,666,206	-	566,886	7,099,320	588,078
2000 CWRPDA Small Water Loan	10,578,333	-	403,334	10,174,999	424,167
2001 CWRPDA Clean Water Loan	3,304,224	-	225,288	3,078,936	230,652
Water and Sewer Revenue					
Refunding Bonds,					
Series 2001	710,000	-	105,000	605,000	110,000
2002 CWRPDA Clean Water Loan	12,592,960	-	265,972	12,326,988	265,972
2002 CWRPDA Small Water Loan	10,055,000	-	-	10,055,000	-
2002 CWCB Loan	2,800,251	12,199,749	-	15,000,000	478,142
2004 CWRPDA Small Water and Clean Water Loan	100,150,000	-	1,195,000	98,955,000	1,255,000
2010 CWRPDA Loan	-	51,485,000	-	51,485,000	-
Less Bond Discount	-	(67,913)	(456)	(67,457)	-
Total long-term debt	<u>\$ 155,407,453</u>	<u>\$ 63,616,836</u>	<u>\$ 3,735,980</u>	<u>\$ 215,288,309</u>	<u>\$ 4,372,655</u>

Loan Agreement, Colorado Water Resources and Power Development Authority, dated April 1, 1994

Principal paid monthly with interest at 5.65%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated August 1, 1994

Principal paid February 1 and August 1 with interest at 4.892%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated May 1, 1997

Interest at 4.543% paid February 1 and August 1 with principal payments due August 1.

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Loan Agreement, Colorado Water Resources and Power Development Authority, dated June 1, 1997

Principal paid monthly with interest at 5.37%.

Water and Sewer Revenue Bonds, dated March 15, 1998

Principal paid April 1 and October 1 with interest at 4.65% to 4.85%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated February 15, 2000

Principal paid monthly with interest at 5.71%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated May 15, 2000

Principal paid February 1 and August 1 with interest at 4.66%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated May 1, 2001

Principal paid February 1 and August 1 with interest at 4.01%.

Water and Sewer Revenue Refunding Bonds, dated August 23, 2001

Interest at 4.0% to 4.6% paid April 1 and October 1 with principal payments due October 1.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated June 1, 2002

Principal paid monthly with interest at 5.21%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated September 1, 2002

Principal paid February 1 and August 1 with interest at 3.62%.

Loan Agreement, Colorado Water Conservation Board, dated November 14, 2002

Principal paid October 1 with interest at 4.5%.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated October 21, 2010

Interest at 5.78% paid February 1 and August 1. Principal payments are due August 1 starting in 2023. This loan was issued as federally taxable bonds designated as a Build America Bond

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

(BAB) pursuant to sections of the Internal Revenue Code and provisions of the American Recovery and Reinvestment Act of 2009. The District expects to receive a cash subsidy payment from the US Treasury equal to 35% of the interest payable on the loan. The interest rate net of the BAB subsidy is 3.85%.

Colorado Water Resources and Power Development Authority and Colorado Water Conservation Board Loan Covenants

The District has pledged the revenue from the operation and use of its facilities and other legally available revenue, after the payment of operation and maintenance expenses of the system, for the repayment of the above referenced loans. The loan agreements contain various restrictive covenants and requirements, including rate covenants, maintenance of a three month operating reserve (see Note 3) and compliance with an additional bond and/or indebtedness test. At December 31, 2011 and 2010, the District was in compliance with these covenants and requirements of the loan agreements.

Loan Agreement, Colorado Water Resources and Power Development Authority, dated June 15, 2004

Principal paid February 1 and August 1 with interest at 5.118%. This loan constitutes a general obligation debt of the District. On May 4, 2004, voters of the District authorized the District to levy property taxes to pay the loan. Such taxes are intended to be used as a guaranty for payment of the loan only if the Board of Directors determines other revenues are not sufficient to pay the debt service on the loan. During 2011 and 2010, the District recognized \$6,250,950 and \$795,343, respectively, in property tax revenue to pay the debt service on the loan.

The District's long-term obligations, excluding the accrual for compensated absences and bond discounts will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 4,572,208	\$ 10,736,523	\$ 15,308,731
2013	4,766,869	10,551,656	15,318,525
2014	5,022,382	10,342,379	15,364,761
2015	5,324,828	10,110,130	15,434,958
2016	5,485,409	9,863,568	15,348,977
2017-2021	32,095,893	45,067,639	77,163,532
2022-2026	33,438,595	37,336,936	70,775,531
2027-2031	40,696,927	28,369,049	69,065,976
2032-2036	43,480,000	16,219,343	59,699,343
2037-2041	24,435,000	7,041,825	31,476,825
2042-2043	11,665,000	926,363	12,591,363
	<u>\$210,983,111</u>	<u>\$186,565,411</u>	<u>\$397,548,522</u>

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Changes in the District's accrued benefits payable are as follows:

	Balance January 1, 2011	Incurred	Retired	Balance December 31, 2011
Compensated absences payable	<u>\$ 490,805</u>	<u>\$ 317,189</u>	<u>\$ 304,315</u>	<u>\$ 503,679</u>

	Balance January 1, 2010	Incurred	Retired	Balance December 31, 2010
Compensated absences payable	<u>\$ 459,168</u>	<u>\$ 326,093</u>	<u>\$ 294,456</u>	<u>\$ 490,805</u>

NOTE 7 - NET ASSETS

The District has net assets consisting of three components - invested in capital assets net of related debt, restricted, and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, plus unspent debt proceeds, and reduced by the outstanding balances of bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2011 and 2010, the District had an investment in capital assets, net of related debt calculated as follows:

	2011	2010
Capital assets, net of accumulated depreciation	\$ 522,780,583	\$ 504,485,441
Unspent debt proceeds	46,811,246	50,451,341
Bonds and notes payable, net of bond discount	<u>(210,918,389)</u>	<u>(215,288,309)</u>
	<u>\$ 358,673,440</u>	<u>\$ 339,648,473</u>

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. See Note 3 for restrictions of assets as of December 31, 2011 and 2010.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets or restricted.

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 8 - COMMITMENTS

Construction Commitments

As of December 31, 2011 and 2010, the District had unexpended construction related contract commitments of approximately \$9,044,730 and \$22,131,098, respectively.

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2011 and 2010. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, equipment breakdown and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

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.

NOTE 10 - DEFINED CONTRIBUTION PLAN

The employees of the District participate in a defined contribution plan established by the District and maintained and administered by Great-West Life and Annuity Insurance Company. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees become plan members immediately upon employment. Under this plan, 9% of the plan members' compensation is withheld and remitted to the Plan Administrator along with a matching payment of 10% from the District. The District's contributions, plus earnings, become vested at a rate of 20% for each year of participation in the plan. District contributions for plan members who leave employment before they are fully vested are returned to the District. There is no liability for benefits under the plan beyond the District's matching payments. Plan provisions and contribution requirements are established and may be amended by the District's Board of Directors.

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 10 - DEFINED CONTRIBUTION PLAN (CONTINUED)

Contributions actually made by plan members and the District for the year ended December 31, 2011 and 2010 are as follows:

	2011	2010
Plan members	\$ 367,048	\$ 366,872
District	\$ 407,939	\$ 409,449

NOTE 11 - DEFERRED COMPENSATION PLAN - ASSETS IN TRUST

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan is administered by Great-West Life and Annuity Insurance Company. Participation in the plan is optional for all employees. The plan allows the employees to defer a portion of their salary until future years. The District matches deferrals by employees up to 5% of the employees' payroll. Contributions made to this plan by the District were \$151,047 for 2011 and \$152,553 for 2010.

NOTE 12 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits and qualification as an Enterprise will require judicial interpretation.

**PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description. Parker Water and Sanitation District administers a single-employer defined benefit healthcare plan (the Retiree Health Plan). The plan provides healthcare insurance for plan members, eligible retirees and their family members, from the date of retirement until the retiree reaches age 65. Health insurance coverage is provided through the District's group health insurance plan, which covers both active and retired members.

Funding Policy. Plan members contribute 100 percent of the premium costs. The District does not contribute to the cost of the premiums for plan members.

Annual OPEB Cost and Net OPEB Obligation. The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 55,569
Interest on net OPEB obligation	5,285
Adjustment to annual required contribution	(7,411)
Annual OPEB cost (expense)	53,443
Contributions made	-
Increase in net OPEB obligation	53,443
Net OPEB obligation - Beginning of year	211,404
Net OPEB obligation - End of year	\$ 264,847

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the preceding years were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
12/31/09	\$ 70,468	0%	\$ 140,936
12/31/10	\$ 70,468	0%	\$ 211,404
12/31/11	\$ 53,443	0%	\$ 264,847

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Funded Status and Funding Progress. As of December 31, 2011, when the most recent calculation was made, the actuarial accrued liability for benefits was \$379,224, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$4,034,246, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.40 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 63.

Marital status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the RP2000 Mortality Table for Males and Females projected 10 years.

Turnover - Standard turnover assumptions from GASB Statement 45 - paragraph 35b were used as the basis for the turnover assumption.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on the Getzen model promulgated by the Society of Actuaries for use in long-term trend projection.

Health insurance premiums - 2011 health insurance premiums for plan members were used as the basis for calculation of the present value of total benefits to be paid.

Payroll growth rate - The expected long-term payroll growth rate was assumed to be 2.9%.

PARKER WATER AND SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Based on the historical and expected returns of the District's investment portfolio, a discount rate of 2.5 percent was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was 27 years.

NOTE - 14 RUETER-HESS RESERVOIR STORAGE

The District entered into a storage space agreement in August 2008 with three participating entities, the Town of Castle Rock, Stonegate Village Metropolitan District, and Castle Pines North Metropolitan District. Storage easement was purchased by each of the participating entities and the purchase grants each entity storage rights within Rueter-Hess Reservoir.

The purchase price paid by the participating entities totaled \$59,560,918. The agreement required that Parker Water deposit \$7,800,000 of the purchase price with an escrow agent for the cost of completing the outlet structures. During 2009, the balance of the deposit held by the escrow agent was used on outlet structure expenses. The remaining funds are being used for reservoir construction, expected to be complete in the spring of 2012.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**PARKER WATER AND SANITATION DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
Year Ended December 31, 2011**

Actuarial Valuation Date	Actuarial Value of Assets(a)	Actuarial Accrued Liability (AAL)-		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b - a) / c)
		Simplified Entry Age (b)	Unfunded AAL (UAAL) (b - a)			
12/31/2008	\$ -	\$ 330,169	\$ 330,169	0.00%	\$ 3,817,849	8.65%
12/31/2011	\$ -	\$ 379,224	\$ 379,224	0.00%	\$ 4,034,246	9.40%

SUPPLEMENTARY INFORMATION

PARKER WATER AND SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE
BUDGET TO ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2011

	TOTAL		
	Final Budget	Actual	Variance - Positive (Negative)
REVENUES			
Charges for services	\$ 20,615,700	\$ 21,314,802	\$ 699,102
Operating tax revenues	1,074,100	1,493,489	419,389
Other operating income	147,900	342,764	194,864
Investment income	617,400	1,164,754	547,354
Other nonoperating income	2,390,600	3,224,109	833,509
Reuter-Hess mill levy	6,293,600	6,250,950	(42,650)
Tap fees	535,000	1,271,950	736,950
Water resource fees	75,000	189,821	114,821
Development fees	1,352,500	3,369,585	2,017,085
Farm income	330,000	356,131	26,131
Total revenues	33,431,800	38,978,355	5,546,555
EXPENDITURES			
Salaries	4,040,900	4,034,246	6,654
Employee benefits	1,425,350	1,354,348	71,002
Insurance	200,000	184,241	15,759
Professional services	824,600	1,226,852	(402,252)
Support services	326,350	165,341	161,009
Utilities	2,751,100	3,207,981	(456,881)
Contract labor and maintenance	2,174,100	1,529,704	644,396
Supplies	1,221,500	1,178,432	43,068
Community education	103,000	103,023	(23)
Information technology	322,840	325,229	(2,389)
Water resource farms	182,000	135,543	46,457
Miscellaneous expenses	993,425	674,300	319,125
Debt service	14,790,000	15,336,818	(546,818)
Capital outlay	19,067,500	17,929,576	1,137,924
Total expenditures	48,422,665	47,385,634	1,037,031
EXCESS REVENUES OVER EXPENDITURES	\$ (14,990,865)	(8,407,279)	\$ 6,583,586
FUNDS AVAILABLE - BEGINNING OF YEAR		<u>106,420,675</u>	
FUNDS AVAILABLE - END OF YEAR		<u>\$ 98,013,396</u>	
Funds available at December 31, 2011 is computed as follows:			
Current assets		\$ 110,863,043	
Current liabilities		(17,421,855)	
Current portion of long-term obligations		4,572,208	
		<u>\$ 98,013,396</u>	

WATER			SEWER		
Final Budget	Actual	Variance - Positive (Negative)	Final Budget	Actual	Variance - Positive (Negative)
\$ 11,745,000	\$ 12,407,495	\$ 662,495	\$ 8,870,700	\$ 8,907,307	\$ 36,607
-	-	-	1,074,100	1,493,489	419,389
107,200	275,759	168,559	40,700	67,005	26,305
318,150	818,638	500,488	299,250	346,116	46,866
1,697,400	2,253,609	556,209	693,200	970,500	277,300
3,146,800	3,125,475	(21,325)	3,146,800	3,125,475	(21,325)
250,000	625,000	375,000	285,000	646,950	361,950
75,000	189,821	114,821	-	-	-
1,272,500	3,187,985	1,915,485	80,000	181,600	101,600
330,000	356,131	26,131	-	-	-
<u>18,942,050</u>	<u>23,239,913</u>	<u>4,297,863</u>	<u>14,489,750</u>	<u>15,738,442</u>	<u>1,248,692</u>
1,935,200	1,963,593	(28,393)	2,105,700	2,070,653	35,047
706,400	675,443	30,957	718,950	678,905	40,045
100,000	92,120	7,880	100,000	92,121	7,879
522,300	722,217	(199,917)	302,300	504,635	(202,335)
176,350	90,708	85,642	150,000	74,633	75,367
2,001,100	2,423,056	(421,956)	750,000	784,925	(34,925)
1,376,800	645,538	731,262	797,300	884,166	(86,866)
354,850	405,174	(50,324)	866,650	773,258	93,392
51,500	53,169	(1,669)	51,500	49,854	1,646
181,750	183,539	(1,789)	141,090	141,690	(600)
182,000	135,543	46,457	-	-	-
749,725	470,470	279,255	243,700	203,830	39,870
8,227,250	8,773,004	(545,754)	6,562,750	6,563,814	(1,064)
17,801,000	17,778,917	22,083	1,266,500	150,659	1,115,841
<u>34,366,225</u>	<u>34,412,491</u>	<u>(46,266)</u>	<u>14,056,440</u>	<u>12,973,143</u>	<u>1,083,297</u>
<u>\$ (15,424,175)</u>	<u>\$ (11,172,578)</u>	<u>\$ 4,251,597</u>	<u>\$ 433,310</u>	<u>\$ 2,765,299</u>	<u>\$ 2,331,989</u>

**RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO STATEMENT OF
REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended December 31, 2011**

Revenue (budgetary basis)	\$ 38,978,355
Contributed capital assets	2,214,560
Proceeds on sale of assets	(24,978)
Inclusion fee receivable paid	<u>(1,165,460)</u>
Total revenue per statement of revenues, expenses and changes in fund net assets	<u>40,002,477</u>
Expenditures (budgetary basis)	47,385,634
Amortization of bond issue expense	21,700
Amortization of bond discount expense	2,735
Depreciation	8,995,268
Capitalized interest	(8,297,020)
Capital outlay	(17,929,576)
Debt principal	(4,372,655)
Change in compensated absences and OPEB	66,317
Loss on sale of assets	<u>1,125,768</u>
Total expenses per statement of revenues, expenses and changes in fund net assets	<u>26,998,171</u>
Change in net assets per statement of revenues, expenses and changes in fund net assets	<u>\$ 13,004,306</u>