

BOARD OF WATER WORKS OF PUEBLO, COLORADO

FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

BOARD OF WATER WORKS OF PUEBLO, COLORADO
FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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SCHMIDT, VALENTINE, WHITTEMORE & COMPANY, P.C.

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INDEPENDENT AUDITORS' REPORT

The Board of Water Works
Pueblo, Colorado

We have audited the accompanying financial statements of the Board of Water Works of Pueblo, Colorado as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Board'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the Board of Water Works of Pueblo, Colorado, as of December 31, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Board has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2003.

The management's discussion and analysis on pages three through eleven is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supplementary information in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements of the Board of Water Works of Pueblo, Colorado. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2005, on our consideration of the Board of Water Works of Pueblo, Colorado's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Schmidt, Valentine, Whittemore & Company, P.C.

SCHMIDT, VALENTINE, WHITTEMORE & COMPANY, P.C.
Certified Public Accountants

March 4, 2005

BOARD OF WATER WORKS OF PUEBLO, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

To the Board of Water Works of Pueblo, Colorado and To Those We Serve:

We are pleased to transmit the Annual Financial Report of the Board of Water Works for the year ended December 31, 2004. Statement No. 34 of the Governmental Accounting Standards Board requires that management provide a discussion and analysis to accompany the financial statements. This discussion and analysis of the Board's financial performance provides an overview of financial activities for the year ended December 31, 2004, and should be read in conjunction with the Board's financial statements which start on page twelve.

Responsibility for the accuracy of the data as well as the thoroughness of the presentation rests with the Board of Water Works. To the best of our knowledge, the enclosed data are accurate in all material respects and adequately present the financial position of the Board of Water Works of Pueblo, Colorado.

The Entity

Pursuant to the Charter of the City of Pueblo, Colorado, effective June 11, 1957, consolidation of two water works systems and properties managed by the Trustees of the Pueblo Water Works and the Board of Commissioners of Pueblo Water Works District No. 2, established the Board of Water Works of Pueblo, Colorado (the Board). The control, management and operation was vested in a five member board elected at large for six-year staggered terms. The Board, under authority of the Charter, has and may exercise all powers which are granted to cities of the first class by the Constitution and Laws of Colorado, except the power to levy and collect taxes.

2004 Review

Operationally, 2004 saw a return to more normal conditions for the utility following the severe and unexpected drought conditions of 2002 and the recovery transition experienced in 2003. While water restrictions were not needed, and water supply levels rebounded nicely, the utility conducted a "Wise Use" campaign with its customers. Operating revenue from potable water sales fell short of expectations by 2.35%, due largely to higher than typical natural moisture during the year. Raw water sales income was healthy, exceeding revenue expectations by 33.6%. Following the severe drought of 2002, the Board's water supply inventory has been doubled to approximately 30,000 acre feet. Inventory was sufficient to maintain the new storage pool and have water available for short-term lease.

Personnel and Customer Statistics

Staffing totaled 130 at December 31, 2004. The number of regular employees (FTE's) has been increasing modestly in recent years but remains below the high of 137 in 1977. It is expected that the number of FTE's will continue to increase moderately over the next few years to accommodate changing operational needs. Succession planning is being undertaken in reflection of the pending retirements of long service employees in the Baby Boomer generation. The resultant influence of this transition in the workforce is not yet fully understood, but is being examined.

Metered accounts at the end of 2004 totaled 38,448, continuing the modest growth trend of recent years.

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Demand and Consumption

Water supplied to the transmission and distribution network (pumpage) in 2004 totaled 8.60 billion gallons. Metered consumption during the same period amounted to 7.98 billion gallons. The differential between pumpage and metered use is sometimes considered unaccounted for water, or system loss, however, it should be remembered that system transit and storage, as well as the cycle read/bill process is not quantified and accounts for some of the differential.

Peak day pumpage in 2004 amounted to 48.02 million gallons (mgd) on June 7. Typically, the peak day occurs in July and has been in the mid-fifty million gallon range in recent years. Natural moisture amounted to 14.06 inches during 2004, and came at times which kept irrigation levels lower during summer months. Average annual precipitation in Pueblo is about 12 inches.

Operations

The Administrative Services Division continued to focus on enhancing the level of understanding and perfecting the process efficiencies of the business software modules implemented during 2003. In addition, the Water Works undertook billing and remittance processing of the City of Pueblo Stormwater utility charges. Wastewater billing services have been performed for the City since the late 70's. Remuneration from the City to the Water Works for performing the billing services for both utilities in 2004 amounted to \$437,428.

2004 also brought about process perfection and operational efficiencies in the Treating, Pumping & Laboratory Division following completion of the water treatment expansion in 2003. Treatment capacity is now 84 mgd and the Water Works is well positioned to serve the needs of the community over the next twenty-five years at the current growth rate.

The Transmission & Distribution Division continued in its transition from a construction orientation to one of maintenance for its workforce, concentrating on water mains, valves and fire hydrants.

In addition to typical snow removal activity from the transmountain water collection system, and routine collection system maintenance activity, the Water Resources Division managed the water storage facilities and monitored inventory levels to maximize storage and lease available supplies to help meet the needs of water-short entities in the Arkansas River Valley. The division also continued its activity in relation to preparing for a three-way land trade involving property owned by the Water Works with the U.S. Forest Service and the Bureau of Land Management around the Clear Creek Reservoir site. When complete, the land trade could help position the Water Works for an expansion of the storage capacity at Clear Creek.

Diligence

Water Supply and Infrastructure

Security of facilities and key system components continued to be a focus of the utility during 2004. Technological as well as physical enhancements were accomplished during the year, and when coupled

BOARD OF WATER WORKS OF PUEBLO, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

with staffed security services at primary facilities, the Board's investment in security since the events of September 11, 2001 has now reached approximately \$1,916,000.

Financial

During 2004 the computer-based financial model was updated and enhanced. This PC based computer program is instrumental in predicting revenue, expense and water rate requirements of the utility. This tool permits looking forward ten years and the strategic planning associated with the use of the model has been instrumental in project accomplishment and has negated rate shock to customers of the Board. Regular modest adjustments to water service rates have provided a revenue stream sufficient to meet operational requirements, improvement and replacement of the water system infrastructure and maintenance of operating and capital reserve funds.

Risk Management

The Board of Water Works utilizes a risk management program that includes an outside consultant for loss prevention and control, employee benefits and worker's compensation. In addition, the consultant represents the utility to acquire and administer a package of business insurance. The combination of governmental immunity and insurance products minimizes risk of loss and the Water Works continues to move toward more assumption of risk where sound risk management principles and prior loss data indicate a premium savings greater than the exposures assumed.

2004 Financial Highlights

- To help offset rising costs and in keeping with recent policy, the Board increased water rates by 2.35% in 2004. Over the past five years water rates have increased just 12.35%. The numbers of customers served by the Board also increased in 2004, by 1.69%. Over the past five years the number of customers served by the Board has grown at an average rate of 1.29%.
- While water sales to general customers decreased from 2003 by just under 5% in 2004, overall operating revenue increased by just over 3%. This was due in large part to increases in raw water sales and plant water investment fees.
- The Board's net assets increased by \$ 1.25 million or 1% from the year ended December 31, 2003. This increase is down roughly 62% from the \$ 3.3 million or 2.6% increase from 2002 to 2003. A major cause of this variance is due to the capitalized interest from the water treatment expansion in 2003. In 2003, following generally accepted accounting principles, capitalized interest of roughly \$ 2 million was offset against interest expense for 2003, causing a greater increase in net assets in 2003.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets provides information about the Board's assets and liabilities and reflects the Board's financial position as of December 31, 2004 and 2003. The statement of revenues, expenses and changes in net assets reports the activity of providing water and the expenses related to such activity for the years ended December 31,

BOARD OF WATER WORKS OF PUEBLO, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

2004 and 2003. Finally, the statement of cash flows outlines the cash inflows and outflows related to the activity of providing water for the years ended December 31, 2004 and 2003.

Statement of Net Assets

The statement of net assets is a financial snapshot of the Board of Water Works of Pueblo, Colorado at December 31, 2004 and 2003. It presents the fiscal resources of the Board (assets), the claims against those resources (liabilities) and the residual available for future operations (net assets). Assets and liabilities are classified by liquidity as either current or non-current. Net assets are classified by the ways in which they may be used for future operations.

CONDENSED STATEMENT OF NET ASSETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
Current assets	\$ 19,604,289	\$ 17,201,446
Restricted assets	1,141,285	1,127,317
Capital assets	164,282,655	165,614,893
Other assets	201,479	213,186
Total assets	185,229,708	184,156,842
LIABILITIES		
Current liabilities	4,960,757	3,348,056
Long-term liabilities	49,682,062	51,470,949
Total liabilities	54,642,819	54,819,005
NET ASSETS		
Invested in capital assets, net of related debt	116,237,102	115,990,869
Restricted	566,762	482,661
Unrestricted	13,783,025	12,864,307
Total net assets	\$ 130,586,889	\$ 129,337,837

The Board's total assets at December 31, 2004 were \$ 185.2 million. Assets consisted primarily of capital assets, which account for \$ 164.3 million or 89% of total assets. Of those capital assets infrastructure and water rights combine to equal \$ 139.5 million or 63%. The Board uses these assets to facilitate its mission, which is to provide the highest quality water at the lowest possible price.

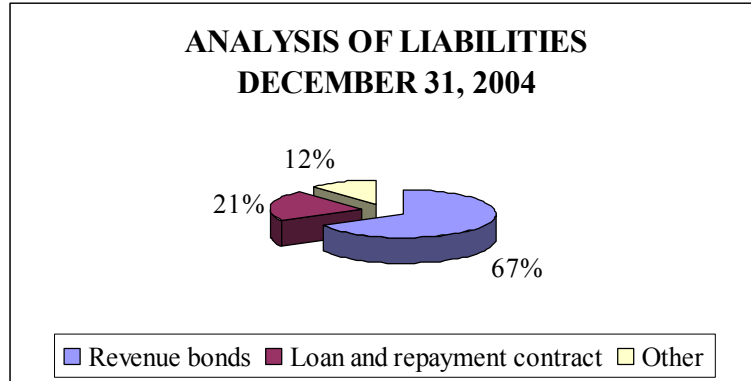
Comparable figures for 2003 were \$ 184.2 million in total assets, with capital assets accounting for \$ 165.6 million or 90% of total assets. In 2003 infrastructure and water rights combined to equal \$ 138.7 million or 63% of total capital assets.

The Board's total liabilities at December 31, 2004, totaled \$ 54.6 million of which \$ 48 million or 88% was made up of revenue bonds and other loans and repayment contracts used to fund capital projects.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

Comparably the Board's total liabilities at December 31, 2003 totaled \$ 54.9 million, of which \$ 49.6 million or 90% was made up of revenue bonds and other loans and repayment contracts used to fund capital projects.

The following chart provides a breakdown of the current mix of the Board's liabilities:



The Board's net assets are separated into three categories. The first category, invested in capital assets, net of related debt, consists of capital assets (net of depreciation) less related outstanding debt incurred to purchase or produce those assets. The second category, restricted, consists of restricted assets less accrued interest on construction related long-term debt. Finally, the third category, unrestricted consists of current assets plus other assets less all liabilities unrelated to acquisitions of capital assets.

Long-term Debt

All of the Board's debt payments, regarding revenue bonds and other loan and repayment contracts, are being made in accordance with prescribed requirements. The amount of the total revenue bonds and other loan and repayment contracts at December 31, 2004 was \$48,045,553. The amount of long-term debt retired at December 31, 2004 totaled \$3,325,336.

Capital Expenditures

With the completion of the Whitlock plant expansion in 2003, capital expenditures for 2004 focused on overall distribution system improvements and enhancements, which include various water main replacements and expansions within the Board's service area. Capital expenditures for 2004 in this category totaled, \$816,587 as opposed to \$592,368 in 2003.

Major Capital Projects

Belmont pump station improvements: Rehabilitation of the Belmont pumping facility began in the summer of 2004. These improvements are expected to increase the efficiency and reliability of this delivery system, and are expected to be completed in 2005 with a total estimated cost of \$350,000.

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Automated Meter Reading Project: In 2004 the Board explored implementation of an automated meter reading system. Specifications for an automated meter reading system are on-going with a projected implementation plan to span eight to ten years. The project will be initiated in 2005 with \$500,000 being budgeted for the first year and equal amounts projected in subsequent years.

Renewed transportation equipment purchase: Company wide transportation purchases were halted in 2002 and 2003 due to budget constraints brought about by drought conditions. 2004 allowed for a return to a systematic replacement of company wide fleet, totaling \$166,863. In 2005 the Board expects this will increase to \$276,500.

Operating Revenues

Water sales to general customers represent 68% and 74% of operating revenue for 2004 and 2003, respectively. As shown in the financial statements operating revenue for 2004 was up just over 3% from 2003. However water sales to general customers were down almost 5%.

The following table compares the Board's operating revenues between 2004 and 2003. All sales are presented in millions of dollars:

Operating Revenues	2004	2003	Difference	Percentage
Water sales to general customers	\$ 14.87	\$ 15.61	\$ (0.74)	-4.74%
Water sales to Comanche plant	2.26	2.42	(0.16)	-6.61%
Plant water investment fee	1.52	1.18	0.34	28.81%
Other	<u>3.24</u>	<u>1.95</u>	<u>1.29</u>	66.15%
Total	<u>\$ 21.89</u>	<u>\$ 21.16</u>	<u>\$ 0.73</u>	3.45%

Nonoperating Revenues and (Expenses)

Nonoperating revenues and (expenses) are made up of the cumulative of interest income plus proceeds from the sales of assets, less interest paid on bonds and notes payable.

Operating Expenses

There are three main categories of operating expenses. First, personnel services, which consists of salaries and benefits paid or accrued to or for Board employees. Second, operation and maintenance, and third other operating expense which consists primarily of depreciation. The percentage of these categories as a relation to total operating expense has changed very little over the past five years.

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DECEMBER 31, 2004

The following table illustrates the relationship of each category to total operating expense as a percentage for the past five years:

OPERATING EXPENSES	2004	2003	2002	2001	2000
Personnel services	51%	53%	53%	53%	54%
Operation and maintenance	28%	28%	30%	30%	29%
Other operating expense	21%	19%	17%	17%	17%

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the financial activity of the Board of Water Works of Pueblo, Colorado for the years ended December 31, 2004 and 2003. The focus is on operating revenues and expenses that have a significant effect on the provision of water to the citizens of the City of Pueblo, Colorado. See table below:

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES	\$ 21,886,820	\$ 21,158,629
OPERATING EXPENSES		
Personnel services	9,438,894	9,312,618
Operation and maintenance	5,234,576	4,867,245
Other operating expenses	<u>3,844,454</u>	<u>3,417,578</u>
Total operating expenses	<u>18,517,924</u>	<u>17,597,441</u>
OPERATING INCOME	3,368,896	3,561,188
NONOPERATING REVENUES AND (EXPENSES)	<u>(2,383,524)</u>	<u>(491,143)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	985,372	3,070,045
CAPITAL CONTRIBUTIONS	<u>263,680</u>	<u>235,769</u>
INCREASE IN NET ASSETS	1,249,052	3,305,814
NET ASSETS, JANUARY 1	<u>129,337,837</u>	<u>126,032,023</u>
NET ASSETS, DECEMBER 31	<u>\$ 130,586,889</u>	<u>\$ 129,337,837</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

Budgetary Highlights

The Board's budget is determined by a variety of methods. The process begins in early August when divisional budget requests are submitted to the Director of Administrative Services. These requests are reviewed by senior management and subsequently used by the Director of Administrative Services to prepare a preliminary budget. The preliminary budget is then submitted to the Executive Director for his review and input. In early October the preliminary budget is submitted to the Board of Directors for their input at which time it is made available for public inspection. The final budget, including all appropriate resolutions, is usually adopted at the Board's November meeting, and subsequently submitted to the State of Colorado Department of Local Affairs.

The Board's approved budget at the beginning of the year was \$ 22.67 million. Although there were minor departmental changes between the original and final budget, the final budget for the year remained the same. Total actual expenditures for the year ended December 31, 2004 came to \$ 21.11 million, resulting in unused appropriations of \$ 1.56 million.

Currently Known Facts, Decisions or Conditions

This section outlines currently known facts, decisions or conditions as of the date of the auditor's report that may have an effect on the Board's financial position (net assets) or results of operations (revenue, expenses, and other changes in net assets).

- In 2004 the Board experienced a 7.5% decline in consumption from 2003. However, since rainfall for 2004 increased 22.4% from 2003 it is difficult to determine what portion of this decline is due to conservation. In the wake of the drought conditions of 2002, the issue of quantifying and identifying conservation is of great importance to the Board and its long range planning.
- During budget preparations for 2005, the Board decided to begin more aggressively pursuing implementation of A.M.R. (Automated Meter Reading). The Board has budgeted \$ 500,000 for A.M.R. in 2005 and has also allocated \$ 500,000 a year from 2006 – 2014, in its long range planning and cash flow projections. Currently, over 38,000 meters are read manually each month. A.M.R. would provide the capability of reading up to 5,000 meters per day.
- Currently, the Board and Public Service Company, are in negotiations from which the Board would provide up to an additional 6,000 AF of raw water to the Comanche power plant per year. It is not currently known exactly how much water the new contract would entail and subsequently how much new revenue this would provide the Board. However, the contract calls for a price of \$ 293.33 per AF, starting in 2005 and escalating at the same rate as the Board's regular water rates for its treated water customers.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004

Requests for Information

This report is provided as a general overview of the Board of Water Works finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to:

Director of Administrative Services
Board of Water Works of Pueblo, Colorado
P. O. Box 400
Pueblo, CO 81002-0400

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENTS OF NET ASSETS
DECEMBER 31, 2004 AND 2003

ASSETS	2004	2003	LIABILITIES AND NET ASSETS	2004	2003
CURRENT ASSETS			CURRENT LIABILITIES		
Cash on hand and in banks (Note 4)	\$ 873,566	\$ 17,476	Current maturities of long-term debt (Notes 6 & 13)	\$ 1,640,854	\$ 1,578,469
Cash investments (Note 4)			Accounts payable (Note 9)	1,937,329	500,321
Money market funds	11,513,746	13,078,966	Retainage withheld on construction contracts	8,852	-
Certificates of deposit	4,500,000	1,556,439	Current portion of accrued vacation payroll (Note 8)	294,403	284,827
Accounts receivable			Customer meter deposits	436,530	421,383
Customers--net of provision for uncollectible accounts of \$ 13,036 and \$ 13,066	1,874,089	1,640,652	Deferred revenue (Note 7)	408,521	335,873
Inventories	684,135	689,584	Accrued liabilities		
Prepaid items	114,118	198,631	Developer deposits	30,112	27,508
Accrued interest receivable	41,123	14,866	Payroll	183,200	175,951
Advances for employees	3,512	4,832	Interest	20,581	23,164
Total current assets	<u>19,604,289</u>	<u>17,201,446</u>	Sales taxes	375	560
			Total current liabilities	<u>4,960,757</u>	<u>3,348,056</u>
RESTRICTED ASSETS			LONG-TERM LIABILITIES		
Cash in banks (Note 4)	210	135	Revenue bonds (Notes 6 & 13) (net of current maturities-- \$ 1,350,000 and \$ 1,285,000)	35,030,000	36,380,000
Cash investments			Loan and repayment contract (Note 6) (net of current maturities-- \$ 290,854 and \$ 293,469)	11,374,699	11,665,553
Money market funds (Note 4)	1,141,075	1,127,182	Accrued sick leave and vacation payroll (Note 8) (net of current portion-- \$ 294,403 and \$ 284,827)	1,928,948	1,994,450
Total restricted assets	<u>1,141,285</u>	<u>1,127,317</u>	Accrued payroll taxes on accrued sick leave and vacation payroll	170,086	174,365
			Deferred revenue (Note 7)	603,806	611,925
CAPITAL ASSETS			Total long-term debt and other liabilities	<u>49,107,539</u>	<u>50,826,293</u>
Land	2,307,119	2,307,119	LIABILITIES PAYABLE FROM RESTRICTED ASSETS (NOTE 5)	<u>574,523</u>	<u>644,656</u>
Infrastructure	99,146,289	98,318,823			
Buildings	70,149,748	69,625,168	Total liabilities	<u>54,642,819</u>	<u>54,819,005</u>
Machinery and equipment	10,552,691	10,295,902			
Water rights	40,392,986	40,374,067	NET ASSETS		
Construction in progress	516,527	-	Invested in capital assets, net of related debt	116,237,102	115,990,869
	<u>223,065,360</u>	<u>220,921,079</u>	Restricted	566,762	482,661
Less accumulated depreciation	58,782,705	55,306,186	Unrestricted	13,783,025	12,864,307
Total capital assets	<u>164,282,655</u>	<u>165,614,893</u>	Total net assets	<u>\$ 130,586,889</u>	<u>\$ 129,337,837</u>
OTHER ASSETS					
Unamortized debt expense (Note 6)	181,602	192,176			
Unamortized discount	19,877	21,010			
Total other assets	<u>201,479</u>	<u>213,186</u>			
Total assets	<u>\$ 185,229,708</u>	<u>\$ 184,156,842</u>			

The accompanying notes are an integral part of the financial statements

BOARD OF WATER WORKS OF PUEBLO, COLORADO
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES	\$ <u>21,886,820</u>	\$ <u>21,158,629</u>
OPERATING EXPENSES (NOTE 14)		
Personnel services and operation and maintenance		
Administration	784,998	569,779
Administrative services	2,139,660	1,426,458
Treating, pumping and laboratory	5,044,583	4,124,544
Transmission, distribution and engineering	4,167,071	3,499,318
Water resources	1,068,126	983,593
Plant-at-large	1,469,032	3,576,171
Depreciation	3,826,282	3,414,376
Loss on abandonment of assets	<u>18,172</u>	<u>3,202</u>
Total operating expenses	<u>18,517,924</u>	<u>17,597,441</u>
OPERATING INCOME	3,368,896	3,561,188
NONOPERATING REVENUES AND (EXPENSES)	<u>(2,383,524)</u>	<u>(491,143)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	985,372	3,070,045
CAPITAL CONTRIBUTIONS		
Contributions to capital assets from developers	<u>263,680</u>	<u>235,769</u>
INCREASE IN NET ASSETS	1,249,052	3,305,814
NET ASSETS, JANUARY 1	<u>129,337,837</u>	<u>126,032,023</u>
NET ASSETS, DECEMBER 31	<u>\$ 130,586,889</u>	<u>\$ 129,337,837</u>

The accompanying notes are an integral part of the financial statements

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 21,114,355	\$ 20,375,947
Payments to employees	(7,028,240)	(6,972,625)
Payments to suppliers	(5,460,404)	(6,129,440)
Other receipts (payments)	<u>(685,574)</u>	<u>(748,898)</u>
Net cash provided by operating activities	<u>7,940,137</u>	<u>6,524,984</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest paid on meter deposits	<u>(5,255)</u>	<u>(28,072)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,629,233)	(3,929,805)
Proceeds from sale of assets	-	1,065
Principal payments on general obligation bonds and notes	(1,578,469)	(1,500,099)
Interest payments on general obligation bonds and notes	<u>(2,694,525)</u>	<u>(1,016,191)</u>
Net cash provided by (used for) capital and related financing activities	<u>(5,902,227)</u>	<u>(6,445,030)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	<u>215,744</u>	<u>252,324</u>
NET INCREASE (DECREASE) IN CASH	2,248,399	304,206
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,780,198</u>	<u>15,475,992</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 18,028,597</u>	<u>\$ 15,780,198</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR REPRESENTED BY		
Cash on hand and in banks	\$ 873,566	\$ 17,476
Money market funds	11,513,746	13,078,966
Certificates of deposit	4,500,000	1,556,439
Restricted assets		
Cash in banks	210	135
Money market funds	<u>1,141,075</u>	<u>1,127,182</u>
Total	<u>\$ 18,028,597</u>	<u>\$ 15,780,198</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 3,368,896	\$ 3,561,188
Adjustments to reconcile net operating revenue to net cash provided by operating activities		
Depreciation	3,826,282	3,414,376
Loss on abandonment of assets	18,172	3,202
Amortization of bond issue expense	10,574	10,574
Amortization of deferred revenue	(23,869)	(23,475)
Interest on meter deposits	2,672	-
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(233,437)	(98,395)
(Increase) decrease in inventories	5,449	15,971
(Increase) decrease in prepaid items	84,513	(64,959)
(Increase) decrease in advances for employees	1,320	3,525
Increase (decrease) in accrued sick leave and vacation payroll	(55,926)	85,554
Increase (decrease) in accrued payroll taxes on accrued sick leave and vacation payroll	(4,279)	6,545
Increase (decrease) in deferred revenue	72,648	(341,879)
Increase (decrease) in accounts payable	842,307	(101,999)
Increase (decrease) in customer meter deposits	15,147	30,853
Increase (decrease) in developer deposits	2,604	3,834
Increase (decrease) in accrued liabilities	7,064	20,069
Net cash provided by operating activities	\$ 7,940,137	\$ 6,524,984

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Contributions to utility plant from various developer installed facilities and other governments for 2004 and 2003 were \$ 263,680 and \$ 235,769, respectively. In addition, water rights valued at \$15,750 were acquired in 2004 in exchange for providing water in the future.

The accompanying notes are an integral part of the financial statements

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

Note 1 – Following is a summary of significant accounting policies:

The Board of Water Works of Pueblo, Colorado is elected by the citizens of Pueblo and it operates a municipal water works system that provides water service to the City of Pueblo, Colorado and adjacent areas. The City's charter provides that title to the properties of the system is in the name of the City of Pueblo, Colorado, but that the entire control, management and operation of the system shall be exercised by the Board of Water Works of Pueblo, Colorado, over which the City Council shall have no jurisdiction or control. In addition, the charter provides that the City of Pueblo, Colorado shall adopt all ordinances requested by the Board of Water Works which shall be reasonably necessary in the management of the system.

The Board of Water Works of Pueblo, Colorado's mission statement commits the utility to providing the highest quality of water at the lowest possible cost, with an equal commitment to the work force that helps achieve that goal. The utility strives to create and maintain an environment that encourages and recognizes teamwork, individual contribution, and the integrity of each employee.

The Board of Water Works of Pueblo, Colorado implemented GASB Statement No. 34 *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments* and Statement No. 37 *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments: Omnibus* in 2003, which establishes a new financial reporting model for state and local governments. Changes to the Board's financial reporting include:

- a) Addition of a "management's discussion and analysis" (MD&A), which is considered to be required supplementary information and precedes the financial statements.
- b) Change in terminology of the balance sheet to "statement of net assets". Changes in this statement are:
 - Change from the balance sheet format (assets equal liabilities plus equity) to the net assets format (assets minus liabilities equal net assets).
 - Change in terminology of "utility plant" to "capital assets."
 - Change in terminology of "equity" to "net assets." The net assets section changed as follows:

Retained earnings, appraisal equity and contributed equity have been replaced by the following categories of net assets:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt attributable to the acquisition of those assets, i.e. short and

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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DECEMBER 31, 2004 AND 2003

long-term bonds, obligations under capital leases, etc.

Restricted – Consists of net assets constrained by external parties.

Unrestricted – Consists of assets and liabilities not included above.

c) Change in terminology of the statement of revenues, expenses and retained earnings to “*statement of revenues, expenses and changes in net assets*”. The main change in this statement is:

- Change from recording contributions from outside developers as contributed equity to a separate current year revenue item.

In November 1995, voters approved an amendment to the Charter of the City of Pueblo, Colorado that makes explicit the fact that the Board of Water Works of Pueblo, Colorado does not have directly, or indirectly, the right to levy taxes. Throughout its history, the Board never levied taxes, always operating from revenues raised from the sale of water to the citizens of Pueblo and to industries and farmers.

By removing the authority to levy taxes, the voters affirmed the enterprise status of the Board of Water Works of Pueblo, Colorado in relation to Amendment One, also known as the Taxpayer’s Bill of Rights (TABOR). Amendment One was never intended to apply to enterprise activities such as the Board of Water Works of Pueblo, Colorado but some confusion existed as to whether a governmental entity having the ability to levy a tax could also be considered an exempt entity under TABOR provisions. The Board’s status is now very clear following the citizens’ affirmative vote.

In evaluating how to define the Board of Water Works of Pueblo, Colorado, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

exercise oversight responsibilities. Based upon the application of these criteria, there are no “component unit entities” as defined in the Governmental Accounting Standards Board Statement 14 where the Board had to consider whether to include or exclude specific entities from the financial reporting entity. However, the Board is a member of a joint venture with the City of Aurora, Colorado in the Busk-Ivanhoe Water System.

The Busk-Ivanhoe Water System was created in 1971 when the Board of Water Works of Pueblo, Colorado and the City of Aurora, Colorado each bought approximately fifty percent of the water rights of the High Line Canal Company. The System was created as a joint venture between the two purchasers for the purpose of maintaining the water collection system and collecting and distributing the water pertaining to the water rights acquired by the two joint venturers.

Although no formal organization was established, the Board of Water Works of Pueblo, Colorado and the City of Aurora, Colorado have operated the System as a joint venture governed jointly by both parties with the day-to-day operating of the system handled by the Board of Water Works of Pueblo, Colorado. This joint venture is considered a separate entity and has not been included in the financial statements of either joint venturer. Complete financial statements for the Busk-Ivanhoe Water System can be obtained from the Board of Water Works of Pueblo, Colorado.

The accompanying summary of the Board of Water Works of Pueblo, Colorado’s more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

The Board of Water Works of Pueblo, Colorado is operated as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered, primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net revenue, financial position and cash flows is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods or services are financed from existing cash resources, the issuance of bonds, Federal or State grants, etc. The generally accepted accounting principles here are those applicable to similar businesses in the private sector and, therefore, assets and liabilities, and revenues and expenses are recognized on the accrual basis of accounting; thus, revenues are recognized when earned and expenses are recorded when incurred.

The Board of Water Works of Pueblo, Colorado applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
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The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Board of Water Works of Pueblo, Colorado annually adopts a budget for the following year. This process begins in early August when divisional budget requests are submitted to the Director of Administrative Services. These requests are reviewed by senior management, following which the Director of Administrative Services prepares a preliminary budget for the entire entity and submits it to the Executive Director for his review and input in relation to the anticipated revenues and the Board's ten year plan. In early October, the preliminary budget is submitted to the Board for its input, and it is also made available for public inspection at that time. The final budget, including all of the appropriate resolutions, is usually adopted at the Board's November meeting, and it is then submitted to the State of Colorado Department of Local Affairs. The actual results of operations are presented in accordance with generally accepted accounting principles which differ in certain respects from those practices used in the preparation of the budget. For purposes of preparing budget comparisons in this report, actual results of operations have been adjusted to a basis consistent with the budgeted revenues and expenditures.

Investments are recorded at cost. Adjustments, if applicable, are made to cost, for any premium or discount, which is amortized over the maturity of the investment. For purposes of the statement of cash flows, the Board of Water Works of Pueblo, Colorado considers all certificates of deposit, money market funds, repurchase agreements and United States Treasury bills, if any, to be cash equivalents.

Inventories are valued on the weighted average method.

In both 2004 and 2003, approximately 98% of the Board's services were provided to customers in the City of Pueblo, Colorado, including the Airport Industrial Park and adjacent areas of Pueblo, County. The majority of its customers are residential users; commercial customers make up the balance. The risk of loss on the accounts receivable is the balance due at the time of default.

The Board received approximately 10% and 11% of its operating revenues from one contract for non-potable water in 2004 and 2003, respectively.

The allowance for doubtful accounts is computed at one percent of customer receivables at year end.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
 NOTES TO FINANCIAL STATEMENTS
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Capital assets are stated at:

- (a) Appraisal value for assets in service prior to June 30, 1962.
- (b) Cost for assets placed in service since June 30, 1962.
- (c) Assets are capitalized within the dollar limit stated in the statutes of the State of Colorado.
- (d) Net interest costs incurred during periods of construction are capitalized as part of the cost of the asset.

Depreciation of capital assets is computed on the straight-line method based on estimated service lives of properties by classes. Estimated useful lives used in computing depreciation are as follows:

	Years
Structures and improvements, reservoirs, intakes and mains	50
Pumping equipment	40
Meters, valves, hydrants, taps water treating equipment and wells	25
Heavy equipment, office furniture and equipment, computer equipment, pump plant controller, cathodic protection for lines and tanks, miscellaneous department equipment	5-10
Transportation equipment	4

The difference between the cost of assets removed from service and the amount of accumulated depreciation at the time of removal is written off as loss on abandonment of assets.

The Board has established a retirement plan for the benefit of all eligible employees. The contribution to the plan is approximately the amount of the normal cost as determined by actuarial calculation and is recorded as an expense in the year paid. In addition, the Board has established two deferred compensation plans. See Note 2.

Unamortized debt expense is being amortized over the periods of the related bond issues.

The sewer use and storm water fees charged by the City of Pueblo, Colorado are billed and collected by the Board of Water Works of Pueblo, Colorado and remitted to the City on a monthly basis. The uncollected sewer and storm water fees charged to customers are carried as a receivable, and unremitted and uncollected sewer and storm water fees are carried as a liability on the statement of net assets.

Unbilled revenue, which results from cycle billing practices, is recorded in the following year.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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Deferred revenue, related to acquisition of water rights in 1990, 1995 and 2004, is being amortized over forty-year periods. See Note 7.

The Board of Water Works of Pueblo, Colorado and Local 1045 of the American Federation of State, County and Municipal Employees (AFL-CIO) adopted a working policy for the period of January 1, 2004 through December 31, 2004. Approximately 61% of the Board's employees are members of Local 1045.

The Board has obtained several Right-of-Way Agreements with the U.S. Forest Service to allow it to operate on Federal lands in connection with the operation and maintenance of its water collection system.

The Board is exposed to various risks of loss related to property and casualty losses. It is the policy of the Board of Water Works of Pueblo, Colorado to purchase commercial insurance, including worker's compensation, for the risks of loss to which it is exposed. Under this arrangement, the Board assumes the risk for the amount of loss where sound risk management principles and prior loss experience indicate a premium savings greater than exposures assumed.

Note 2 – Defined Benefit Pension Plan

Plan Description

The Board contributes to the Retirement Plan for Employees of the Board of Water Works of Pueblo, Colorado, a single-employer defined benefit retirement plan that is administered by AXA Equitable. The Plan provides retirement benefits to plan members and their beneficiaries. The Plan does not issue a separate financial report. Employee contributions are not required subsequent to January 1, 1975. Covered compensation is the amount of compensation paid to participating employees excluding overtime, bonuses and other extra compensation. The total amount of covered compensation for the year ended March 31, 2004, the latest year for which plan information is available, was \$ 6,110,768, and total compensation for the same period was \$ 6,915,646.

Effective April 1, 1993, each regular full-time employee is eligible to participate on the later of April 1, 1993 or the April 1st coincident with or following the completion of six months of regular full-time employment. A participant is eligible for a vested benefit, payable at age 65, after five years of credited service. The vested benefit is equal to the accrued benefit, considering service and compensation, at the time of termination. If the participant has at least fifteen years of credited service, payments may commence the first of any month following the participant's fifty-fifth birthday but are reduced for early retirement. If payments commence prior to age 65, the benefit is reduced by 5% for each year by which payments commence prior to normal retirement date. However, employees are able to retire without penalty, at or after age 55, when certain conditions are met. The number of years from date of hire combined with the employee's age must equal or exceed ninety years and advance notice in writing must be submitted six months prior to the projected retirement date. Board employees who retire at or after age 65 are entitled to

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

the normal retirement benefit for life which is equal to the sum of the accrued benefit as of April 1, 1999, plus 2.3% of the employee's monthly earnings effective as of the beginning of each plan year (April 1). The minimum benefit is \$ 100 per month after fifteen years of service. Retirees of record as of December 31st may receive a cost of living adjustment annually on April 1st if certain conditions are met.

A participant is eligible for a disability retirement benefit payable at age 65, after five years of credited service. The disability benefit is equal to the projected benefit at the normal retirement date, considering increases in future earnings based upon job classification and service to the normal retirement date.

The spouse of a participant who has completed five years of credited service, and dies while in active employment, or after having completed such service requirement but before the normal retirement date, is eligible to receive a benefit, payable for life, equal to fifty percent of the accrued benefit at date of death. If the spouse is more than five years younger than the participant, the benefit is reduced by 1½ % for each year in excess of five years to reflect the difference in age. Such benefit commences on the first day of the month coincident with or following the date the member would have attained age 55 or date of death if later. In lieu of the above monthly benefit, the spouse is entitled to a single sum amount, equal to the actuarial equivalent of the above monthly benefit, payable as soon as practicable following the member's death.

Participant Data

The number of plan participants is as follows:

Active members	124
Inactive members	
With deferred benefits	17
Retired members	33
Disabled members	1
Beneficiaries	<u>6</u>
Total	<u>181</u>

Funding Policy

The contribution requirements of the plan are made by the Board to an asset manager in amounts necessary to fund the plan as actuarially determined on a bi-annual basis. Due to the change in market conditions, the actuarial study has been temporarily changed to an annual basis.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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Annual Pension Cost

Annual contribution requirement due beginning of plan year	\$ 436,000
Contribution made	<u>436,000</u>
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
 Net pension obligation, end of year	 <u><u>\$ -</u></u>

An annual required contribution for the current year of \$ 504,025 was determined as part of the April 1, 2003 actuarial valuation using the aggregate actuarial cost method. Under this method, the normal cost is computed as a level percentage of pay which, if paid from the valuation date until each member's retirement or termination date, will, together with the assets of the plan, accumulate with interest at the rate assumed in the valuation to a fund sufficient to pay all benefits under the plan. No benefits are projected to be greater than the limitations currently imposed by Section 415 (b) (1) (A) of the Internal Revenue Code, in accordance with the requirements of Section 404 (j) of the Code.

The total contribution requirement for the year beginning April 1, 2003 of \$ 436,000 was made in accordance with actuarially determined requirements computed by using a less conservative alternative costing formula known as the entry age actuarial cost method. The actuarial assumptions included a 7.5% assumed rate of return. The contribution is approximately 6.3% of total compensation.

Trend Information

Year Ended March 31	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation*
2000	\$ 334,167	84.2%	\$ 52,899
2001	338,134	81.3%	116,015
2002	343,088	82.8%	175,162
2003	343,088	82.8%	234,309
2004	504,025	86.5%	302,334

*The Net Pension Obligation exists due to the offering of an early retirement option and use of the alternative costing formula. Since the early retirement option has had minimal acceptance, the benefit has not been fully funded. The actuarial report for April 1, 2004 will determine the contribution requirement for the plan year ending March 31, 2005.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
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Schedule of Funding Progress

Actuarial Valuation March 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1999	\$ 8,458,054	\$ 6,573,403	\$ (1,884,651)	128.7%	\$ 4,906,436	(38.4)%
2001	10,366,907	8,040,688	(2,326,219)	128.9%	5,460,288	(42.6)%
2003	11,204,108	10,332,036	(872,072)	108.4%	5,926,783	(14.7)%
2004	11,806,011	11,367,370	(438,641)	103.9%	6,110,768	(7.2)%

In addition, various individuals are included in a supplemental benefit funded through a separate trustee at the cost of \$ 32,275 for 2004 and 2003.

Note 3 – In addition to providing pension and deferred compensation benefits, the Board began providing certain health insurance benefits for retired employees effective September 18, 1990. Substantially all of the Board’s employees, who retire after this date and meet certain requirements, are eligible for the benefit. The individual must be retired, not terminated, be at least 60 years of age and have a minimum of fifteen years of service. The maximum monthly benefit is \$ 498, and the maximum benefit period is five years. The Board recognizes this benefit by expensing the payments. During 2004, eleven individuals took advantage of this benefit at a cost of \$ 31,219 to the Board.

Note 4 – Cash received by the Board of Water Works of Pueblo, Colorado is deposited in various banks or used to purchase investments.

Investments

Colorado statutes specify in which instruments the units of local government may invest. These allowable investments include:

Certificates of deposit

Obligations of the United States or obligations unconditionally guaranteed by the United States

Repurchase agreements

The Board of Water Works’ investments are categorized below to give an indication of the level of security assumed at year-end:

Category 1 – Investments that are insured or registered or for which the securities are held by the Board or its agent in the Board’s name.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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Category 2 – Uninsured and unregistered investments for which the securities are held by the broker’s or dealer’s trust department or agent in the Board’s name.

Category 3 – Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Board’s name.

	Category			Carrying Amount	Market Value
	1	2	3		
Pooled investment funds--					
Colo Trust	\$ 12,654,821	\$ -	\$ -	\$ 12,654,821	\$ 12,654,821
Certificates of deposit	<u>4,500,000</u>	<u>-</u>	<u>-</u>	<u>4,500,000</u>	<u>4,500,000</u>
	<u>\$ 17,154,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,154,821</u>	<u>\$ 17,154,821</u>

Deposits

The Colorado Public Deposit Protection Act requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by the State of Colorado. Amounts in excess of Federal insurance must be collateralized. The eligible collateral is determined by the Public Deposit Protection Act. This act 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 uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

At December 31, 2004 and 2003, the Board’s cash deposits had a bank and corresponding carrying balance of \$ 18,028,597 and \$ 15,780,198, respectively, as summarized below. All the deposits are stated at cost with accrued interest shown under a separate caption on the balance sheet.

	2004	2003
Working funds	\$ 4,400	\$ 4,400
Insured FDIC	601,910	400,000
Uninsured		
Collateral securities held by financial institution's trust department or agent	<u>17,422,287</u>	<u>15,375,798</u>
Total deposits	<u>\$ 18,028,597</u>	<u>\$ 15,780,198</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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	2004	2003
Total deposits represented by		
Cash on hand and in banks	\$ 873,566	\$ 17,476
Restricted cash in bank	210	135
Certificates of deposit	4,500,000	1,556,439
Money market funds	11,513,746	13,078,966
Restricted money market funds	1,141,075	1,127,182
Total deposits	\$ 18,028,597	\$ 15,780,198

Note 5 – Certain assets are classified as restricted assets for construction funded through the terms of the long-term debt. Liabilities that are to be paid out of assets restricted for construction funded through long-term debt include the following:

	2004	2003
Accrued interest on construction related long-term debt	\$ 574,523	\$ 644,656

Note 6 – Long-term debt consists of the following:

Water System Improvement Revenue Bonds, Series 2000A for \$ 38,885,000 dated January 1, 2000, were issued to improve and expand the water treatment plant for the system. Interest and principal payments are due semi-annually on May 1 and November 1 through 2021. Interest rates range from 5.0% to 6.0%.

Loan agreement with Colorado Water Resources and Power Development Authority for \$ 9,558,795 dated April 15, 2000. Interest at 4.60% and principal payments are due semi-annually on February 1 and August 1, through 2022. The loan agreement contains various restrictive covenants and requirements, including a rate covenant, maintenance of a three month operating reserve, debt service requirements and compliance with an additional bond and /or indebtedness test. At December 31, 2004, the Board was in compliance with these covenants and requirements of the loan agreement.

Repayment contract with the United States Department of the Interior, Bureau of Reclamation for \$ 2,927,094 for delivery of municipal and industrial water through and repayment for the South Outlet Works of the Pueblo Dam. Interest at 3.046% and principal payments are due annually July 1 through 2024.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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In connection with the issuance for various debt obligations the Board incurred debt issuance costs in the amount of \$ 1,220,223. The costs are being amortized over the life of the debt obligations. The remaining unamortized expense at December 31, 2004 and 2003 is \$ 181,602 and \$ 192,176, respectively.

The total amount of general obligation and water revenue bonds, loans and other long-term debt at December 31, 2004 is \$ 48,045,553. See pages forty-five and forty-six.

Changes in long-term debt during 2004 are summarized as follows:

	<u>Balance</u> January 1, 2004	<u>Additions</u> (Retired)	<u>Balance</u> December 31, 2004
2000A Water System			
Improvement Revenue Bonds	\$ 37,665,000	\$ (1,285,000)	\$ 36,380,000
Colorado Water Resources and Power Development Authority	9,366,012	(203,493)	9,162,519
United States Department of the Interior	<u>2,593,010</u>	<u>(89,976)</u>	<u>2,503,034</u>
Total	<u>\$ 49,624,022</u>	<u>\$ (1,578,469)</u>	<u>\$ 48,045,553</u>

Aggregate long-term debt maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,640,854	\$ 2,620,918	\$ 4,261,772
2006	1,756,874	2,512,022	4,268,896
2007	1,835,139	2,430,640	4,265,779
2008	1,918,493	2,343,957	4,262,450
Thereafter	<u>40,894,193</u>	<u>19,213,557</u>	<u>60,107,750</u>
Total	<u>\$ 48,045,553</u>	<u>\$ 29,121,094</u>	<u>\$ 77,166,647</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
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Interest costs are capitalized on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Interest costs have been capitalized in 2003 as follows:

	Total Interest Costs Incurred	Capitalized Interest	Interest Costs Expensed
Water System Improvement Revenue Bonds-Series 2000A	\$ 2,210,601	\$ 2,062,455	\$ 148,146
Colorado Water Resources and Power Development	459,427	-	459,427
United States Department of the Interior, Bureau of Reclamation	80,313	-	80,313
Total	\$ 2,750,341	\$ 2,062,455	\$ 687,886

Note 7 – In 1990 and 1995, the Board acquired water rights from the State of Colorado and the City of Pueblo, Colorado, respectively, in exchange for supplying a certain amount of water each future year. In 1992 and 2004, the Board acquired water rights from individuals in exchange for supplying a certain amount of water each future year. The value of these water rights was determined based upon the fair market value of the rights acquired. The deferred income from these acquisitions is being amortized over forty-year periods.

Note 8 – Effective July 1, 1984, all full-time employees accumulate paid sick leave at the rate of twelve hours per month. All employees who, at that date, had accumulated in excess of 720 hours were, at their option, paid for the excess hours. Any employee who did not select the optional payoff at July 1, 1984 can do so at a later date. As of January 1, 1996, new employees accumulate paid sick leave at the rate of eight hours per month. At termination, employees are paid for any accumulated sick pay. The liability for accumulated sick pay at December 31, 2004 and 2003 is \$ 1,694,219 and \$ 1,750,998.

Employees are entitled to vacation with pay for the twelve-month period following their date of hire (anniversary date) according to the following scale:

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

Years of Service	Hours
1 to 5	96
6 to 10	120
11 to 15	144
15 and over	168

Each employee may carry over a maximum of 80 hours of vacation time from any previous anniversary year to the following anniversary year. At the employee’s request, a payoff for a maximum of 56 hours of accumulated vacation leave can be made during the anniversary year. The vacation hours are valued at the employee’s regular straight rate of pay in effect at the time. In addition, each employee receives eight hours of personal holiday each anniversary year which is not available for carryover. The liability for accumulated vacation pay at December 31, 2004 and 2003 is \$ 529,132 and \$ 528,279.

Note 9 – Accounts payable are comprised of outstanding bills for expenses, materials and capital assets related to the budget for the years ended December 31, 2004 and 2003. Included in outstanding bills at December 31, 2004 is \$ 1,291,576 owed to the City of Pueblo, Colorado for collection of the City’s sewer and storm water fees. Included in outstanding bills at December 31, 2003 is \$377,126 owed to the City of Pueblo, Colorado for collection of the City’s sewer fee.

Note 10 – The Board of Water Works of Pueblo, Colorado offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans permit employees to defer a portion of their salary to future years. Participation in the plan is optional. The Board matches employee contributions up to 3% of compensation. The deferred compensation is not available to the employees until termination, retirement, death or qualifying emergency.

Data concerning the Board’s deferred compensation plans follows:

Balance, December 31, 2003	\$ 7,703,908
2004 contributions	505,972
Earnings, withdrawals and market value adjustment	686,120
Balance, December 31, 2004	\$ 8,896,000

BOARD OF WATER WORKS OF PUEBLO, COLORADO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

The Board has no liability for losses under the plans but does have the duty of due care that would be required of an ordinary prudent investor.

Investments are managed by the plan’s trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

Note 11 – Because accounting principles applied for the purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation for the year ended December 31, 2004, is presented as follows:

Excess (deficiency) of revenues over expenses and expenditures as presented in the schedule of revenues, expenses and expenditures as compared with budget	\$ 1,535,098
Adjustments	
Capital expenditures	1,716,259
Long-term debt payments	1,578,469
Contributions to capital assets from developers	263,680
Depreciation	(3,826,282)
Loss on abandonment of assets	(18,172)
Increase in net assets	\$ 1,249,052

Note 12 – At December 31, 2004, the Board had no commitments for future construction projects.

Note 13 – It is not practicable to estimate the fair value of the Board’s outstanding bonded indebtedness. Information pertinent to these bond issues is shown on pages forty-five and forty-six.

Note 14 – In 2004, the Board reclassified various expenses from plant-at-large to other departments. The 2003 departmental expenses have not been reclassified. Accordingly, only total operating expenses are comparable.

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF REVENUES, EXPENSES AND EXPENDITURES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Budget
	Original	Final	Actual	Budget
OPERATING REVENUES	\$ 20,637,250	\$ 20,637,250	\$ 21,886,820	\$ 1,249,570
NONOPERATING REVENUES				
Interest income	205,000	205,000	242,001	37,001
Sale of assets	100	100	-	(100)
Contribution from prior years	1,831,619	1,831,619	-	(1,831,619)
Total revenue	22,673,969	22,673,969	22,128,821	(545,148)
EXPENSES AND EXPENDITURES				
Personnel services				
Administration	666,950	666,950	626,993	(39,957)
Administrative services	1,616,000	1,616,000	1,600,719	(15,281)
Treating, pumping and laboratory	2,611,900	2,611,900	2,371,073	(240,827)
Transmission, distribution and engineering	4,052,400	4,052,400	3,701,236	(351,164)
Water resources	359,800	359,800	339,834	(19,966)
Plant-at-large	793,350	793,350	799,039	5,689
Total	10,100,400	10,100,400	9,438,894	(661,506)
Operation and maintenance				
Administration	169,275	169,275	158,005	(11,270)
Administrative services	545,225	545,225	538,941	(6,284)
Treating, pumping and laboratory	2,500,300	2,500,300	2,673,510	173,210
Transmission, distribution and engineering	465,100	465,100	465,835	735
Water resources	874,050	874,050	728,292	(145,758)
Plant-at-large	1,037,225	739,112	669,993	(69,119)
Water Development Fund	110,900	110,900	-	(110,900)
Total	5,702,075	5,403,962	5,234,576	(169,386)
Capital expenditures				
Administration	12,300	22,300	13,549	(8,751)
Administrative services	196,200	196,200	174,414	(21,786)
Treating, pumping and laboratory	1,330,400	1,618,513	1,209,366	(409,147)
Transmission, distribution and engineering	971,000	971,000	816,585	(154,415)
Water resources	88,600	88,600	18,872	(69,728)
Total	2,598,500	2,896,613	2,232,786	(663,827)

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF REVENUES, EXPENSES AND EXPENDITURES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Debt retirement				
Interest on bonds and notes payable	2,694,525	2,694,525	2,625,525	(69,000)
Long-term debt payments on bonds and notes	<u>1,578,469</u>	<u>1,578,469</u>	<u>1,578,469</u>	<u>-</u>
Total	<u>4,272,994</u>	<u>4,272,994</u>	<u>4,203,994</u>	<u>(69,000)</u>
Total expenses and expenditures	<u>22,673,969</u>	<u>22,673,969</u>	<u>21,110,250</u>	<u>(1,563,719)</u>
EXCESS OF REVENUES OVER EXPENSES AND EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,018,571</u>	<u>\$ 1,018,571</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING REVENUES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING REVENUES				
Water sales to general customers (net of allowances)	\$ 15,225,150	\$ 15,225,150	\$ 14,866,987	\$ (358,163)
Water sales to Comanche Plant	2,419,000	2,419,000	2,260,518	(158,482)
Untreated water sales	260,000	260,000	1,319,933	1,059,933
Water sales to City of Aurora, Colorado	946,050	946,050	1,001,330	55,280
Taps and meters	87,000	87,000	112,955	25,955
Material sales (net)	111,500	111,500	118,056	6,556
Main assessments	30,000	30,000	4,227	(25,773)
Fire protection--public	4,000	4,000	4,241	241
Discounts	1,000	1,000	935	(65)
Rental income	12,500	12,500	15,649	3,149
Late field reading fee	8,100	8,100	10,800	2,700
Turn-on fees	46,000	46,000	46,550	550
Check processing	7,200	7,200	7,245	45
Field collection	1,500	1,500	1,260	(240)
Interest earned on service accounts	3,500	3,500	3,632	132
Miscellaneous	5,000	5,000	7,005	2,005
Plant water investment fee	1,000,000	1,000,000	1,517,875	517,875
Insurance recovery	1,000	1,000	32,302	31,302
Comanche operations and maintenance reimbursement	4,800	4,800	97,892	93,092
Busk-Ivanhoe administration fee	20,000	20,000	20,000	-
Sewer billing cost reimbursement	283,950	283,950	277,428	(6,522)
Storm water billing cost reimbursement	160,000	160,000	160,000	-
Total operating revenues	<u>\$ 20,637,250</u>	<u>\$ 20,637,250</u>	<u>\$ 21,886,820</u>	<u>\$ 1,249,570</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING EXPENSES				
Administration division				
Personnel services				
Managerial	\$ 318,500	\$ 318,500	\$ 273,031	\$ (45,469)
Supervision and specialists	159,600	159,600	142,694	(16,906)
Part-time	10,350	10,350	6,978	(3,372)
Social Security	34,100	34,100	33,612	(488)
Deferred compensation	23,900	23,900	23,633	(267)
Health insurance	40,200	40,200	40,347	147
Dental insurance	3,500	3,500	3,519	19
Disability insurance	3,500	3,500	3,408	(92)
Life insurance	6,200	6,200	6,108	(92)
Sick pay	31,400	31,400	55,471	24,071
Vacation pay	35,700	35,700	38,186	2,486
Employee assistance program	-	-	6	6
Total	<u>666,950</u>	<u>666,950</u>	<u>626,993</u>	<u>(39,957)</u>
Operation and maintenance				
Outside services	73,600	73,600	70,851	(2,749)
Consulting services	25,000	25,000	15,000	(10,000)
Office supplies	5,300	5,300	7,067	1,767
Maintenance	2,750	2,750	1,912	(838)
In-service training	27,900	27,900	30,458	2,558
Subscriptions and membership dues	34,725	34,725	32,717	(2,008)
Total	<u>169,275</u>	<u>169,275</u>	<u>158,005</u>	<u>(11,270)</u>
Total division	<u>\$ 836,225</u>	<u>\$ 836,225</u>	<u>\$ 784,998</u>	<u>\$ (51,227)</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING EXPENSES--CONTINUED				
Administrative services division				
Personnel services				
Managerial	\$ 162,300	\$ 162,300	\$ 147,688	\$ (14,612)
Supervision and specialists	436,300	436,300	448,341	12,041
Skills and trades	543,600	543,600	477,711	(65,889)
Part-time	13,500	13,500	9,529	(3,971)
Overtime	11,200	11,200	9,582	(1,618)
Social Security	89,600	89,600	92,154	2,554
Deferred compensation	37,000	37,000	38,213	1,213
Health insurance	145,600	145,600	166,129	20,529
Dental insurance	14,500	14,500	15,797	1,297
Disability insurance	8,300	8,300	8,555	255
Life insurance	15,100	15,100	15,461	361
Sick pay	66,700	66,700	88,822	22,122
Vacation pay	72,300	72,300	82,714	10,414
Employee assistance program	-	-	23	23
Total	<u>1,616,000</u>	<u>1,616,000</u>	<u>1,600,719</u>	<u>(15,281)</u>
Operation and maintenance				
Outside services	83,425	83,425	95,981	12,556
Employment cost	-	-	19,668	19,668
Utilities	39,650	39,650	39,696	46
Office supplies	81,325	81,325	62,775	(18,550)
Maintenance	136,675	136,675	119,285	(17,390)
Equipment lease/rental	1,000	1,000	730	(270)
Advertising	1,500	1,500	1,297	(203)
Interest on meter deposits	7,500	7,500	2,669	(4,831)
Collection expense	2,000	2,000	53	(1,947)
Cash (over) short	100	100	(9)	(109)
In-service training	24,050	24,050	28,932	4,882
Subscriptions and membership dues	4,500	4,500	2,825	(1,675)
Janitor supplies	1,500	1,500	2,016	516
Safety	2,000	2,000	8,012	6,012
Postage	160,000	160,000	155,011	(4,989)
Total	<u>545,225</u>	<u>545,225</u>	<u>538,941</u>	<u>(6,284)</u>
Total division	<u>\$ 2,161,225</u>	<u>\$ 2,161,225</u>	<u>\$ 2,139,660</u>	<u>\$ (21,565)</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

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	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING EXPENSES--CONTINUED				
Treating, pumping and laboratory division				
Personnel services				
Managerial	\$ 240,000	\$ 240,000	\$ 215,522	\$ (24,478)
Supervision and specialists	338,700	338,700	290,837	(47,863)
Skills and trades	1,185,700	1,185,700	1,010,668	(175,032)
Part-time	2,200	2,200	-	(2,200)
Temporary	24,900	24,900	21,771	(3,129)
Overtime	113,200	113,200	114,666	1,466
Social Security	145,500	145,500	145,640	140
Deferred compensation	55,100	55,100	53,409	(1,691)
Health insurance	224,400	224,400	212,856	(11,544)
Dental insurance	20,300	20,300	19,706	(594)
Disability insurance	12,500	12,500	11,504	(996)
Life insurance	22,800	22,800	20,402	(2,398)
Sick pay	106,200	106,200	126,215	20,015
Vacation pay	120,400	120,400	127,848	7,448
Employee assistance program	-	-	29	29
Total	<u>2,611,900</u>	<u>2,611,900</u>	<u>2,371,073</u>	<u>(240,827)</u>
Operation and maintenance				
Outside services	295,000	295,000	342,636	47,636
Utilities	1,367,100	1,367,100	1,325,973	(41,127)
Office supplies	6,500	6,500	7,517	1,017
Maintenance	343,850	343,850	564,694	220,844
Advertising	900	900	-	(900)
In-service training	10,950	10,950	11,715	765
Subscriptions and membership dues	1,300	1,300	218	(1,082)
Tool replacement	5,400	5,400	6,022	622
Chemicals	401,800	401,800	353,391	(48,409)
Laboratory	52,000	52,000	46,134	(5,866)
Janitor supplies	5,000	5,000	3,799	(1,201)
Safety	3,500	3,500	4,341	841
Engineering consulting	7,000	7,000	7,070	70
Total	<u>2,500,300</u>	<u>2,500,300</u>	<u>2,673,510</u>	<u>173,210</u>
Total division	<u>\$ 5,112,200</u>	<u>\$ 5,112,200</u>	<u>\$ 5,044,583</u>	<u>\$ (67,617)</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING EXPENSES--CONTINUED				
Transmission, distribution and engineering division				
Personnel services				
Managerial	\$ 241,300	\$ 241,300	\$ 206,767	\$ (34,533)
Supervision and specialists	297,100	297,100	222,445	(74,655)
Skills and trades	2,214,800	2,214,800	1,910,575	(304,225)
Part-time	21,900	21,900	19,817	(2,083)
Temporary	44,300	44,300	41,878	(2,422)
Overtime	95,000	95,000	123,122	28,122
Social Security	219,600	219,600	221,381	1,781
Deferred compensation	86,200	86,200	82,129	(4,071)
Health insurance	379,700	379,700	346,765	(32,935)
Dental insurance	32,900	32,900	30,894	(2,006)
Disability insurance	19,600	19,600	18,539	(1,061)
Life insurance	35,700	35,700	33,555	(2,145)
Sick pay	170,200	170,200	248,573	78,373
Vacation pay	194,100	194,100	194,746	646
Employee assistance program	-	-	50	50
Total	<u>4,052,400</u>	<u>4,052,400</u>	<u>3,701,236</u>	<u>(351,164)</u>
Operation and maintenance				
Outside services	13,900	13,900	4,098	(9,802)
Office supplies	12,650	12,650	11,852	(798)
Utilities	44,000	44,000	37,530	(6,470)
Maintenance	53,200	53,200	42,840	(10,360)
Advertising	1,800	1,800	-	(1,800)
In-service training	13,100	13,100	13,219	119
Subscriptions and membership dues	4,600	4,600	5,039	439
Tool replacement	10,950	10,950	8,537	(2,413)
Equipment repair	6,000	6,000	7,889	1,889
Barricades	2,200	2,200	1,005	(1,195)
Mains maintenance	91,000	91,000	86,998	(4,002)
Meter maintenance	3,000	3,000	11,896	8,896
Hydrant maintenance	7,000	7,000	6,500	(500)
Valve maintenance	13,000	13,000	8,795	(4,205)
Meter shop supplies	8,000	8,000	12,145	4,145

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING EXPENSES--CONTINUED				
Operation and maintenance-continued				
Gasoline and oil	66,000	66,000	82,343	16,343
Janitor supplies	2,000	2,000	1,688	(312)
Auto and truck	100,600	100,600	112,828	12,228
Safety	3,000	3,000	2,958	(42)
Cathodic protection maintenance	500	500	76	(424)
Engineering consulting	2,000	2,000	54	(1,946)
Uninsured small claims	3,000	3,000	146	(2,854)
Service lines	3,000	3,000	7,309	4,309
Freight	600	600	90	(510)
Total	<u>465,100</u>	<u>465,100</u>	<u>465,835</u>	<u>735</u>
Total division	<u>\$ 4,517,500</u>	<u>\$ 4,517,500</u>	<u>\$ 4,167,071</u>	<u>\$ (350,429)</u>
Water resources division				
Personnel services				
Managerial	\$ 83,100	\$ 83,100	\$ 71,163	\$ (11,937)
Supervision and specialists	169,600	169,600	153,257	(16,343)
Social Security	21,600	21,600	20,101	(1,499)
Deferred compensation	11,200	11,200	11,155	(45)
Health insurance	29,200	29,200	29,239	39
Dental insurance	2,500	2,500	2,502	2
Disability insurance	1,800	1,800	1,828	28
Life insurance	3,300	3,300	3,291	(9)
Sick pay	17,300	17,300	24,261	6,961
Vacation pay	20,200	20,200	23,034	2,834
Employee assistance program	-	-	3	3
Total	<u>359,800</u>	<u>359,800</u>	<u>339,834</u>	<u>(19,966)</u>
Operation and maintenance				
Outside services	61,250	61,250	35,758	(25,492)
Office supplies	2,600	2,600	2,521	(79)
Maintenance	2,050	2,050	3,320	(1,270)
In-service training	28,300	28,300	28,366	66
Subscriptions and membership dues	27,800	27,800	18,571	(9,229)
Tool replacement	1,100	1,100	1,290	190
Clear Creek Reservoir maintenance	7,500	7,500	2,888	(4,612)

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

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	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
OPERATING EXPENSES--CONTINUED				
Operation and maintenance-continued				
Wurtz Ditch maintenance	1,500	1,500	1,169	(331)
Wurtz Extension maintenance	1,500	1,500	1,010	(490)
Ewing Ditch maintenance	1,500	1,500	1,018	(482)
Columbine Ditch maintenance	2,000	2,000	1,817	(183)
Snowplowing operations	28,000	28,000	23,877	(4,123)
Annual transmountain maintenance	50,000	50,000	32,620	(17,380)
Ranch irrigation maintenance	1,500	1,500	839	(661)
Gas and oil	5,000	5,000	5,422	422
Dwelling maintenance	2,700	2,700	896	(1,804)
Leadville utilities	3,450	3,450	1,633	(1,817)
Clear Creek utilities	2,250	2,250	2,504	254
Comanche return flow maintenance	200	200	151	(49)
Homestake (Aurora) maintenance	7,500	7,500	7,500	-
Twin Lakes water rights maintenance	206,600	206,600	206,591	(9)
Busk-Ivanhoe water rights maintenance	200,000	200,000	200,000	-
Water storage and transportation	105,750	105,750	95,207	(10,543)
Water purchase	64,000	64,000	11,700	(52,300)
Consulting services	60,000	60,000	41,624	(18,376)
Total	<u>874,050</u>	<u>874,050</u>	<u>728,292</u>	<u>(148,298)</u>
Total division	<u>\$ 1,233,850</u>	<u>\$ 1,233,850</u>	<u>\$ 1,068,126</u>	<u>\$ (168,264)</u>
Plant-at-large division				
Personnel services				
Retirees	\$ -	\$ -	\$ 11,154	\$ 11,154
Pension and deferred compensation	526,350	526,350	536,332	9,982
Health insurance	60,500	60,500	64,081	3,581
Dental insurance	10,000	10,000	1,543	(8,457)
Life insurance	18,000	18,000	20,231	2,231
Disability insurance	5,000	5,000	1,007	(3,993)
Social Security	20,000	20,000	12,861	(7,139)
Worker's compensation	135,000	135,000	109,322	(25,678)
Sick pay	8,000	8,000	27,008	19,008
Vacation pay	10,000	10,000	13,489	3,489
Employee assistance program	-	-	1	1
Unemployment compensation	500	500	2,010	1,510
Total	<u>793,350</u>	<u>793,350</u>	<u>799,039</u>	<u>5,689</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF OPERATING EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Budget
	Original	Final		Budget
OPERATING EXPENSES--CONTINUED				
Operation and maintenance				
Outside services	250,675	250,675	306,933	56,258
Maintenance	28,800	28,800	28,658	(142)
Subscriptions and memberships	4,450	4,450	4,188	(262)
Communications	1,500	1,500	6,505	5,005
Postage	2,000	2,000	2,585	585
Equipment lease/rental	-	-	1,285	1,285
Utilities	126,800	126,800	89,033	(37,767)
Insurance--property	223,000	223,000	202,760	(20,240)
Interest on meter deposits	-	-	3	3
Collection expense	-	-	101	101
Amortization of bond issue expense	-	-	10,574	10,574
Bad debts	-	-	17,368	17,368
Contingency	400,000	101,887	-	(101,887)
Total	1,037,225	739,112	669,993	(69,119)
Total division	\$ 1,830,575	\$ 1,532,462	\$ 1,469,032	\$ (63,430)
Water Development Fund				
Operation and maintenance				
Consulting	\$ 110,900	\$ 110,900	\$ -	\$ (110,900)

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF NONOPERATING REVENUES AND EXPENSES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
NONOPERATING REVENUES				
Interest income	\$ 205,000	\$ 205,000	\$ 242,001	\$ 37,001
Sale of assets	100	100	-	(100)
	<u>205,100</u>	<u>205,100</u>	<u>242,001</u>	<u>36,901</u>
NONOPERATING EXPENSES				
Interest expense				
Bonded indebtedness	2,615,542	2,615,542	2,547,913	(67,629)
Note payable--municipal outlet	78,983	78,983	77,612	(1,371)
	<u>2,694,525</u>	<u>2,694,525</u>	<u>2,625,525</u>	<u>(69,000)</u>
Total nonoperating revenues and expenses	<u>\$ (2,489,425)</u>	<u>\$ (2,489,425)</u>	<u>\$ (2,383,524)</u>	<u>\$ 105,901</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF CAPITAL EXPENDITURES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

Page One

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Budget
ADMINISTRATION				
Office furniture	\$ -	\$ 10,000	\$ 9,980	\$ (20)
Office equipment	9,300	9,300	603	(8,697)
Computer equipment	3,000	3,000	2,966	(34)
Total administration	<u>12,300</u>	<u>22,300</u>	<u>13,549</u>	<u>(8,751)</u>
ADMINISTRATIVE SERVICES				
Buildings and improvements	161,400	161,400	138,063	(23,337)
Office equipment	-	-	3,229	3,229
Computer equipment	22,500	22,500	23,695	1,195
Communication equipment	3,600	3,600	2,453	(1,147)
Tools	8,700	8,700	-	(8,700)
Heavy equipment	-	-	6,974	6,974
Total administrative services	<u>196,200</u>	<u>196,200</u>	<u>174,414</u>	<u>(21,786)</u>
TREATING, PUMPING AND LABORATORY				
Arbitrage rebate	-	288,113	288,113	-
Buildings and improvements	34,950	34,950	89,247	54,297
Office furniture	3,900	3,900	4,810	910
Computer equipment	2,000	2,000	11,656	9,656
Communication equipment	16,450	16,450	13,060	(3,390)
Laboratory equipment	38,000	38,000	17,487	(20,513)
Treating equipment	446,000	446,000	352,256	(93,744)
Heavy equipment	72,400	72,400	79,446	7,046
Pumping equipment	716,700	716,700	353,291	(363,409)
Total treating, pumping and laboratory	<u>1,330,400</u>	<u>1,618,513</u>	<u>1,209,366</u>	<u>(409,147)</u>
TRANSMISSION, DISTRIBUTION AND ENGINEERING				
Office furniture	1,500	1,500	984	(516)
Office equipment	900	900	707	(193)
Computer equipment	6,500	6,500	6,582	82
Heavy equipment	59,800	59,800	45,692	(14,108)
Buildings and improvements	9,500	9,500	23,411	13,911
Cathodic protection improvement	15,000	15,000	3,319	(11,681)
Meter reading equipment	5,900	5,900	3,210	(2,690)
Transportation equipment	222,500	222,500	166,863	(55,637)
Mains improvement	69,000	69,000	25,230	(43,770)
Valves improvement	9,000	9,000	3,333	(5,667)
Meters improvement	190,000	190,000	83,949	(106,051)
Fire hydrants improvement	10,000	10,000	21,990	11,990
Taps improvement	4,000	4,000	330	(3,670)
Mains expansion	213,000	213,000	314,068	101,068

BOARD OF WATER WORKS OF PUEBLO, COLORADO
STATEMENT OF CAPITAL EXPENDITURES
AS COMPARED WITH BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2004

Page Two

	Budgeted Amounts		Actual	Actual Over (Under) Budget
	Original	Final		
TRANSMISSION, DISTRIBUTION AND ENGINEERING--CONTINUED				
Valves expansion	4,000	4,000	2,982	(1,018)
Meters expansion	120,000	120,000	100,626	(19,374)
Fire hydrants expansion	8,000	8,000	2,715	(5,285)
Taps expansion	22,400	22,400	10,594	(11,806)
Total transmission, distribution and engineering	<u>971,000</u>	<u>971,000</u>	<u>816,585</u>	<u>(154,415)</u>
WATER RESOURCES				
Building and improvements	67,100	67,100	482	(66,618)
Computer equipment	2,000	2,000	1,234	(766)
Communication equipment	4,500	4,500	3,817	(683)
Other improvements	5,000	5,000	4,220	(780)
Clear Creek	4,500	4,500	-	(4,500)
Heavy equipment	5,500	5,500	5,950	450
Water rights	-	-	3,169	3,169
Total water resources	<u>88,600</u>	<u>88,600</u>	<u>18,872</u>	<u>(69,728)</u>
 Total capital expenditures	 <u>\$ 2,598,500</u>	 <u>\$ 2,896,613</u>	 <u>\$ 2,232,786</u>	 <u>\$ (663,827)</u>

SUPPLEMENTARY INFORMATION

BOARD OF WATER WORKS OF PUEBLO, COLORADO
SCHEDULE OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Schedule One

	Capital Assets				Accumulated Depreciation			
	Balance	Retirements			Balance	Retirements		
	January 1, 2004	And Deletions	Additions	Balance December 31, 2004	January 1, 2004	And Deletions	Additions	Balance December 31, 2004
LAND								
Land and land rights--mountain reservoir	\$ 42,149	\$ -	\$ -	\$ 42,149	\$ -	\$ -	\$ -	\$ -
Leadville property	1,092,740	-	-	1,092,740	-	-	-	-
Land	1,172,230	-	-	1,172,230	-	-	-	-
Total land	<u>2,307,119</u>	<u>-</u>	<u>-</u>	<u>2,307,119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
INFRASTRUCTURE								
Collection and impounding reservoir	5,198,467	-	-	5,198,467	2,843,994	-	103,969	2,947,963
River intakes	908,070	-	-	908,070	474,543	-	17,964	492,507
Wells	19,996	-	-	19,996	19,996	-	-	19,996
Distribution reservoirs and tanks	7,988,025	-	-	7,988,025	3,395,831	-	157,925	3,553,756
Transmission and distribution mains	72,627,643	5,221	606,298	73,228,720	21,044,515	3,389	1,397,713	22,438,839
Valves	391,273	130	6,315	397,458	224,614	130	15,206	239,690
Meters	8,153,989	-	184,575	8,338,564	5,518,233	-	193,663	5,711,896
Fire hydrants	2,354,796	-	24,705	2,379,501	1,797,914	-	53,301	1,851,215
Taps	676,564	-	10,924	687,488	478,836	-	13,204	492,040
Total infrastructure	<u>98,318,823</u>	<u>5,351</u>	<u>832,817</u>	<u>99,146,289</u>	<u>35,798,476</u>	<u>3,519</u>	<u>1,952,945</u>	<u>37,747,902</u>
BUILDINGS								
Buildings and improvements	<u>69,625,168</u>	<u>-</u>	<u>524,580</u>	<u>70,149,748</u>	<u>13,261,355</u>	<u>-</u>	<u>1,397,749</u>	<u>14,659,104</u>
MACHINERY AND EQUIPMENT								
Artwork	36,281	-	-	36,281	-	-	-	-
Office furniture	499,058	2,897	16,481	512,642	433,006	2,897	13,254	443,363
Office equipment	312,479	4,964	2,690	310,205	215,362	4,964	21,640	232,038
Computer equipment	1,440,567	22,116	47,577	1,466,028	679,236	17,388	123,313	785,161
Transportation equipment	1,367,129	90,443	145,949	1,422,635	1,198,163	90,442	103,682	1,211,403
Meter repair equipment	19,789	1,134	-	18,655	19,789	1,134	-	18,655
Communications equipment	116,628	-	17,885	134,513	106,228	-	3,832	110,060
Heavy equipment	1,102,167	30,610	162,952	1,234,509	897,087	30,548	53,098	919,637
Pumping equipment	3,590,603	-	103,415	3,694,018	1,444,104	-	91,058	1,535,162
Treating equipment	782,587	120,312	103,794	766,069	531,941	110,333	25,552	447,160
Laboratory equipment	646,057	88,389	17,487	575,155	395,872	86,819	34,061	343,114
Photographic equipment	61,093	-	1,143	62,236	4,528	-	6,011	10,539
Water resources maintenance equipment	51,000	1,719	-	49,281	51,000	1,719	-	49,281
Base maps	29,668	-	-	29,668	29,243	-	87	29,330
Pumping computer	240,796	-	-	240,796	240,796	-	-	240,796
Total machinery and equipment	<u>10,295,902</u>	<u>362,584</u>	<u>619,373</u>	<u>10,552,691</u>	<u>6,246,355</u>	<u>346,244</u>	<u>475,588</u>	<u>6,375,699</u>
WATER RIGHTS								
	<u>40,374,067</u>	<u>-</u>	<u>18,919</u>	<u>40,392,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONSTRUCTION IN PROGRESS								
	<u>-</u>	<u>-</u>	<u>516,527</u>	<u>516,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets	<u>\$ 220,921,079</u>	<u>\$ 367,935</u>	<u>\$ 2,512,216</u>	<u>\$ 223,065,360</u>	<u>\$ 55,306,186</u>	<u>\$ 349,763</u>	<u>\$ 3,826,282</u>	<u>\$ 58,782,705</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
 SCHEDULE OF BONDS AND LOANS OUTSTANDING
 DECEMBER 31, 2004

Schedule Two

<u>Designation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Original Amount Issued</u>	<u>Amount Retired To Date</u>	<u>Amount Outstanding December 31, 2004</u>	<u>Final Maturity Year Ending December 31</u>
BONDS						
Water System Improvement Revenue Bonds, Series 2000A	January 1, 2000	5.00 - 6.00%	\$ 38,885,000	\$ 2,505,000	\$ 36,380,000	2021
LOANS						
Colorado Water Resources and Power Development Authority	April 15, 2000	4.6%	9,558,795	396,276	9,162,519	2022
United States Department of the Interior, Bureau of Reclamation	July 11, 2000	3.046%	<u>2,927,094</u>	<u>424,060</u>	<u>2,503,034</u>	2024
			<u>\$ 51,370,889</u>	<u>\$ 3,325,336</u>	<u>\$ 48,045,553</u>	

BOARD OF WATER WORKS OF PUEBLO, COLORADO
SCHEDULE OF FUTURE DEBT SERVICE REQUIREMENTS
DECEMBER 31, 2004

Schedule Three

<u>Year Ending December 31,</u>	<u>Water Revenue Bonds</u>		<u>Notes Payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005	\$ 1,350,000	\$ 2,095,517	\$ 290,854	\$ 525,401	\$ 4,261,772
2006	1,415,000	2,028,017	341,874	484,005	4,268,896
2007	1,485,000	1,957,268	350,139	473,372	4,265,779
2008	1,560,000	1,881,532	358,493	462,425	4,262,450
2009	1,645,000	1,800,413	377,648	450,977	4,274,038
2010	1,730,000	1,714,050	386,189	438,912	4,269,151
2011	1,825,000	1,618,900	400,180	426,576	4,270,656
2012	1,930,000	1,513,962	408,916	413,523	4,266,401
2013	2,040,000	1,402,988	423,111	399,911	4,266,010
2014	2,165,000	1,280,587	442,766	385,685	4,274,038
2015	2,295,000	1,150,688	457,176	370,637	4,273,501
2016	2,430,000	1,012,987	466,343	354,867	4,264,197
2017	2,575,000	867,188	486,337	338,709	4,267,234
2018	2,730,000	712,687	501,096	321,519	4,265,302
2019	2,890,000	552,300	521,332	303,382	4,267,014
2020	3,065,000	378,900	541,696	284,503	4,270,099
2021	3,250,000	195,000	562,191	264,855	4,272,046
2022	-	-	4,026,129	244,016	4,270,145
2023	-	-	159,118	9,841	168,959
2024	-	-	163,965	4,994	168,959
	<u>\$ 36,380,000</u>	<u>\$ 22,162,984</u>	<u>\$ 11,665,553</u>	<u>\$ 6,958,110</u>	<u>\$ 77,166,647</u>

BOARD OF WATER WORKS OF PUEBLO, COLORADO
 SCHEDULE OF REVENUE AND EXPENDITURES
 WATER DEVELOPMENT FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

Schedule Four

REVENUE	
Interest earned	\$ 5,964
Contribution from General Fund	105,900
Total revenue	<u>111,864</u>
EXPENDITURES	<u>-</u>
EXCESS OF REVENUE OVER EXPENDITURES	111,864
BALANCE, JANUARY 1	<u>373,980</u>
BALANCE, DECEMBER 31	<u><u>\$ 485,844</u></u>
REPRESENTED BY:	
Cash in checking	\$ 251
Money market fund	<u>485,593</u>
Total	<u><u>\$ 485,844</u></u>

RESULTS OF OPERATIONS

The statement of revenues, expenses and expenditures for the year ended December 31, 2004, as compared with budget, is presented on pages thirty-one and thirty-two and a schedule of future debt service requirements is presented on page forty-six.

A detailed comparison of operating revenues with budget is presented on page thirty-three, and a detailed comparison of operating expenses with budget is presented on pages thirty-four through forty.

Depreciation is computed on a straight-line basis using various estimated useful lives as outlined in Note 1 to the financial statements. Details are presented on page forty-four.

The reconciliation of capital expenditures as reflected in the general budget with the expenditures reflected for total capital asset additions is as follows:

Total capital expenditures--pages forty-two through forty-three	\$	2,232,786
Water rights acquired through agreement to supply water in the future		15,750
Contributions to capital assets construction from various improvement districts and developer installed facilities		263,680
Total capital asset additions--page forty-four	\$	2,512,216

Capital expenditures, as reflected on pages forty-two and forty-three, have been reclassified for purposes of capital asset additions as reflected on page forty-four.

The reconciliation of increase in net assets for the year ended December 31, 2004, with the excess of revenues over expenses and expenditures as presented in the Statement of Revenues, Expenses and Expenditures as Compared with Budget is as follows:

Increase in net assets	\$	1,249,052
Add		
Depreciation	\$	3,826,282
Loss on abandonment of assets		18,172
		3,844,454
Deduct		
Capital outlay		2,232,786
Long-term debt payments		1,578,469
Capital contributions		263,680
Excess of revenues over expenses and expenditures	\$	4,074,935
		1,018,571

The reconciliation of scheduled interest expense on bonds and notes with the amount reported on the Statement of Nonoperating Revenues and Expenses as Compared with Budget is as follows:

Scheduled interest payments		
Series 2000A Water System Improvement bonds	\$ 2,159,767	
Colorado Water Resources and Power Authority	455,775	
United States Department of the Interior	<u>78,983</u>	
		\$ 2,694,525
Accrued interest on bonds and notes, December 31, 2003		(644,656)
Accrued interest on bonds and notes, December 31, 2004		574,523
Discount amortization on Colorado Water Resources and Power Development Authority		<u>1,133</u>
Total		\$ <u><u>2,625,525</u></u>

STATEMENT OF NET ASSETS ACCOUNT EXPLANATION

ASSETS

CASH ON HAND AND IN BANKS \$ 873,566

This amount consists of cash as follows:

Working funds	\$ 4,400
Cash in banks--checking accounts	
Vectra Bank--water development fund account	251
Vectra Bank--operating account	867,005
Pueblo Bank & Trust	<u>1,910</u>
Total	<u>\$ 873,566</u>

CASH INVESTMENTS \$ 16,013,746

ColoTrust money market funds	\$ 11,513,746
Certificates of deposit	
Bank of the West	1,400,000
Canon National Bank	200,000
First National Bank Colorado	250,000
Southern Colorado National Bank	200,000
US Bank	<u>2,450,000</u>
	<u>\$ 16,013,746</u>

These investments are considered to be reserve funds held for debt retirement, water rights payments, system improvements and general operations in succeeding years.

ACCOUNTS RECEIVABLE--CUSTOMERS \$ 1,874,089

This account consists of the following:

Accounts receivable--water customers	
Water	\$ 569,331
Sewer	462,442
Storm Water	169,340
Accounts receivable--service accounts	<u>686,012</u>
	1,887,125
Less provision for uncollectible accounts	<u>13,036</u>
Total	<u>\$ 1,874,089</u>

Accounts receivable do not include estimates of unbilled receivables for water sales from the December, 2004 meter reading dates to December 31, 2004. Water customers are billed on a cycle basis. At the respective billing dates in December, 2004, the accounts which were considered delinquent amounted to \$ 220,906 of which \$ 142,333 is for sewer delinquencies and \$ 52, 391 is for storm water delinquencies. This does not include amounts due on service accounts of \$ 58,246. The Board acts as a collection agent for the City of Pueblo, Colorado; therefore sewer and storm water delinquencies do not affect the Board's provision for uncollectible accounts.

Accounts receivable have been classified as to age of billing as follows:

	<u>0-30 Days</u>	<u>30-60 Days</u>	<u>Over 60 Days</u>	<u>Total</u>
Water	\$ 486,077	\$ 57,072	\$ 26,182	\$ 569,331
Service				
accounts	<u>304,226</u>	<u>381,786</u>	<u>0</u>	<u>686,012</u>
	790,303	438,858	26,182	1,255,343
Sewer	320,109	-	142,333	462,442
Storm water	<u>116,949</u>	<u>-</u>	<u>52,391</u>	<u>169,340</u>
 Total	 <u>\$ 1,227,361</u>	 <u>\$ 438,858</u>	 <u>\$ 220,906</u>	 <u>\$ 1,887,125</u>

The summary of changes in the provision for uncollectible accounts is as follows:

Balance, January 1, 2004		\$ 13,066
Add		
Current year's provision	\$ 12,850	
Recoveries of amounts written off previously	<u>4,111</u>	<u>16,961</u>
		30,027
Less		
Uncollectible accounts written off		<u>16,991</u>
 Balance, December, 31, 2004		 <u>\$ 13,036</u>

Accounts written off during the year have been placed for collection and the prospects of recovery are slight.

INVENTORIES \$ 684,135

Inventories are classified as follows:

Filtration and purification materials	\$ 82,647
General warehouse materials	<u>601,488</u>
 Total	 <u>\$ 684,135</u>

Inventories were taken as of December 29, 2004, under the supervision of management.

PREPAID ITEMS \$ 114,118

This account consists of the following prepaid amounts:

Unexpired portion of workers' compensation	\$ 14,184
Prepaid water storage	52,050
Prepaid software license	31,374
Miscellaneous prepaid items	<u>16,510</u>

Total \$ 114,118

ACCRUED INTEREST RECEIVABLE \$ 41,123

This amount represents interest receivable that has accrued on certificates of deposit.

ADVANCES FOR EMPLOYEES \$ 3,512

This account consists of Employee Enrichment Program advances which will be recovered by payroll deductions.

RESTRICTED ASSETS

Certain assets are classified as restricted assets for construction funded through long-term debt.

Cash in Bank \$ 210

This amount consists of cash in Vectra Bank--Debt Service Account.

Money Market Fund \$ 1,141,075

This amount consists of funds invested in ColoTrust.

CAPITAL ASSETS \$ 164,282,655

A summary of the changes in capital assets for the year ended December 31, 2004 follows:

Capital Assets

Balance, January 1, 2004	\$ 220,921,079	
Additions by purchases, construction and contributions	<u>2,512,216</u>	
	223,433,295	
Less retirements and deletions	<u>367,935</u>	
Balance December 31, 2004	223,065,360	
Less accumulated depreciation	<u>58,782,705</u>	
Undepreciated balance, December 31, 2004		\$ <u><u>164,282,655</u></u>

Page forty-four shows the changes in capital assets by classifications.

Principal additions during the period were in transmission and distribution mains, \$ 606,298, meters, \$ 184,575 transportation equipment, \$ 145,949, heavy equipment \$ 162,952, pumping equipment \$ 103,415, and treating equipment \$ 103,794. Other capital asset additions represent principally the on-going program of system renewal, plus service to the new areas.

UNAMORTIZED DEBT EXPENSE \$ 181,602

This represents debt issue expenses which were incurred in connection with the issuance of the 2000A Water System Improvement Revenue bonds and the Colorado Water Resources and Power Authority Development loan. These amounts are being amortized over the terms of the debt obligations.

UNAMORTIZED DISCOUNT \$ 19,877

This represents the discount associated with the Colorado Water Resources and Power Authority loan and is being amortized over the term of the loan.

LIABILITIES

CURRENT MATURITIES OF LONG-TERM DEBT \$ 1,640,854

This amount represents the current portions of long-term debt which are payable within one year as follows:

Repayment contract with United States	
Department of the Interior	\$ 92,717
2000A Water System Revenue Bonds	1,350,000
Colorado Water Resources and Power	
Development Authority	<u>198,137</u>
Total	<u>\$ 1,640,854</u>

ACCOUNTS PAYABLE \$ 1,937,329

Accounts payable include outstanding bills for expenses, materials and capital assets related to the budget for the year ended December 31, 2004. Included in outstanding bills is \$ 919,938 and \$ 371,638 owed to the City of Pueblo, Colorado for collection of the City's sewer and storm water fees, respectively.

There are no known direct liabilities which are not recorded.

RETAINAGE WITHHELD ON CONSTRUCTION CONTRACTS \$ 8,852

The account represents the percentage withheld from payments to contractors until the contract work is completed and accepted.

CURRENT PORTION OF ACCRUED VACATION PAYROLL \$ 294,403

This amount represents the current portion of accrued vacation payroll which is estimated payable within one year. The current portion of accrued sick leave is not readily ascertainable.

CUSTOMER METER DEPOSITS \$ 436,530

Customers' meter deposits represent amounts deposited by customers in connection with the furnishing of water service. Deposits are generally required from all new customers, except property owners, and from those customers with an unsatisfactory payment history.

DEFERRED REVENUE--CURRENT \$ 408,521

Deferred revenue--current includes:

Expense reimbursements billed prior to December 31, 2004	\$ 4,800
Advance payments received on raw water sales for 2005	35,801
Advance payments received on 2004 water sales--Aurora old	<u>367,920</u>
Total	<u>\$ 408,521</u>

DEVELOPER DEPOSITS \$ 30,112

This amount represents security deposits paid to the Board by Walking Stick Estates that will be used to complete a project.

ACCRUED PAYROLL \$ 183,200

This account represents the amount of payroll costs incurred in December, 2004 to be paid in January, 2005.

ACCRUED INTEREST \$ 20,581

This amount includes the interest on bonds and loans outstanding that has accrued since the last payments.

ACCRUED SALES TAXES \$ 375

This amount is due to the State of Colorado, Pueblo County and the City of Pueblo, Colorado for sales taxes collected on sales to outside entities.

REVENUE BONDS \$ 35,030,000

This amount represents the long-term portion of general obligation bonds. The total obligation is \$36,380,000 of which \$1,350,000 is a current liability. These bonds are revenue obligations of The Board of Water Works of Pueblo, Colorado, payable solely from the net revenues derived from operations. The net revenues include gross revenues less any amounts required to pay operation and maintenance expenses. Operation and maintenance expenses deducted from gross revenues include all current reasonable and necessary expenses of operations, maintenance and repairs, but do not include any allowance for depreciation of capital replacements and improvements.

Payment of the principal and interest on the Series 2000A bonds is insured by a policy of insurance issued by Financial Security Assurance.

A schedule of bonds outstanding is presented on page forty-five, and a schedule of future debt service requirements is presented on page forty-six.

LOAN AND REPAYMENT CONTRACT \$ 11,374,699

This amount consists of:

Loan agreement with Colorado Water Resources and Power Development Authority to finance the construction of the pipeline that connected to the Pueblo Dam, net of current maturities of \$ 198,137 shown as a current liability \$ 8,964,382

Repayment contract with the United States
 Department of the Interior, Bureau of Reclamation
 for the Board's portion of the cost of the
 municipal outlet at the Pueblo Dam less current
 maturities of \$ 92,717 which is shown as a
 current liability

2,410,317

Total

\$ 11,374,699

ACCRUED SICK LEAVE AND VACATION PAYROLL

\$ 1,928,948

This account represents the long-term portion of sick and vacation leave. The total obligation is \$ 2,223,351 of which \$ 294,403 is a current liability. The Board's sick and vacation pay is detailed in Note 8 to the financial statements.

ACCRUED PAYROLL TAXES ON ACCRUED SICK LEAVE AND
 VACATION PAYROLL

\$ 170,086

This amount represents the amount of employer's payroll tax expense for Social Security and Medicare on accrued sick leave and vacation payroll.

DEFERRED REVENUE

\$ 603,806

Deferred revenue includes:

The balance of the estimated value of the water
 to be supplied to the State of Colorado in
 exchange for shares of the West Pueblo Ditch.
 For accounting purposes, this amount is being
 amortized over a forty-year period at \$ 23,175
 per year.

\$ 579,375

The balance of the estimated value of the water
 to be supplied to the City of Pueblo, Colorado in
 exchange for shares of the West Pueblo Ditch. For
 accounting purposes, this amount is being amortized
 over a forty-year period at \$ 300 per year.

9,075

The balance of the estimated value of the water
 to be supplied to a private party in exchange for shares
 of the West Pueblo Ditch. For accounting purposes,
 this amount is being amortized over a forty year period
 period at \$ 394 per year.

15,356

Total

\$ 603,806

LIABILITIES PAYABLE FROM RESTRICTED ASSETS \$ 574,523

This amount is for accrued interest on construction related long-term debt.

NET ASSETS \$ 130,586,889

The equity of the Board of Water Works of Pueblo, Colorado is classified as follows:

Invested in capital assets, net of related debt	\$ 116,237,102
Restricted	566,762
Unrestricted	<u>13,783,025</u>
 Total	 \$ <u>130,586,889</u>

Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt attributable to the acquisition of those assets.

Restricted nets assets consists of those assets and liabilities where constraints have been placed on their use by creditors, grantors, contributors or laws and regulations.

Unrestricted nets assets consist of assets and liabilities not included above.