

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO**

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FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

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DECEMBER 31, 2002

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
East Dillon Water District  
Frisco, Colorado

We have audited the accompanying financial statements of the East Dillon Water District, Frisco, Colorado, as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the East Dillon Water District management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Dillon Water District, Frisco, Colorado, as of December 31, 2002, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Hiratsuka & Schmitt, LLP*

Denver, Colorado  
August 1, 2003

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Comparative Balance Sheets  
Proprietary Fund - Enterprise (Water) Fund  
for Years Ended December 31, 2002 and 2001**

	2002	2001
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 70,338	\$ 9,512
Investments	13,818	62,857
Accounts receivable:		
Customer	102,032	113,507
Developer	44,773	47,612
Property taxes	170,151	165,756
Inventory	10,360	7,287
<b>Total current assets</b>	<b>411,472</b>	<b>406,531</b>
<b>Fixed assets:</b>		
Water lines	1,759,387	1,759,387
Water pump stations	1,573,441	1,573,441
Water storage tanks	2,837,564	2,748,020
Equipment	481,092	135,776
Meters	221,856	207,323
	6,873,340	6,423,947
Less: accumulated depreciation	1,999,646	1,767,442
	4,873,694	4,656,505
Land	39,916	39,916
Water rights	3,465,530	355,096
<b>Net fixed assets</b>	<b>8,379,140</b>	<b>5,051,517</b>
<b>Other assets:</b>		
Note escrow account	52,270	16,975
<b>Total other assets</b>	<b>52,270</b>	<b>16,975</b>
<b>Total assets</b>	<b>\$ 8,842,882</b>	<b>\$ 5,475,023</b>
<b>Liabilities and fund equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 28,869	\$ 162,490
Current portion long-term debt	125,394	95,000
Accrued interest payable	20,205	1,113
Deferred property taxes	169,262	165,756
<b>Total current liabilities</b>	<b>343,730</b>	<b>424,359</b>
<b>Long-term debt:</b>		
Notes payable - net of current portion	3,399,772	--
<b>Total liabilities</b>	<b>3,743,502</b>	<b>424,359</b>
<b>Equity and other credits:</b>		
Contributed capital:	3,190,813	3,051,399
Retained earnings:		
Reserved for Amendment 1	18,640	18,640
Reserved for Colorado Water Conservation Board - note	15,198	--
Reserved for Wells Fargo - loan	3,278	--
Unreserved	1,871,451	1,980,625
<b>Total equity</b>	<b>5,099,380</b>	<b>5,050,664</b>
<b>Total liabilities and equity</b>	<b>\$ 8,842,882</b>	<b>\$ 5,475,023</b>

The accompanying notes are an integral part of this statement.

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Proprietary Fund - Enterprise (Water) Fund  
Statement of Revenue, Expenses and Changes in Retained Earnings  
for the Fiscal Years Ended December 31, 2002 and 2001**

	2002	2001
<b>Operating revenues:</b>		
User charges	\$ 372,790	\$ 386,890
Meters and supplies	225	7,502
Miscellaneous	(2,100)	2,756
<b>Total operating revenues</b>	<b>370,915</b>	<b>397,148</b>
<b>Operating expenses:</b>		
<b>Operations:</b>		
Water purchases	132,583	154,042
Depreciation	232,206	146,280
Repair and maintenance	34,580	8,052
Supplies and tests	4,618	20,293
Utilities - water pumping	17,208	17,019
<b>Total operations expense</b>	<b>421,195</b>	<b>345,686</b>
<b>Administration:</b>		
Accounting	3,100	3,400
Administration	43,200	39,000
Meter reading	1,200	1,200
Directors fees	1,500	2,025
Engineering	477	820
Insurance and bonds	12,356	8,635
Loan expense	17,500	--
Legal fees	18,020	12,741
Miscellaneous	898	237
Office supplies	4,995	6,447
Dues and subscriptions	1,337	1,557
Operations contract	81,000	72,000
Telephone	2,171	2,030
<b>Total administration</b>	<b>187,754</b>	<b>150,092</b>
<b>Debt service:</b>		
Interest	49,546	12,043
Amortization - bond issue cost	--	3,014
County Treasurer fees	8,290	7,915
<b>Total debt service</b>	<b>57,836</b>	<b>22,972</b>
<b>Total operating expenses</b>	<b>666,785</b>	<b>518,750</b>
<b>Net (loss) from operations</b>	<b>(295,870)</b>	<b>(121,602)</b>
<b>Non operating revenues:</b>		
Property, specific ownership taxes	176,084	172,101
Interest on investments	7,502	57,245
<b>Total non operating revenues</b>	<b>183,586</b>	<b>229,346</b>
<b>Net income (loss)</b>	<b>(112,284)</b>	<b>107,744</b>
Retained earnings, beginning of year	1,999,265	1,869,935
Add: Depreciation charged to contributed capital	21,586	21,586
<b>Retained earnings, end of year</b>	<b>\$ 1,908,567</b>	<b>\$ 1,999,265</b>

The accompanying notes are an integral part of this statement.

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Proprietary Fund - Enterprise (Water) Fund  
Schedule of Revenues, Expenditures and Changes in Retained Earnings  
Budget (Non - GAAP) Basis and Actual  
for the Fiscal Year Ended December 31, 2002**

	Budget	Actual	Variance Positive (Negative)
<b>Operating revenues;</b>			
User charges	\$ 350,000	\$ 372,790	\$ 22,790
Property, specific ownership taxes	179,936	176,084	(3,852)
Interest on investments	11,745	7,502	(4,243)
Tap fees	70,000	161,000	91,000
Meters and supplies	--	225	225
Miscellaneous	750	(2,100)	(2,850)
<b>Total operating revenues</b>	<b>612,431</b>	<b>715,501</b>	<b>103,070</b>
<b>Operating expenses:</b>			
<b>Operations:</b>			
Water purchases	73,000	132,583	(59,583)
Repair and maintenance	35,000	34,580	420
Supplies and tests	3,500	4,618	(1,118)
Utilities - water pumping	17,250	17,208	42
<b>Total operating expense</b>	<b>128,750</b>	<b>188,989</b>	<b>(60,239)</b>
<b>Administration:</b>			
Accounting	3,500	3,100	400
Administration	43,200	43,200	--
Meter reading	1,200	1,200	--
Directors fees	1,875	1,500	375
Engineering	2,500	477	2,023
Insurance and bonds	10,000	12,356	(2,356)
Note expense	--	17,500	(17,500)
Legal fees	12,000	18,020	(6,020)
Miscellaneous	500	898	(398)
Office supplies	5,000	4,995	5
Dues and subscriptions	1,650	1,337	313
Operations contract	81,000	81,000	--
Telephone	2,600	2,171	429
Contingency	12,000	--	12,000
<b>Total administration</b>	<b>177,025</b>	<b>187,754</b>	<b>(10,729)</b>
<b>Debt service:</b>			
Note payment	--	41,834	(41,834)
Interest	41,745	49,546	(7,801)
County Treasurer fees	8,247	8,290	(43)
<b>Total debt service</b>	<b>49,992</b>	<b>99,670</b>	<b>(49,678)</b>
<b>Total expenses</b>	<b>355,767</b>	<b>476,413</b>	<b>(120,646)</b>
<b>Net income non GAAP budgetary basis</b>	<b>\$ 256,664</b>	<b>239,088</b>	<b>\$ (17,576)</b>
<b>Adjustments to GAAP basis:</b>			
Add:			
Note payment		41,834	
Less:			
Tap fees		(161,000)	
Depreciation		(232,206)	
<b>Net (loss)</b>		<b>(112,284)</b>	
Retained earnings, beginning of year		1,999,265	
Add: Depreciation charged to contributed capital		21,586	
<b>Retained earnings, end of year</b>		<b>\$ 1,908,567</b>	

The accompanying notes are an integral part of this statement.

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO**

**Statement of Cash Flows - Proprietary Fund - Enterprise (Water) Fund Type  
for the Fiscal Years Ended December 31, 2002 and 2001**

	<b>2002</b>	<b>2001</b>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 384,340	\$ 399,686
Cash paid to suppliers	(552,182)	(230,465)
<b>Net cash provided (used) by operating activities</b>	<b>(167,842)</b>	<b>169,221</b>
<b>Cash flows from capital financing activities:</b>		
Capitalized tap fees and developer contributions	139,414	245,000
Property and specific ownership taxes received	176,084	172,101
Loan and note proceeds	3,513,070	--
Acquisition of capital assets	(3,559,837)	(1,932,020)
Principal payments on bonds	(41,834)	(90,000)
<b>Net cash provided (used) by capital financing activities</b>	<b>226,897</b>	<b>(1,604,919)</b>
<b>Cash flows from investing activities:</b>		
Redemption (Purchase) of investments	(3,231)	1,022,411
Change in bond escrow account	--	8,797
Interest on investments	7,502	57,245
<b>Net cash provided by investing activities</b>	<b>4,271</b>	<b>1,088,453</b>
<b>Net increase (decrease) in cash</b>	<b>63,326</b>	<b>(347,245)</b>
Cash and cash equivalents, beginning of year	9,512	356,757
<b>Cash and cash equivalents, end of year</b>	<b>\$ 72,838</b>	<b>\$ 9,512</b>
<b>Reconciliation of net operating income to net cash provided (used) by operations</b>		
<b>Net (loss) from operations</b>	<b>\$ (295,870)</b>	<b>\$ (121,602)</b>
<b>Adjustments to reconcile net income to net cash provided (used) by operating activities:</b>		
Depreciation expense	232,206	146,279
Amortization expense	--	3,014
(Increase) decrease in:		
Accounts receivable	14,314	13,107
Other accounts receivable	(4,395)	(3,469)
Inventory	(3,073)	15,116
(Decrease) increase in:		
Accounts payable	(133,622)	124,923
Deferred property taxes	3,506	(7,100)
Accrued interest payable	19,092	(1,047)
<b>Total adjustments</b>	<b>128,028</b>	<b>290,823</b>
<b>Net cash provided (used) by operating activities</b>	<b>\$ (167,842)</b>	<b>\$ 169,221</b>

The accompanying notes are an integral part of this statement.

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Notes to Financial Statements  
December 31, 2002**

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**1. Summary of significant accounting policies**

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

**Reporting entity**

The District) was organized in 1966, and is governed by a five member elected Board of Directors. As required by GAAP, these financial statements present the activities of the District that is legally separate and financially independent of other state and local governments. The District supplies water for the geographical area organized as the East Dillon Water District. The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement 14.

**Measurement focus, basis of accounting and basis of presentation**

The accounts of the District are organized and operated on the basis of a fund. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District has one fund type:

**Proprietary funds** - are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with GASB Statement No. 20 the District has elected to only apply FASB, APB and ARB materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds include the following fund type.

**Enterprise (water) fund** - is used to account for those operations that are financed and operated in a manner similar to private business.

District water is provided on a metered rate basis. The District accounts for tap fees as contributions of capital.

Property taxes and user fees are susceptible to accrual.

**Assets, liabilities and equity**

**Deposits and Investments**

The District considers cash and cash equivalents to include demand deposits.

**1. Summary of significant accounting policies (continued)**

**Assets, liabilities and equity (continued)**

**Fair value of financial instruments**

The District's financial instruments include cash and cash equivalents, investments, bond escrow deposits, accounts receivable, accounts payable and accrued interest. The District estimates that the fair value of all financial instruments at December 31, 2002 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**Estimates**

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

**Property taxes**

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

**Inventories**

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

**Fixed assets**

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

**Fund equity**

The District's contributed capital represents equity contributed by developers, net of related depreciation, and tap fees received.

**Comparative data**

Comparative total data for the prior year have been presented in of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations.

**2. Stewardship, compliance and accountability**

**Budgetary information**

Budgets are adopted on a non-GAAP basis. Tap fees are budgeted as revenue; bond principal payments are budgeted as expenses. Depreciation expense is not budgeted

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

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

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

State statutes require a balanced budget.

Actual expense exceed budget due partially to the debt incurred to purchase permanent water rights. The timing of the actual acquisition of water rights created additional purchased water expenses. The excesses were funded with available resources of the District.

**3. Detailed notes concerning the fund**

**Cash and investments**

**Cash**

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

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Notes to Financial Statements  
December 31, 2002**

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**3. Detailed notes concerning the fund (continued)**

**Cash and investments (continued)**

**Cash (continued)**

Deposits are categorized to give an indication of risk assumed by the government at the end of the year. Category 1 includes deposits that are insured. Category 2 includes collateralized deposits held by the pledging institution's department or agent in the District's name. Category 3 includes uncollateralized, uninsured deposits. At December 31, 2002 the District deposits are categorized as follows:

	<b>Bank Balance</b>	<b>Carrying Balance</b>
Categorized deposits:		
Deposits covered by federal insurance – Category 1	\$ 67,147	\$ 70,338
<b>Total</b>	<b>\$ 67,147</b>	<b>\$ 70,338</b>

**Investments**

Colorado statues specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments include:

- Local government investment pools

The District invests in one Local Government Investment Pool, the Colorado Government Liquid Assets Trust (COLOTRUST, pools A and B). Investments in the pool are not categorized because the investments are not evidenced by securities that exist in physical or book entry form. As of December 31, 2002, District investments in COLOTRUST, carrying and fair value, was \$13,818.

**Loan escrow account**

Per the loan agreement with the Wells Fargo Bank the District has restricted cash deposited in a money marker account with a fair value of \$52,270. See also long-term debt.

**Accounts receivable**

It is the policy of the District to record the property tax receivable in the year in which the taxes are levied and to recognize the property tax revenues in the year in which the lien attaches to the property. Property taxes are reported as a receivable and as deferred revenue in the amount of \$169,262.

During 1998, water service was upgraded to four lots to which the District had already provided water service. The developer agreed to pay the District \$10,000 plus interest for the water service to each lot, over a period not to exceed four years. As Of December 31, 2002, the District had recorded an account receivable of \$44,773

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Notes to Financial Statements  
December 31, 2002**

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**3. Detailed notes concerning the fund (continued)**

**Fixed assets**

The following is a summary of the District's accumulated depreciation and depreciation expense at December 31, 2002:

	<b>Accumulated depreciation</b>	<b>Depreciation expense</b>
Water lines	\$ 824,383	\$ 43,985
Water pump stations	630,093	63,892
Water storage tanks	451,732	71,036
Well field\pumps	32,664	29,600
Equipment	26,523	7,048
Meters	34,253	14,790
<b>Total</b>	<b>\$ 1,999,646</b>	<b>\$ 232,206</b>

**Long-term debt**

In 2002 the District acquired 86 acre-feet of senior water rights from the Vidler Water Company including the rights to five acre-feet of storage water in the Dillon Reservoir, and ten wells located in the Soda Creek alluvium. The District had acquired 20 acre-feet of senior water rights from the City of Golden in 2001. These rights were acquired with financing provided by a loan and an Enterprise Revenue Note.

On November 10, 2002 the District executed a loan in the principal amount of \$2,550,000 with the State of Colorado, Department of Natural Resources, Colorado Water Conservation Board as authorized by the voters in the District at a May 7, 2002 election. The note bears an interest rate of 4.25%, payable in yearly installments of \$151,976 for a period of thirty years. The District pledges to repay the note from general revenues from taxes received each year as authorized by the District's election and resolution dated May 7, 2002.

On May 17, 2002 the District executed an Enterprise Revenue Note in the principal amount of \$1,017,000 with NOSEC & Co. The note bears an interest rate of 5.25%, payable in 20 bi-annual installments of \$66,043. The note is a limited and special obligation of the District payable from all legally available pledged revenues of the District.

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Notes to Financial Statements  
December 31, 2002**

**3. Detailed notes concerning the fund (continued)**

**Long-term debt (continued)**

	Water Resources Note			Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 43,601	\$ 108,375	\$ 151,976	\$ 81,793	\$ 50,293	\$ 132,086
2004	45,454	106,522	151,976	86,144	45,942	132,086
2005	47,385	104,590	151,976	90,725	41,361	132,086
2006	49,399	102,576	151,976	95,550	36,536	132,086
2007	51,499	100,477	151,976	100,633	31,453	132,086
2008-12	292,244	467,633	759,878	522,821	71,055	593,876
2013-18	441,256	470,597	911,853			
2019-23	461,937	297,940	759,878			
2024-28	568,805	191,073	759,878			
2029-32	548,420	59,482	607,902			
<b>Total</b>	<b>\$ 2,550,000</b>	<b>\$ 2,009,266</b>	<b>\$ 4,559,266</b>	<b>\$ 977,666</b>	<b>\$ 276,640</b>	<b>\$ 1,254,306</b>

**Annual debt service requirements to maturity are as follows:**

**Changes in long-term debt**

The following is an analysis of changes in long term debt for the period ended December 31, 2002.

	Balance January 1, 2002	Additions	Deletions	Balance December 31, 2002
Water Resources note	\$ --	\$ 2,550,000	\$ --	\$ 2,550,000
Revenue note	--	1,019,500	41,834	977,666
	\$ --	\$ 3,569,500	\$ 41,834	\$ 3,527,666

**EAST DILLON WATER DISTRICT  
FRISCO, COLORADO  
Notes to Financial Statements  
December 31, 2002**

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**3. Detailed notes concerning the fund (continued)**

**Contributed capital**

Changes in contributed capital are as follows:

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Balance December 31, 2001	\$	3,051,399
Add: Tap fees collected		161,000
Less: Depreciation charged to contributed capital		(21,586)
<hr/>		
Balance December 31, 2002	\$	3,190,813

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**4. Other information**

**Insurance pools**

The District has elected to participate in the Colorado Special Districts Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, public official's liability, and boiler and machinery coverage's to the District. Members of the Pool may be required to make additional surplus contributions. Any excess funds, which the Pool determines are not needed for purposes of the Pool, may be returned to the members pursuant to a distribution formula.

**Contractual services agreement**

The District is obligated under an agreement dated March 6, 1995, for the maintenance, repair and general operation of its facilities to include well fields, pumping and plant equipment, water and service lines, and controls. The initial agreement was for the three years ending December 31, 1994, and automatically renews for three additional years. In compliance with the terms of the agreement now in force the District paid \$81,000 for the year ended December 31, 2002. The current term of the agreement runs from January 1, 2001 to December 31, 2003, either party may terminate this agreement, for any reason, with ninety days written notice.

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

**4. Other information**

**TABOR Amendment**

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

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

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

The property tax levy relates to pre-TABOR debt that was incurred to retire the revenue bonds (see Note 3, Note Payable), the tax levy ceases upon the retirement of the debt. The District is exempt from the 10% property tax rule and qualifies as an "enterprise". See also Note 5.

The District believes that it complies with the provisions of TABOR, as it is currently understood. Many of the provisions may not become fully understood with out judicial review.