

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO**

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2003

**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, 2003, 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, 2003, 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 25, 2004

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Comparative Balance Sheets
Proprietary Fund - Enterprise (Water) Fund
for Years Ended December 31, 2003 and 2002**

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,371	\$ 70,338
Investments	186,102	13,818
Accounts receivable:		
Customer	104,100	102,032
Developer	44,773	44,773
Property taxes	909	170,151
Inventory	9,480	10,360
Total current assets	397,735	411,472
Fixed assets:		
Water lines	1,759,387	1,759,387
Water pump stations	1,573,441	1,573,441
Water storage tanks	2,837,564	2,837,564
Equipment	526,045	481,092
Meters	233,062	221,856
	6,929,499	6,873,340
Less: accumulated depreciation	2,222,836	1,999,646
	4,706,663	4,873,694
Land	39,916	39,916
Water rights	3,465,530	3,465,530
Net fixed assets	8,212,109	8,379,140
Other assets:		
Note escrow account	52,676	52,270
Total other assets	52,676	52,270
Total assets	\$ 8,662,520	\$ 8,842,882
Liabilities and fund equity		
Current liabilities:		
Accounts payable	\$ 19,183	\$ 28,869
Current portion long-term debt	83,968	125,394
Accrued interest payable	18,599	20,205
Deferred property taxes	--	169,262
Total current liabilities	121,750	343,730
Long-term debt:		
Notes payable - net of current portion	3,315,805	3,399,772
Total liabilities	3,437,555	3,743,502
Equity and other credits:		
Contributed capital:	3,365,227	3,190,813
Retained earnings:		
Reserved for Amendment 1	18,640	18,640
Reserved for Colorado Water Conservation Board - note	15,198	15,198
Reserved for Wells Fargo - loan	52,676	52,270
Unreserved	1,773,224	1,822,459
Total equity	5,224,965	5,099,380
Total liabilities and equity	\$ 8,662,520	\$ 8,842,882

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, 2003 and 2002**

	2003	2002
Operating revenues:		
User charges	\$ 343,274	\$ 372,790
Meters and supplies	1,810	225
Miscellaneous	--	(2,100)
Total operating revenues	345,084	370,915
Operating expenses:		
Operations:		
Water purchases	--	132,583
Depreciation	223,190	232,206
Repair and maintenance	9,945	34,580
Supplies and tests	6,929	4,618
Utilities - water pumping	18,764	17,208
Total operations expense	258,828	421,195
Administration:		
Accounting	4,200	3,100
Administration	46,200	43,200
Meter reading	1,200	1,200
Directors fees	1,425	1,500
Engineering	635	477
Insurance and bonds	11,944	12,356
Loan expense	--	17,500
Legal fees	7,239	18,020
Miscellaneous	1,398	898
Office supplies	5,834	4,995
Dues and subscriptions	1,910	1,337
Operations contract	90,000	81,000
Telephone	2,206	2,171
Total administration	174,191	187,754
Debt service:		
Interest	157,062	49,546
County Treasurer fees	8,454	8,290
Total debt service	165,516	57,836
Total operating expenses	598,535	666,785
Net (loss) from operations	(253,451)	(295,870)
Non operating revenues:		
Property, specific ownership taxes	179,222	176,084
Interest on investments	3,813	7,502
Total non operating revenues	183,035	183,586
Net income (loss)	(70,416)	(112,284)
Retained earnings, beginning of year	1,908,567	1,999,265
Add: Depreciation charged to contributed capital	21,586	21,586
Retained earnings, end of year	\$ 1,859,737	\$ 1,908,567

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 - US GAAP) Basis and Actual
for the Fiscal Year Ended December 31, 2003**

	Budget	Actual	Variance Positive (Negative)
Operating revenues:			
User charges	\$ 375,000	\$ 343,274	\$ (31,726)
Property, specific ownership taxes	181,262	179,222	(2,040)
Interest on investments	5,000	3,813	(1,187)
Tap fees	70,000	196,000	126,000
Meters and supplies	--	1,810	1,810
Miscellaneous	750	--	(750)
Total operating revenues	632,012	724,119	92,107
Operating expenses:			
Operations:			
Repair and maintenance	30,000	9,945	20,055
Supplies and tests	5,000	6,929	(1,929)
Utilities - water pumping	18,000	18,764	(764)
Total operating expense	53,000	35,638	17,362
Administration:			
Accounting	3,500	4,200	(700)
Administration	46,200	46,200	--
Meter reading	1,200	1,200	--
Directors fees	1,875	1,425	450
Engineering	2,500	635	1,865
Insurance and bonds	13,000	11,944	1,056
Note expense	--	--	--
Legal fees	15,000	7,239	7,761
Miscellaneous	750	1,398	(648)
Office supplies	6,000	5,834	166
Dues and subscriptions	1,650	1,910	(260)
Operations contract	90,000	90,000	--
Telephone	2,600	2,206	394
Contingency	6,000	--	6,000
Total administration	190,275	174,191	16,084
Debt service:			
Note payment	--	125,394	(125,394)
Interest	47,980	157,062	(109,082)
County Treasurer fees	8,463	8,454	9
Total debt service	56,443	290,910	(234,467)
Total expenses	299,718	500,739	(201,021)
Net income non US GAAP budgetary basis	\$ 332,294	223,380	\$ (108,914)
Adjustments to GAAP basis:			
Add:			
Note payment		125,394	
Less:			
Tap fees		(196,000)	
Depreciation		(223,190)	
Net (loss)		(70,416)	
Retained earnings, beginning of year		1,908,567	
Add: Depreciation charged to contributed capital		21,586	
Retained earnings, end of year		\$ 1,859,737	

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, 2003 and 2002**

	2003	2002
Cash flows from operating activities:		
Cash received from customers	\$ 343,016	\$ 384,340
Cash paid to suppliers	(386,588)	(552,182)
Net cash (used) by operating activities	(43,572)	(167,842)
Cash flows from capital financing activities:		
Capitalized tap fees and developer contributions	196,000	139,414
Property and specific ownership taxes received	179,222	176,084
Loan and note proceeds	--	3,513,070
Acquisition of capital assets	(56,159)	(3,559,837)
Principal payments on bonds	(125,393)	(41,834)
Net cash provided by capital financing activities	193,670	226,897
Cash flows from investing activities:		
Redemption (Purchase) of investments	(172,284)	(3,231)
Change in bond escrow account	406	--
Interest on investments	3,813	7,502
Net cash provided (used) by investing activities	(168,065)	4,271
Net increase (decrease) in cash	(17,967)	63,326
Cash and cash equivalents, beginning of year	70,338	9,262
Cash and cash equivalents, end of year	\$ 52,371	\$ 70,338
Reconciliation of net operating income to net cash provided (used) by operations		
Net (loss) from operations	\$ (253,451)	\$ (295,870)
Adjustments to reconcile net income to net cash (used) by operating activities:		
Depreciation expense	223,190	232,206
(Increase) decrease in:		
Accounts receivable	(2,068)	14,314
Other accounts receivable	(831)	(4,395)
Inventory	880	(3,073)
(Decrease) increase in:		
Accounts payable	(9,686)	(133,622)
Deferred property taxes	--	3,506
Accrued interest payable	(1,606)	19,092
Total adjustments	209,879	128,028
Net cash (used) by operating activities	\$ (43,572)	\$ (167,842)

The accompanying notes are an integral part of this statement.

1. Summary of significant accounting policies

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

Reporting entity

The District) was organized in 1966, and is governed by a five member elected Board of Directors. As required by US GAAP, these financial statements present the activities of the District that is legally separate and financially independent of other state and local governments. The District supplies water for the geographical area organized as the East Dillon Water District. The District has no component units as defined by the Governmental Accounting Standards Board (GASB), Statement 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, accounts receivable, accounts payable and accrued interest. The District estimates that the fair value of all financial instruments at December 31, 2003 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Estimates

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

Property taxes

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

Inventories

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

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 excesses were funded with available resources of the District.

3. Detailed notes concerning the fund

Deposits and investments – Custodial Credit Risk

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.

As of December 31, 2003, all of the District's deposits were either insured by the Federal Deposit Insurance Corporation or held in eligible public depositories as required by PDPA.

Investments

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

As of December 31, 2003, all District investments were deposited in a regulated local government investment pool.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Notes to Financial Statements
December 31, 2003**

3. Detailed notes concerning the fund (continued)

Contract services

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

Loan escrow account

Per the loan agreement with the Wells Fargo Bank the District has restricted cash deposited in a money market account with a fair value of \$52,676. See also long-term debt.

Accounts receivable

For the year ended December 31, 2003 the District adopted the requirements of GASB 33, accordingly property taxes are no longer recorded as a receivable or as deferred revenue as the lien on real property would not attach until January 1, 2004.

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, 2003, the District had recorded an account receivable of \$44,773.

Fixed assets

The following is a summary of the District's accumulated depreciation and depreciation expense at December 31, 2003:

	Accumulated depreciation	Depreciation expense
Water lines	\$ 868,367	\$ 43,985
Water pump stations	683,733	53,640
Water storage tanks	522,115	70,383
Well field\pumps	65,262	32,597
Equipment	33,571	7,048
Meters	49,789	15,537
Total	\$ 2,222,836	\$ 223,190

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.

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Notes to Financial Statements
December 31, 2003**

3. Detailed notes concerning the fund (continued)

Long-term debt (continued)

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.

Annual debt service requirements to maturity are as follows:

	Water Resources Note			Revenue Note		
	Principal	Interest	Total	Principal	Interest	Total
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	53,687	98,288	151,976	100,633	31,453	132,086
2009-13	304,665	455,213	759,878	416,790	44,954	461,790
2014-18	375,148	384,730	759,878			
2019-23	461,937	297,940	759,878			
2024-28	568,805	191,073	759,878			
2029-32	548,420	59,420	607,902			
Total	\$ 2,506,399	\$ 1,900,891	\$ 4,407,290	\$ 895,873	\$ 226,347	\$ 1,122,220

Changes in long-term debt

The following is an analysis of changes in long-term debt for the period ended December 31, 2003.

	Balance January 1, 2003	Additions	Payments	Balance December 31, 2003
Water Resources note	\$ 2,550,000	\$ --	\$ 43,601	\$ 2,506,399
Revenue note	977,666	--	81,793	895,873
	\$ 3,527,666	\$ --	\$ 125,394	\$ 3,402,272

**EAST DILLON WATER DISTRICT
FRISCO, COLORADO
Notes to Financial Statements
December 31, 2003**

3. Detailed notes concerning the fund (continued)

Contributed capital

Changes in contributed capital are as follows:

Balance December 31, 2001	\$	3,190,813
Add: Tap fees collected		196,000
Less: Depreciation charged to contributed capital		(21,586)
<hr/>		
Balance December 31, 2003	\$	3,365,227

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 \$90,000 for the year ended December 31, 2003. 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.