ALPENSEE WATER DISTRICT

—

General Purpose Financial Statements

December 31, 2001

—

TABLE OF CONTENTS

Independent Auditor's Report

Board of Directors
Alpensee Water District
Summit County, Colorado

We have audited the accompanying combined financial statements of the Alpensee Water District for the year ended December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the District. 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 the District, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Alpensee Water District as of December 31, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

February 10, 2003

ALPENSEE WATER DISTRICT

—

Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001
(With Comparative Totals for December 31, 2000)

—

	Governmental Fund Types		
	General Fund	**Capital Projects**	**Debt Service**
ASSETS AND OTHER DEBITS			
Investments	$ 1,922	$ 8,427	$ 263,536
Accounts receivable			144
Property taxes receivables – deferred			30,700
Other Debits			
Amount to be provided for retirement of general long-term obligations			
Amount available for retirement of long-term debt			
Water system			
Total assets and other debits	1,922	8,427	294,380
LIABILITIES			
Developer advance		48,000	
Accounts payable	1,922		
Deferred property tax revenue			30,700
Limited tax obligation bonds payable			
Subordinate lien bond			
Total liabilities	1,922	48,000	30,700
Commitments and contingencies – Note 6			
EQUITY			
Investment in general fixed assets			
Fund Balances			
Reserved			
Unreserved – designated			263,680
Deficit		(39,573)	
Total equity		(39,573)	263,680
TOTAL LIABILITIES AND EQUITY	$ 1,922	$ 8,427	$ 294,380

The notes to the financial statements are an integral part of this statement.

Account Groups		Totals (Memorandum Only)	
General Fixed Asset	**Long Term Obligation**	**2001**	**2000**
$	$	$ 273,885	$ 474,174
		144	5,201
		30,700	19,781
	1,399,631	1,399,631	1,465,686
	263,680	263,680	347,625
1,228,722		1,228,722	1,059,133
1,228,722	1,663,311	3,196,762	3,371,600
		48,000	
		1,922	10,324
		30,700	19,781
	1,350,000	1,350,000	1,500,000
	313,311	313,311	313,311
	1,663,311	1,743,933	1,843,416
1,228,722		1,228,722	1,059,133
			469,051
		263,680	
		(39,573)	
1,228,722		1,452,829	1,528,184
$ 1,228,722	$ 1,663,311	$ 3,196,762	$ 3,371,600

ALPENSEE WATER DISTRICT

—

Statement of Revenues, Expenditures, and Changes In Fund Balances – All Governmental Fund Types For the Year Ended December 31, 2001 (With Comparative Totals for December 31, 2000)

—

	Governmental Fund Types		
	General Fund	**Debt Service**	**Capital Projects**
REVENUES			
Property taxes	$	$ 20,631	$
Interest		12,718	5,902
Improvement fees		186,138	
Miscellaneous	100		2,688
Total revenues	100	219,487	8,590
EXPENDITURES			
Principal		150,000	
Interest expense		120,000	
Contract labor	9,600		
Accounting and auditing	5,268		
Insurance	1,920		
Legal	13,121		
Utilities	1,277		
Miscellaneous	375		
Paying agent and treasurer fees	1,971		
Capital expenses			169,589
Total expenditures	33,532	270,000	169,589
Excess of revenues over (under) expenditures	(33,432)	(50,513)	(160,999)
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issue			
Cost of issuance			
Advance – subordinate lien			
Transfers in (out)	33,432	(33,432)	
Total other financing sources	33,432	(33,432)	
Excess (deficiency)of revenue over expenditures and other financing sources		(83,945)	(160,999)
FUND BALANCE, January 1, 2001		347,625	121,426
FUND BALANCE (DEFICIT), December 31, 2001	$	$ 263,680	$ (39,573)

The notes to the financial statements are an integral part of this statement.

Totals (Memorandum Only)	
2001	**2000**
$ 20,631	$
18,620	7,606
186,138	286,000
2,788	
228,177	293,606
150,000	
120,000	34,667
9,600	
5,268	
1,920	
13,121	
1,277	
375	
1,971	767
169,589	1,509,133
473,121	1,544,567
(244,944)	(1,250,961)
	1,500,000
	(93,299)
	313,311
	1,720,012
(244,944)	469,051
469,051	
$ 224,107	$ 469,051

ALPENSEE WATER DISTRICT

Statement of Revenues, Expenditures, and Changes
In Fund Balances – Budget and Actual
All Governmental Fund Types
For the Year Ended December 31, 2001

	General Fund		
	Budget	**Actual**	**Variance - Favorable (Unfavorable)**
REVENUES			
Meter & water revenue	$ 17,000	$	$ (17,000)
Property Taxes			
Interest			
Improvement fees			
Miscellaneous		100	100
Total revenues	17,000	100	(16,900)
EXPENDITURES			
Meters	11,200		11,200
Contract labor	20,000	9,600	10,400
Accounting and auditing	5,000	5,268	(268)
Insurance	3,000	1,920	1,080
Legal	10,000	13,121	(3,121)
Utilities/Water testing	8,500	1,277	7,223
Miscellaneous	30,000	375	29,625
Interest			
Principal			
Paying agent fees/Trustee fees		1,971	(1,971)
Capital expenditures			
Total expenditures	87,700	33,532	54,168
Excess of revenues over expenditures	(70,700)	(33,432)	37,268
OTHER FINANCING SOURCES (USES)			
Transfers in (out)		33,432	33,432
Total other financing sources		33,432	33,432
Excess of revenues over expenditures and other financing sources	(70,700)		70,700
FUND BALANCE, January 1, 2001	87,500		(87,500)
FUND BALANCE (DEFICIT), December 31, 2001	$ 16,800	$	$ (16,800)

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

Debt Service			Capital Projects		
Budget	**Actual**	**Variance- Favorable (Unfavorable)**	**Budget**	**Actual**	**Variance - Favorable (Unfavorable)**
$ 19,981	$	$	$	$	$
	20,631	650			
	12,718	12,718		5,902	5,902
264,000	186,138	(77,862)			
				2,688	2,688
283,981	219,487	(64,494)		8,590	8,590
120,000	120,000				
150,000	150,000				
600		600			
				169,589	(169,589)
270,600	270,000	600		169,589	(169,589)
13,381	(50,513)	(63,894)		(160,999)	(160,999)
	(33,432)	(33,432)			
	(33,432)	(33,432)			
13,381	(83,945)	(97,326)		(160,999)	(160,999)
185,333	347,625	162,292		121,426	121,426
$ 198,714	$ 263,680	$ 64,966	$	$ (39,573)	$ 39,573

ALPENSEE WATER DISTRICT

—

Notes to Financial Statements
December 31, 2001

—

Note 1: Summary of Significant Accounting Policies

The District is a quasi-municipal corporation organized on November 20, 1999 for the purpose of providing public water improvements. It intends to derive its revenue principally from a limited property tax mill levy and improvement fees. It maintains its books on a modified accrual basis and prepares its financial statements in accordance with governmental accounting principles requiring segregated funds, and where appropriate, self balancing groups of accounts.

The District has no employees and all operations and administrative functions are contracted.

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

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

a) General Fund Accounting – This fund is established to account for resources devoted to financing the general services the District contracts to administer the operations of the District. This fund is charged with all costs of operating the government for which a separate fund has not been established.

b) Debt Service Fund – This fund is established for the purpose of accumulating resources for the payment of interest and principal on long-term obligation debt of the district.

c) Capital Projects Fund – The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

d) General Fixed Asset Group of Accounts – Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Public domain (infrastructure) general fixed assets consisting of water system improvement are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

Note 1: Summary of Significant Accounting Policies (continued)

e) Long-term Debt Group of Accounts – Long term debt obligations of the District are accounted for in this fund.

f) Basis of Accounting – The modified accrual basis of accounting is followed in the governmental fund types. Revenue is recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than interest or long-term obligations are recorded when the liability is incurred or the long-term obligation is paid. Those revenues subject to accrual are property taxes and interest earned on deposits.

g) Pooled Cash – The District follows the practice of pooling cash and investments of all funds to maximize interest earning. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single bank account. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. These funds are currently in various depository accounts including governmental trusts as specified in Note 4.

h) Taxes – Property taxes are levied by the District Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set during October or November by certification to the County Commissioner to put the tax lien on the individual properties as of December of each year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in installments, at the taxpayers election, in February or June. Delinquent taxpayers are notified in August and tax sales are in November. The County Treasurer remits the taxes collected monthly to the District.

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

Specific ownership taxes represent the Districts allocable share of the vehicle ownership taxes paid by automobile owners in the County.

Note 1: Summary of Significant Accounting Policies (continued)

i) Budgets – In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget assuming it meets the notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end. The District did not anticipate having any capital project funds remaining as they had budgeted the expenditure of those funds in 2000. Therefore the District exceeded its capital projects fund budget in 2001, which may be a violation of budget law.

j) Encumbrance accounting (open purchase orders, contracts in process and other commitments for the expenditures of funds in future periods) is not used by the District for budget or financial reporting purposes.

k) Fund Balance – The fund balances have been reserved for that portion of the fund balance that is legally segregated or is not subject to future appropriation. Designations of unreserved fund balances indicate the District's intention for future utilization of such funds and are subject to change by the District.

The District considers all unreserved fund balances to be "reserves" for future operations or capital replacement as defined within Article X, Section 20 of the Constitution of the State of Colorado (see Note 1).

The deficit fund balance in the capital projects fund was replenished in 2002 and the developer advance was repaid.

l) Total Columns – The Combined Financial Statements include a total column that is described as "memorandum only." Data in these columns do not present financial position in conformity with generally accepted accounting principles. The data is presented for comparative purposes only. Interfund eliminations have not been made in the aggregation of this data.

m) Tax, Spending and Debt Limitations

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR.

Note 1: Summary of Significant Accounting Policies (continued)

Tax, Spending and Debt Limitations (continued)

The initial base for local government spending and revenue limits is 1992 Fiscal Year Spending. Future spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

TABOR requires, with certain exceptions, voter approval prior to imposing new taxes, increasing a tax rate, increasing a mill levy above tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, TABOR specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or without irrevocably pledging present cash reserves for all future payments.

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

Note 2: Long-Term Debt

The following is an analysis of changes in general long-term debt for the year ended December 31, 2001:

	Balance at January 1, 2001	**Additions**	**Retirements**	**Balance at December 31, 2001**
Series 2000 G.O. Limited Tax Bonds	$ 1,500,000	$	$ 150,000	$ 1,350,000
Subordinate Lien Bond	313,311			313,311
Total	$ 1,813,311	$	$ 150,000	$ 1,663,311

Note 2: Long-Term Debt (continued)

Series 2000

In 2000, the District issued $1,500,000 of General Obligation Limited Tax Bonds dated September 1, 2000. The bonds mature and bear interest annually at a rate of 8% for term bonds maturing December 15, 2030. The bonds are subject to redemption, at the option of the District, on December 15, 2010 at par. The bonds are subject to mandatory sinking fund redemption, in part, by lot, on December 15, 2001 and on each December thereafter. The bonds were issued solely to financial or institutional investors as defined in Section 32-1-101 of the Colorado Revised Statutes and were issued in denominations of $500,000 each. Interest is payable on each June 15 and December 15 commencing December 15, 2000. The bonds are limited tax obligations' of the District payable solely from and to the extent of the pledged revenue. Pledged revenue consist of a limited mill levy not to exceed 50 mills and improvement fee revenue. The following is the debt requirement schedule of all principal and interest payments due on the bonds.

Year	Principal	Interest	Total
2002	$ 300,000	$ 108,000	$ 408,000
2003	5,000	84,000	89,000
2004	5,000	83,600	88,600
2005	5,000	83,200	88,200
2006	10,000	82,800	92,800
2007-2010	60,000	322,000	382,000
2011-2015	170,000	365,600	535,600
2016-2020	320,000	271,600	591,600
2021-2025	450,000	122,000	572,000
2026-2030	25,000	6,000	31,000
	$ 1,350,000	$ 1,528,800	$ 2,878,800

Subordinate Lien Bond

Contemporaneously with the issuance of the Series 2000 Bonds the District issued its Subordinate Lien Bond in the principal amount of $313,311 in consideration for the conveyance to the District of certain public water system improvements. The lien bond is payable solely from and served by a lien on pledged revenues (excluding the Improvement Fee Revenue) which is subordinate to the lien on the bonds.

Note 3: Improvement Fee Agreement

The Developer and the District in connection with the issuance of the Bonds, entered into the Improvement Fee Agreement, dated August 31, 2000, pursuant to which the Developer will agree to pay the District, for the use of the District's water facilities, an Improvement Fee (the "Improvement Fee") of $22,000 upon the sale by the Developer of a subdivided residential lot to a third party purchaser and an Improvement Fee of $44,000 upon the sale by the Developer to a third party purchaser of the property designated for each of four commercial buildings to be constructed within the District's commercial development.

At a minimum, and subject to the right of the Developer to accelerate payment of Improvement Fees and the termination of the Developer's obligation to pay Improvement Fees, the Developer is required, beginning on October 15, 2000, and on April 15 and October 15 of each of the years 2000 through and including 2004, to pay the District for use of the Improvements of the District, Improvement Fees in accordance with the following schedule (the "Improvement Fee Payment Schedule"), which provides for the cumulative purchase of 30 Improvement Fees for Lots for a total of $660,000 and the cumulative purchase of four Improvement Fees for Buildings for a total of $176,000, for a total aggregate amount of $836,000. Upon the payment of the total dollar amount and number of Improvement Fees set forth in the Improvement Fee Payment Schedule, the Developer is no longer responsible or obligated to pay any further Improvement Fees to the District.

Improvement Fee Schedule

Payment Date	Improvement Fee Payment
October 15, 2000	$ 220,000
April 15, 2001	132,000
October 15, 2001	132,000
April 15, 2002	132,000
October 15, 2002	132,000
April 15, 2003	22,000
October 15, 2003	22,000
April 15, 2004	22,000
October 15, 2004	22,000
	$ 836,000

As of December 31, 2001 the developer had paid $472,138 of the 484,000 owed under this agreement. Subsequent to the year end the developer has paid the entire amount due under the agreement amounting to $836,000.

Note 3: Improvement Fee Agreement (Continued)

The Developer is required to secure a portion of its obligations under the Improvement Fee Agreement with an irrevocable stand-by Letter of Credit (the "Letter of Credit"). Such Letter of Credit is to be maintained in the stated amount of $418,000 until the amount payable under the Improvement Fee Payment Schedule is reduced to $418,000, after which the stated amount of the Letter of Credit may be reduced within three business days of each payment of an Improvement Fee in an amount equal to the Improvement Fee paid to the District by the Developer. The initial Letter of Credit is to be issued by FirsTier Bank (now Compass Bank), Westminster, Colorado (the "Letter of Credit Bank"), and will have an expiration date of August 3, 2001. Subsequent to the year end and upon payment of the improvement fee in total, the letter of credit has been reduced to zero.

Note 4: Cash and Investments

Cash Deposits

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

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

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contracts
- Local government investment pools

Note 4: Cash and Investments (Continued)

The District's investments are recorded at fair value. During 2001 and at December 31, 2001, the investments consisted of the following:

Cash in Checking – insured	$ 3,048
Money Market	89,679
U.S. Treasury Obligations	181,158
Total cash deposits and investments	$ 273,885

Investments in local government investment pools or in money market funds are not categorized as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

Note 5: Related Party Transactions

All members of the Board of Directors are principals of the Developer and are related by blood or marriage. These members may have conflicts of interest with respect to certain transactions which come before the Board.

Note 6: Risk Management

The District is exposed to various risks of loss related to torts, thefts, error or omissions, injuries to employees, or acts of God. The District maintains commercial insurance for all significant risks of loss. There have been no claims in the past year.

Note 7: Developer Advance

The Developer of the District advanced $48,000 in 2001 which was repaid in 2002.

Note 8: Property

An analysis of changes in property for the year ended December 31, 2001 follows:

	Balance 12/31/00	Additions	Balance 12/31/01
Water System	$ 1,059,133	$ 169,589	$ 1,228,722