

ALPENSEE WATER DISTRICT
—
General Purpose Financial Statements

December 31, 2002

ROBERT L. HOERR, P.C.
Certified Public Accountant

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ROBERT L. HOERR, P.C.

Certified Public Accountant

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, 2002, 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.

The District has not yet established a revenue base sufficient to pay its debt service and operational expenditures. As discussed in Note 8, the District is dependent upon the Developer of the property within the District's service area to provide funds for such expenditures.

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, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robert L. Hoerr, P.C.

November 24, 2003

ALPENSEE WATER DISTRICT
 —
Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002
 (With Comparative Totals for December 31, 2001)

	Governmental Fund Types		
	General Fund	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS			
Investments	\$ 674	\$ 197,156	\$ —
Accounts receivable	—	175	—
Property taxes receivables – deferred	—	61,000	—
Due from capital projects	—	39,573	—
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	\$ 674	\$ 297,904	\$ —
LIABILITIES			
Due to debt service	\$ —	\$ —	\$ 39,573
Developer advance	—	—	—
Accounts payable	674	575	—
Deferred property tax revenue	—	61,000	—
Limited tax obligation bonds payable	—	—	—
Subordinate lien bond	—	—	—
Total liabilities	674	61,575	39,573
Commitments and contingencies – Note 6	—	—	—
EQUITY			
Investment in general fixed assets	—	—	—
Fund Balances			
Unreserved – designated	—	236,329	—
Deficit	—	—	(39,573)
Total equity	—	—	—
TOTAL LIABILITIES AND EQUITY	\$ 674	\$ 297,904	\$ —

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

Account Groups		Totals (Memorandum Only)	
General Fixed Asset	Long Term Obligation	2002	2001
\$ —	\$ —	\$ 197,830	\$ 273,885
—	—	175	144
—	—	61,000	30,700
—	—	39,573	—
—	1,126,982	1,126,982	1,399,631
—	236,329	236,329	263,680
1,228,722	—	1,228,722	1,228,722
<u>\$ 1,228,722</u>	<u>\$ 1,363,311</u>	<u>\$ 2,890,611</u>	<u>\$ 3,196,762</u>
\$ —	\$ —	\$ 39,573	\$ —
—	—	—	48,000
—	—	1,249	1,922
—	—	61,000	30,700
—	1,050,000	1,050,000	1,350,000
—	313,311	313,311	313,311
—	1,363,311	1,465,133	1,743,933
—	—	—	—
1,228,722	—	1,228,722	1,228,722
—	—	236,329	263,680
—	—	(39,573)	(39,573)
—	—	1,425,478	1,452,829
<u>\$ 1,228,722</u>	<u>\$ 1,363,311</u>	<u>\$ 2,890,611</u>	<u>\$ 3,196,762</u>

ALPENSEE WATER DISTRICT

**Statement of Revenues, Expenditures, and Changes
In Fund Balances – All Governmental Fund Types
For the Year Ended December 31, 2002
(With Comparative Totals for December 31, 2001)**

	Governmental Fund Types		
	General Fund	Debt Service	Capital Projects
REVENUES			
Specific ownership taxes	\$ —	\$ 1,995	\$ —
Property taxes	—	48,502	—
Interest	862	5,431	—
Improvement fees	—	363,862	—
Miscellaneous	3,670	—	—
Total revenues	4,532	419,790	—
EXPENDITURES			
Principal	—	300,000	—
Interest expense	—	108,000	—
Contract labor	18,300	—	—
Accounting and auditing	1,823	—	—
Insurance	2,655	—	—
Legal	6,183	—	—
Utilities	7,500	—	—
Miscellaneous	1,220	—	—
Paying agent and treasurer fees	—	4,609	—
Maintenance	1,383	—	—
Capital expenditures	—	—	—
Total expenditures	39,064	412,609	—
Excess of revenues over (under) expenditures	(34,532)	7,181	—
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	34,532	(34,532)	—
Total other financing sources (uses)	34,532	(34,532)	—
Excess (deficiency) of revenue over expenditures and other financing sources	—	(27,351)	—
FUND BALANCE, January 1, 2002	—	263,680	(39,573)
FUND BALANCE (DEFICIT), December 31, 2002	\$ —	\$ 236,329	\$ (39,573)

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

Totals (Memorandum Only)

<u>2002</u>		<u>2001</u>	
S	1,995	S	—
	48,502		20,631
	6,293		18,620
	363,862		186,138
	3,670		2,788
<hr/>		<hr/>	
	424,322		228,177
<hr/>		<hr/>	
	300,000		150,000
	108,000		120,000
	18,300		9,600
	1,823		5,268
	2,655		1,920
	6,183		13,121
	7,500		1,277
	1,220		375
	4,609		1,971
	1,383		—
	—		169,589
<hr/>		<hr/>	
	451,673		473,121
<hr/>		<hr/>	
	(27,351)		(244,944)
<hr/>		<hr/>	
	—		—
<hr/>		<hr/>	
	—		—
<hr/>		<hr/>	
	(27,351)		(244,944)
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	224,107		469,051
<hr/>		<hr/>	
S	196,756	S	224,107

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, 2002**

	General Fund		
	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES			
Meter and water revenue	\$ 12.660	\$ 3.670	\$ (8.990)
Property Taxes	—	—	—
Interest	—	862	862
Improvement fees	—	—	—
Specific ownership taxes	—	—	—
Total revenues	12.660	4.532	(8.128)
EXPENDITURES			
Maintenance and repair	2.500	1.383	1.117
Contract labor	23.000	18.300	4.700
Accounting and auditing	5.000	1.823	3.177
Insurance	2.500	2.655	(155)
Legal	5.000	6.183	(1.183)
Utilities Water testing	3.500	7.500	(4.000)
Miscellaneous	1.909	1.220	689
Interest	—	—	—
Principal	—	—	—
Paying agent fees/Trustee fees	—	—	—
Capital expenditures	—	—	—
Total expenditures	43.409	39.064	4.345
Excess of revenues over expenditures	(30.749)	(34.532)	(3.783)
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	61.427	34.532	(26.895)
Total other financing sources	61.427	34.532	(26.895)
Excess of revenues over expenditures and other financing sources	30.678	—	(30.678)
FUND BALANCE, January 1, 2002	—	—	—
FUND BALANCE (DEFICIT), December 31, 2002	\$ 30,678	\$ —	\$ 30,678

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

Debt Service			Capital Projects		
Amended Budget	Actual	Variance-Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
30,749	48,502	17,753	—	—	—
6,000	5,431	(569)	—	—	—
264,000	363,862	99,862	—	—	—
—	1,995	1,995	—	—	—
300,749	419,790	119,041	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
—	—	—	—	—	—
108,000	108,000	—	—	—	—
300,000	300,000	—	—	—	—
5,000	4,609	391	—	—	—
—	—	—	—	—	—
413,000	412,609	391	—	—	—
(112,251)	7,181	119,432	—	—	—
(30,749)	(34,532)	(3,783)	—	—	—
30,749	(34,532)	(3,783)	—	—	—
(143,000)	(27,351)	115,649	—	—	—
307,006	263,680	(43,326)	—	(39,573)	(39,573)
\$ 164,006	\$ 236,329	\$ 72,323	\$ —	\$ (39,573)	\$ (39,573)

ALPENSEE WATER DISTRICT

Notes to Financial Statements December 31, 2002

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 financially 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.

ALPENSEE WATER DISTRICT

Notes to Financial Statements
December 31, 2002

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.

ALPENSEE WATER DISTRICT

Notes to Financial Statements December 31, 2002

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. Subsequent to the year end, the District amended its Debt Service budget from \$409,000 to \$413,000.
- 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 is anticipated to be replenished in 2003.

- 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.

ALPENSEE WATER DISTRICT

Notes to Financial Statements
December 31, 2002

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, 2002:

	Balance at January 1, 2002	Additions	Retirements	Balance at December 31, 2002
Series 2000 G.O. Limited Tax Bonds	\$ 1,350,000	\$ —	\$ 300,000	\$ 1,050,000
Subordinate Lien Bond	313,311	—	—	313,311
Total	\$ 1,663,311	\$ —	\$ 300,000	\$ 1,363,311

ALPENSEE WATER DISTRICT

Notes to Financial Statements
December 31, 2002

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 consists 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
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	10,000	82,000	92,000
2008-2010	50,000	240,000	290,000
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
	\$1,050,000	\$1,420,800	\$2,470,800

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.

ALPENSEE WATER DISTRICT

Notes to Financial Statements December 31, 2002

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.

As of December 31, 2002 the developer had paid the entire amount due under the agreement amounting to \$836,000.

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.

ALPENSEE WATER DISTRICT

Notes to Financial Statements
December 31, 2002

Note 4: Cash and Investments (continued)

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

The District's investments are recorded at fair value. During 2002 and at December 31, 2002, the investments consisted of the following:

Cash in Checking – insured	\$ 12.833
Money Market	43.581
U.S. Treasury Obligations	<u>141.416</u>
Total cash deposits and investments	<u>\$ 197.830</u>

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.

ALPENSEE WATER DISTRICT

Notes to Financial Statements
December 31, 2002

Note 7: Property

An analysis of changes in property for the year ended December 31, 2002 follows:

	<u>Balance 12/31/01</u>	<u>Additions</u>	<u>Balance 12/31/02</u>
Water System	\$ 1,228,722	\$ —	\$ 1,228,722

Note 8: Economic Dependency

The District has not yet established a revenue base sufficient to pay the District's debt service requirements and operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer to pay long-term debt obligations and operations.