



PINEWOOD SPRINGS WATER DISTRICT
Larimer County, Colorado

FINANCIAL STATEMENTS
December 31, 2002

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Independent Auditor's Report

Board of Directors
Pinewood Springs Water District
Larimer County, Colorado

We have audited the accompanying balance sheets of Pinewood Springs Water District as of December 31, 2002 and 2001 and the related statements of revenue, expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinewood Springs Water District as of December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information as listed in the Table of Contents is presented for management analysis and legal compliance purposes and is not a required part of the financial statements of Pinewood Springs Water District. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Clifton Gunderson LLP

Greenwood Village, Colorado
August 18, 2003

FINANCIAL STATEMENTS

PINEWOOD SPRINGS WATER DISTRICT
BALANCE SHEETS
December 31, 2002 and 2001

ASSETS	2002	2001
CURRENT ASSETS		
Cash and cash equivalents	\$ 90,849	\$ 164,872
Property taxes receivable	52,000	50,100
Accounts receivable	20,128	40,771
Inventories	4,163	5,669
Prepaid insurance	12,482	-
Other assets	476	476
Total current assets	180,098	261,888
PROPERTY, PLANT AND EQUIPMENT		
Equipment	123,472	114,009
Filtration plant	219,847	219,847
Water system	1,107,598	1,060,437
Easements	2,738	2,738
Water rights	21,837	21,837
Work in process	4,645	4,645
	1,480,137	1,423,513
Accumulated depreciation	(575,015)	(538,230)
Net property, plant and equipment	905,122	885,283
TOTAL ASSETS	\$ 1,085,220	\$ 1,147,171
 LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 13,995	\$ 22,325
Current portion of long-term debt	31,510	26,438
Accrued expenses payable	5,084	4,676
Deferred property tax revenue	52,000	50,100
Total current liabilities	102,589	103,539
LONG-TERM LIABILITIES		
Bonds and loan payable	366,832	398,342
Total liabilities	469,421	501,881
FUND EQUITY		
Contributed capital	313,503	313,503
Retained earnings	302,296	331,787
Total fund equity	615,799	645,290
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,085,220	\$ 1,147,171

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PINEWOOD SPRINGS WATER DISTRICT
STATEMENTS OF REVENUE, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
Years Ended December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
OPERATING REVENUE		
Water service fees	\$ 257,428	\$ 263,137
Total operating revenue	<u>257,428</u>	<u>263,137</u>
OPERATING EXPENSES		
Operations	301,099	321,258
Administrative	49,339	47,596
Total operating expenses	<u>350,438</u>	<u>368,854</u>
OPERATING (LOSS)	<u>(93,010)</u>	<u>(105,717)</u>
NONOPERATING REVENUE AND (EXPENSES)		
Property taxes	49,715	49,510
Specific ownership taxes	5,578	6,140
Tap fees	20,000	-
Interest income	5,249	15,923
Grant revenue	5,000	-
Other revenue	1,390	254
Bond agent fee	(200)	(400)
Treasurer's fee	(987)	(991)
Interest expense	(22,226)	(23,461)
Total nonoperating revenue	<u>63,519</u>	<u>46,975</u>
NET (LOSS)	(29,491)	(58,742)
RETAINED EARNINGS - BEGINNING OF YEAR	<u>331,787</u>	<u>390,529</u>
RETAINED EARNINGS - END OF YEAR	<u><u>\$ 302,296</u></u>	<u><u>\$ 331,787</u></u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PINEWOOD SPRINGS WATER DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2002 and 2001**

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating (loss)	\$ (93,010)	\$ (105,717)
Adjustments to reconcile change in net assets to net cash (required) by operating activities		
Depreciation	65,868	53,453
Effects of changes in operating assets and liabilities:		
Accounts receivable	20,643	(18,760)
Inventories	1,506	-
Prepaid expenses	(12,482)	1,233
Accounts payable	(8,330)	17,237
Accrued expenses payable	408	471
Cash flows (required) by operating activities	(25,397)	(52,083)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Specific ownership taxes	5,578	6,140
Grant income	5,000	-
Miscellaneous income	1,390	254
Cash flows provided by noncapital financing activities	11,968	6,394
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Net property taxes levied for debt service	48,728	48,519
Principal paid on general obligation debt	(26,438)	(26,368)
Interest paid	(22,226)	(23,461)
Bond agent fee	(200)	(400)
Tap fees	20,000	-
Acquisition of fixed assets	(85,707)	(194,848)
Cash flows (required) by capital and related financing activities	(65,843)	(196,558)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	5,249	15,923
Cash flows provided by investing activities	5,249	15,923
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(74,023)	(226,324)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	164,872	391,196
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 90,849	\$ 164,872

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001**

NOTE 1 - DEFINITION OF REPORTING ENTITY

The District, a quasi-municipal corporation was organized on April 19, 1978 and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Larimer County, Colorado. The District was established to provide water services to the properties within its service area.

The District follows the Governmental Accounting Standards Board (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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The District has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

The more significant accounting policies of the District are described as follows:

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for property, plant and equipment are shown as increases in assets. Redemption of bonds and loans are recorded as a reduction in liabilities.

**PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

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.

Cash Equivalents

For purposes of the statement of cash flows, the District considers cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Inventories

Inventory is valued at the lower of cost using the first-in, first-out method, or market.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost except for those assets which have been contributed which are stated at estimated fair value at the date of contribution. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives.

Water Rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property 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 by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November or December. The County Treasurer remits the taxes collected monthly to the District.

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

Compensated Absences

Compensated absences are recorded as current salary when paid. It is the District's policy that compensated absences do not accumulate, therefore, no accrual is necessary.

Tap Fees and Contributed Lines

Tap fees are recorded as nonoperating revenue when received. Lines contributed to the District by developers are recorded as nonoperating revenue and additions to the systems at the developer's cost.

Reclassifications

For comparability, certain 2001 amounts have been reclassified where appropriate to conform with the 2002 financial statement presentation.

**PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001**

NOTE 3 - 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.

At December 31, 2002 and 2001, the District's cash deposits had a bank balance and a carrying balance as follows:

	2002		2001	
	Carrying Balance	Bank Balance	Carrying Balance	Bank Balance
Insured deposits	\$ 20,551	\$ 31,909	\$ 122,676	\$ 121,192

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 funds
- Guaranteed investment contracts
- Local government investment pools

Investments are carried at fair value. Investments in local government investment pools or in money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

COLOTRUST

As of December 31, 2002 and 2001, the District had invested in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. As of December 31, 2002 and 2001, the District had \$70,298 and \$42,196, respectively, invested in COLOTRUST PLUS+.

	2002	2001
Cash deposits	\$ 20,551	\$ 122,676
Investments	70,298	42,196
	\$ 90,849	\$ 164,872

NOTE 4 - LONG-TERM OBLIGATIONS

	Balance January 1, 2002	New Issues	Retirements	Balance December 31, 2002
1998 - General Obligation Water Bonds	\$ 415,000	\$ -	\$ 25,000	\$ 390,000
1992 - Impact Assistance Loan/grant	9,780	-	1,438	8,342
Total long-term debt	424,780	\$ -	\$ 26,438	398,342
Less current portion	(26,438)			(31,510)
Long-term portion	\$ 398,342			\$ 366,832

**PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001**

NOTE 4 - LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Bonds

\$500,000 General Obligation Water Bonds, Series 1998, dated March 1, 1998 with interest of 4.25% to 5.80% due semiannually on June 1 and December 1. Bonds that mature December 1, 1998 through December 1, 2008 are not callable prior to maturity. Bonds maturing thereafter are subject to redemption prior to maturity, in whole or in part, in inverse order of maturity, on December 1, 2008, and on any subsequent interest payment date, upon payment of their par value and accrued interest, without redemption premium, at the option of the District.

\$20,000 Impact Assistance Loan/Grant, dated July 10, 1992 from the Colorado Department of Local Affairs to fund a water treatment project. The loan is payable annually through 2007 with an interest rate of 5% per annum.

The District's long-term obligations will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 31,510	\$ 21,090	\$ 52,600
2004	31,585	19,559	51,144
2005	31,664	18,010	49,674
2006	26,748	16,442	43,190
2007	26,835	15,104	41,939
Thereafter	<u>250,000</u>	<u>77,250</u>	<u>327,250</u>
	<u>\$ 398,342</u>	<u>\$ 167,455</u>	<u>\$ 565,797</u>

NOTE 5 - RISK MANAGEMENT

The District is one of approximately 450 special districts which are members of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2002. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and worker's compensation coverage to its members. The Pool provides coverage for property claims up to \$30,000,000 and liability coverage for claims up to \$1,000,000. Employment related wrongful termination claims are shared 50% with the Pool up to \$200,000 (\$100,000 Pool and \$100,000 District). The District is responsible for all claims in excess of \$200,000. Worker's compensation claims are covered up to statutory limits, with claims related to employer's liability up to \$2,000,000. Settled claims have not exceeded this coverage in any of the past three fiscal years.

**PINEWOOD SPRINGS WATER DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2002 and 2001**

NOTE 5 - RISK MANAGEMENT (CONTINUED)

The District pays annual premiums to the Pool for liability, property, public officials liability and worker's compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. 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.

A summary of the most current information available of audited financial information for the Pool as of and for the year ended December 31, 2002 is as follows:

Assets	<u>\$ 6,644,712</u>
Liabilities	\$ 3,248,831
Capital and surplus	<u>3,395,881</u>
	<u>\$ 6,644,712</u>
Revenue	\$ 3,839,175
Underwriting expenses	<u>3,441,055</u>
Underwriting gain	398,120
Other income	<u>116,766</u>
Net income	<u>\$ 514,886</u>

There is no current or long-term debt outstanding. The above liabilities represent incurred claims and an estimated liability for incurred but not reported claims at December 31, 2002.

NOTE 6 - TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (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. The District's management believes a significant portion of its operations qualifies for this exclusion.

PINEWOOD SPRINGS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2002 and 2001

NOTE 6 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

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.

On February 15, 1998, a majority of the District's electors authorized the District to collect and spend or retain in a reserve all taxes levied for debt service on general obligation bonds or other obligations up to \$64,188 annually, without regard to any limitations under TABOR.

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 and qualification as an Enterprise will require judicial interpretation.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

PINEWOOD SPRINGS WATER DISTRICT
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUNDS AVAILABLE
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended December 31, 2002

	Budget	Actual	Variance - Favorable (Unfavorable)
REVENUE			
Water service fees	\$ 333,048	\$ 257,428	\$ (75,620)
Property taxes	50,000	49,715	(285)
Specific ownership taxes	6,000	5,578	(422)
Interest income	6,500	5,249	(1,251)
Tap fees	-	20,000	20,000
Grant revenue	-	5,000	5,000
Other revenue	-	1,390	1,390
	395,548	344,360	(51,188)
EXPENDITURES			
Operations	318,740	235,231	83,509
Administrative	35,950	49,339	(13,389)
Bond agent fee	600	200	400
Treasurer's fee	800	987	(187)
Note payment - Principal	1,438	1,438	-
Bond principal	25,000	25,000	-
Bond interest	22,349	22,226	123
Capital outlay	65,000	85,707	(20,707)
	469,877	420,128	49,749
EXCESS REVENUE (UNDER)			
EXPENDITURES	(74,329)	(75,768)	(1,439)
FUNDS AVAILABLE – BEGINNING OF YEAR	185,808	184,787	(1,021)
FUNDS AVAILABLE – END OF YEAR	\$ 111,479	\$ 109,019	\$ (2,460)
Funds available is computed as follows:			
Current assets		\$ 180,098	
Current liabilities		(102,589)	
		77,509	
Current portion of long-term debt		31,510	
		\$ 109,019	

**PINEWOOD SPRINGS WATER DISTRICT
RECONCILIATION OF BUDGETARY BASIS (ACTUAL) TO
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS
Year Ended December 31,2002**

Revenue (budgetary basis)	\$ 344,360
Total revenue per statement of revenue, expenses and changes in retained earnings	344,360
Expenditures (budgetary basis)	420,128
Depreciation	65,868
Capital outlay	(85,707)
Note payment - Principal	(1,438)
Bond principal	(25,000)
Total expenses per statement of revenue, expenses and changes in retained earnings	373,851
Net (loss) per statement of revenue, expenses and changes in retained earnings	\$ (29,491)

PINEWOOD SPRINGS WATER DISTRICT
SCHEDULE OF OPERATING AND ADMINISTRATIVE EXPENDITURES
BUDGET AND ACTUAL
Year Ended December 31,2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
OPERATIONS EXPENDITURES			
Wages and payroll taxes	\$ 84,240	\$ 94,888	\$ (10,648)
Contract labor	12,000	378	11,622
Employee benefits	3,650	2,057	1,593
Equipment rental	1,000	-	1,000
Insurance	200	515	(315)
Mileage	150	1,090	(940)
Miscellaneous	500	30	470
Propane	4,000	4,123	(123)
Purchased power	10,000	8,802	1,198
Rent	12,000	9,257	2,743
Repairs and maintenance	26,000	25,492	508
Supplies and chemicals	8,000	2,788	5,212
Telephone	2,200	2,064	136
Gasoline	1,800	1,337	463
Purchased water	150,000	59,174	90,826
Water storage	1,000	952	48
Water storage study	-	19,959	(19,959)
Water testing	2,000	2,325	(325)
Total operations expenditures	<u>\$ 318,740</u>	<u>\$ 235,231</u>	<u>\$ 83,509</u>
ADMINISTRATIVE EXPENDITURES			
Board compensation	\$ 5,250	\$ 6,150	\$ (900)
Insurance	9,500	12,543	(3,043)
Advertising	-	192	(192)
Miscellaneous	300	2,335	(2,035)
Office	2,500	3,163	(663)
Professional fees	15,000	22,732	(7,732)
Taxes and licenses	600	23	577
Telephone	1,300	1,018	282
Travel	1,500	1,183	317
Total administrative expenditures	<u>\$ 35,950</u>	<u>\$ 49,339</u>	<u>\$ (13,389)</u>