

**Three Lakes Water and Sanitation District
Grand County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditors' Report

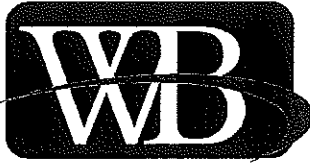
December 31, 2010 and 2009

Three Lakes Water and Sanitation District

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WAGNER
BARNES, PC

Certified Public Accountants and Business Consultants

Independent Auditors' Report

Board of Directors
Three Lakes Water and Sanitation District
Grand County, Colorado

We have audited the accompanying financial statements of the business-type activities of Three Lakes Water and Sanitation District (the District), as of and for the year ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions 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 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the District as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wagner Barnes, PC

Lakewood, Colorado
May 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Three Lakes Water and Sanitation District's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should review the information presented here in conjunction with the basic financial statements and the notes to financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

- Assets of the District exceeded its liabilities at the close of the fiscal year by \$15,808,349 (net assets).
- The District's total net assets increased by \$7,075 from the prior fiscal year.
- Actual operating revenues collected increased \$25,881 over the prior year. The District collected \$24,026 more in user fees than in the prior year.
- Operating expenses increased \$163,210 from the previous year. Administrative costs were reduced approximately \$84,000.
- Tap fees increased \$203,175.

Overview of the Financial Statements

The Three Lakes Water and Sanitation District basic financial statements included in this report are those of a special-purpose government engaged in a business-type activity, providing sanitary sewer services. The statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Basic Financial Statements. The basic financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned compensation). The statement reports the District's operating and nonoperating revenue by source along with operating and nonoperating expenses and capital contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Statement of Cash Flows* reports the District's cash flows from operating activities, investing, capital and noncapital activities.

The *Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

A budgetary comparison statement has been provided in the *supplemental information* to demonstrate compliance with the budget.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Three Lakes Water and Sanitation District, assets exceeded liabilities by \$15,808,349 at the close of the most recent fiscal year.

Statement of Net Assets

	December 31,		
	2010	2009	2008
Current assets	\$ 2,289,190	\$ 2,178,482	\$ 2,033,612
Capital assets	17,995,882	18,440,284	19,038,810
Other assets	7,924	9,905	11,886
Total assets	20,292,996	20,628,671	21,084,308
Current liabilities	1,191,623	1,195,685	1,208,021
Other liabilities	1,400	1,400	1,400
Long-term obligations	3,291,624	3,630,312	3,958,416
Total liabilities	4,484,647	4,827,397	5,167,837
Net assets:			
Invested in capital assets, net of related debt	14,365,570	14,481,868	14,774,760
Restricted	385,000	328,094	409,700
Unrestricted	1,057,779	991,312	732,011
Net assets	\$ 15,808,349	\$ 15,801,274	\$ 15,916,471

The District has approximately 91% of its net assets invested in capital assets (e.g., sewer system, plant, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

The District's unrestricted current assets are almost double current liabilities and may be used to meet the District's ongoing obligations to its citizens and creditors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	For the Years Ended December 31,		
	2010	2009	2008
Operating revenues			
Charges for services	\$ 1,283,663	\$ 1,230,143	\$ 1,344,241
Miscellaneous income	136,211	86,311	122,074
Operating expenses			
Operating	1,899,441	1,736,231	1,951,652
Administrative	325,466	409,687	753,910
Operating (loss)	(805,033)	(829,464)	(1,239,247)
Nonoperating revenues (expenses)	535,808	550,469	508,186
Lawsuit settlement revenue	-	-	410,000
Capital contributions	276,300	163,798	75,000
Change in net assets	7,075	(115,197)	(246,061)
Net assets - beginning	15,801,274	15,916,471	16,162,532
Net assets - ending	\$ 15,808,349	\$ 15,801,274	\$ 15,916,471

The District's primary sources of revenue are from charges for services and from property taxes. These revenues are used to pay the cost of general government and the cost of sewer utility activities.

Budgetary Highlights

The District prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay and debt repayment in addition to operations and nonoperating revenue and expenses and contributions. Depreciation is not reflected in the budget since it does not affect funds available. Funds available (current assets less current liabilities, exclusive of the current portion of long-term obligations) increased \$125,354 during 2010. The District expended \$2,332,642. Revenue exceeded administration, operations and debt service payments by \$125,354.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

The District's net investment in capital assets as of December 31, 2010 and 2009 was as follows:

Capital Assets

	December 31,	
	2010	2009
Land	\$ 103,699	\$ 103,699
Rights and easements	101,428	101,428
Water rights	29,000	29,000
Buildings and improvements	1,308,093	1,308,093
Sewer system	22,524,385	22,169,927
Plant expansion	9,987,288	9,987,288
Vehicles and equipment	1,275,284	1,255,938
Furniture and office equipment	151,349	151,349
CAD maps	145,606	145,606
Total assets	35,626,132	35,252,328
Accumulated depreciation	(17,630,250)	(16,812,044)
Net capital assets	\$ 17,995,882	\$ 18,440,284

Additional information relating to the District's capital assets activity can be found in Note 4 of this report.

District personnel completed an upgrade of radio equipment at ten of the lift station sites. These radios send information to computers and to Operator cell phones for immediate attention if needed.

District personnel cleaned and videoed approximately two miles worth of sewer main, sewage of which flows to the Meadows Lift Station. Meadows Lift Station is located near the Colorado River and Highway 34. Manhole repairs have been targeted for 2011 to eliminate infiltration/inflow problems in this area.

Rehabilitation of approximately 1,640 feet of 10 and 12 inch sewer main using a "cured in place" lining process was completed within the Town of Grand Lake.

The District completed repair of sewer main at approximately 25 sites within the Town of Grand Lake. Much of the sewer main repaired at the particular sites was dilapidated clay piping installed in the 50's and 60's.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Debt Administration

As of December 31, 2010 the District had total liabilities of \$4,484,647. Of this amount, \$3,630,312 is a note payable to the Colorado Water Resources and Power Development Authority.

Additional detail on the District's debt is in Note 5 of this report.

Economic Factors and Next Year's Budget

The economy continues on a downward trend, with very little building activity going on within the District. Two large developments generated the bulk of the tap fees generated in 2010, the Grand Lake Repertory Theatre and Grand Camp. Thirteen taps were sold for new construction of residential dwellings. Tap fees are generally set aside for capital projects.

The Facilities Plan was completed and the District will now seek funding for projects, such as the replacement of two of our large lift stations, at a cost of well over one million each.

Requests for Information

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

District Manager
Three Lakes Water and Sanitation District
P.O. Box 899
Grand Lake, Colorado 80447

BASIC FINANCIAL STATEMENTS

Three Lakes Water and Sanitation District

STATEMENTS OF NET ASSETS

December 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 116,424	\$ 155,843
Investments	963,334	826,894
Investments - restricted	385,000	328,094
Accounts receivable - users and Treasurer	41,491	45,459
Accounts receivable - other	13,716	833
Notes receivable	-	6,597
Property taxes receivable	729,007	727,993
Inventory	40,218	86,769
Total current assets	2,289,190	2,178,482
Capital assets		
Capital assets, not being depreciated	234,127	234,127
Capital assets being depreciated	17,761,755	18,206,157
Capital assets, net	17,995,882	18,440,284
Other assets		
Debt issuance costs (net of accumulated amortization of \$25,752 and \$23,771)	7,924	9,905
Total other assets	7,924	9,905
Total assets	\$ 20,292,996	\$ 20,628,671
LIABILITIES		
Current liabilities		
Accounts payable	\$ 16,122	\$ 23,961
Unearned user fees	11,307	10,214
Accrued salaries, benefits and related liabilities	21,309	17,953
Accrued interest payable	75,190	87,460
Deferred property taxes	729,007	727,993
Current portion of long-term obligations	338,688	328,104
Total current liabilities	1,191,623	1,195,685
Other Liabilities		
Deposits	1,400	1,400
Total other liabilities	1,400	1,400
Long-term obligations		
Total liabilities	3,291,624	3,630,312
Total liabilities	4,484,647	4,827,397
NET ASSETS		
Invested in capital assets, net of related debt	14,365,570	14,481,868
Restricted	385,000	328,094
Unrestricted	1,057,779	991,312
Total net assets	\$ 15,808,349	\$ 15,801,274

The accompanying Notes to Financial Statements are an integral part of these statements.

Three Lakes Water and Sanitation District
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For The Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUES		
Charges for services	\$ 1,283,663	\$ 1,230,143
Miscellaneous income	136,211	86,311
Total operating revenues	1,419,874	1,316,454
OPERATING EXPENSES		
Operating expenses	1,083,531	835,868
Amortization of arbitration costs	48,275	48,275
Depreciation	767,635	852,088
Total operating expenses	1,899,441	1,736,231
GENERAL AND ADMINISTRATIVE EXPENSES		
Administrative expenses	323,170	400,083
Depreciation	2,296	9,604
Total general and administrative expenses	325,466	409,687
OPERATING (LOSS)	(805,033)	(829,464)
NONOPERATING REVENUES		
Property taxes	727,071	725,447
Specific ownership taxes	27,226	32,981
Net investment income	7,525	29,856
Total nonoperating revenues	761,822	788,284
NONOPERATING EXPENSES		
County Treasurer fees	36,543	36,426
Debt interest	187,490	199,408
Amortization of debt issue costs	1,981	1,981
Total nonoperating expenses	226,014	237,815
LOSS BEFORE CAPITAL CONTRIBUTIONS	(269,225)	(278,995)
CAPITAL CONTRIBUTIONS		
Tap fees	276,300	73,125
Line extensions	-	90,673
Total capital contributions	276,300	163,798
CHANGE IN NET ASSETS	7,075	(115,197)
NET ASSETS - beginning of year	15,801,274	15,916,471
NET ASSETS - end of year	\$ 15,808,349	\$ 15,801,274

The accompanying Notes to Financial Statements are an integral part of these statements.

Three Lakes Water and Sanitation District
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,418,649	\$ 1,340,301
Payments to suppliers for goods and services	(742,423)	(636,555)
Payments to employees for services	(622,210)	(557,986)
Net cash provided by operating activities	54,016	145,760
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes for operations	211,477	208,519
Specific ownership taxes	27,226	32,981
County Treasurer's fees	(10,629)	(10,470)
Net cash provided by noncapital financing activities	228,074	231,030
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees and line extensions	276,300	163,798
Property taxes for debt	515,594	516,928
County Treasurer's fees	(25,914)	(25,954)
Acquisition of water lines and equipment	(373,804)	(311,443)
Debt principal payments	(328,104)	(317,520)
Interest paid on debt	(199,760)	(203,974)
Net cash (used) by capital and related financing activities	(135,688)	(178,165)
CASH FLOWS FROM INVESTING ACTIVITIES		
Long-term investments	(193,346)	(271,000)
Interest earnings received	7,525	29,856
Net cash (used) by investing activities	(185,821)	(241,144)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,419)	(42,519)
CASH AND CASH EQUIVALENTS - beginning of year	155,843	198,362
CASH AND CASH EQUIVALENTS - end of year	\$ 116,424	\$ 155,843

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

Three Lakes Water and Sanitation District
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2010 and 2009
(continued)

	2010	2009
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	<u>\$ (805,033)</u>	<u>\$ (829,464)</u>
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities		
Depreciation and amortization	818,206	909,967
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,915)	17,367
Notes receivable	6,597	(3,734)
Inventory	46,551	29,139
Prepaid expenses	-	41,932
Increase (decrease) in:		
Accounts payable	(7,839)	(31,727)
Unearned user fees	1,093	10,214
Accrued salaries, benefits and related liabilities	3,356	2,066
Total adjustments	<u>859,049</u>	<u>975,224</u>
Net cash provided by operating activities	<u><u>\$ 54,016</u></u>	<u><u>\$ 145,760</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

Note 1 – Definition of reporting entity

The District, a quasi-municipal corporation and political subdivision of the State of Colorado, is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in the northeastern portion of Grand County, Colorado. The District was organized in 1971 to provide sanitary sewer services within the District's boundaries.

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

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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

recorded as an operating expense. Expenditures for capital assets are shown as increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets from developers are recorded as capital contributions when received or collectible.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from nonoperating items in the Statements of Revenues, Expenses and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Cash equivalents

For purposes of the Statement of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition, to be cash equivalents.

Investments

Investments for the District are reported at fair value.

Accounts receivable, allowance for doubtful accounts

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State of Colorado. Therefore, no provision for uncollectible receivables has been made in the financial statements.

Property Taxes

Property taxes are levied 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 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 and December. The County Treasurer remits the taxes collected monthly to the District.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

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

Inventories

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

Capital assets

Capital assets include land, water rights, sewer plant and systems, buildings and improvements, equipment and vehicles. Capital assets are defined by the District as those assets with an initial, individual cost of \$5,000 or greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation or at the developer's cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Furniture and fixtures	5 to 7 years
Buildings and improvements	15 to 30 years
Lift stations	10 years
Sewer system	5 to 40 years

Water rights

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

Debt issue costs

Debt issuance costs are reported as deferred charges and amortized over the term of the related debt on a straight-line basis.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

Compensated absences

The District has a policy that allows employees to accumulate unused vacation benefits and carry over up to five days from their anniversary date. Compensated absences are accrued when incurred in the financial statements.

User charges

User charges are billed quarterly for the succeeding three months. User charges paid in advance are recorded as deferred revenue when received and recognized as revenue when earned. All user charges are deemed collectible as amounts are certified to Grand County for inclusion on the property tax rolls when greater than six months past due.

Capital contributions

Tap fees are recorded as capital contributions when received. Sewer lines contributed to the District by developers are recorded as capital contributions and additions to the sewer system when received.

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 total appropriation can only be modified upon completion of notification and publication requirements.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2010 and 2009 Statements of Net Assets as follows:

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

	2010	2009
Cash and cash equivalents	\$ 116,424	\$ 155,843
Investments	963,334	826,894
Investments - restricted	385,000	328,094
Total cash and investments	\$ 1,464,758	\$ 1,310,831

Cash and investments as of December 31, 2010 and 2009 consist of the following:

Cash on hand	\$ 200	\$ 200
Deposits with financial institutions	116,224	155,643
Investments	1,348,334	1,154,988
Total cash and investments	\$ 1,464,758	\$ 1,310,831

At December 31, 2010 and 2009, the District's cash deposits had bank balances of \$153,695 and \$155,643, respectively, and carrying balances of \$116,224 and \$155,643, respectively.

Deposits with financial institutions

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. As of December 31, 2010 and 2009, the federal insurance limits were \$250,000. 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 102% of the aggregate uninsured deposits. The State Commissioners 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.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has adopted a deposit policy for custodial credit risk. As of December 31, 2010 and 2009, the District's bank balances and carrying balances were insured or collateralized and not exposed to custodial credit risk.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009
(continued)

Investments

The District's formal investment policy follows state statutes regarding investments.

The District primarily limits its investments to certain money market funds, certain U.S. government agency securities, and local government investments pools, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Revenue bonds of local government securities, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

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

- . 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

The local government investment pools, which include the Colorado Surplus Asset Fund Trust (CSAFE) and the Colorado Local Government Liquid Asset Trust (Colostrust), are both rated AAAM by Standard & Poor's.

As of December 31, 2010, the District had the following investments, recorded at fair value:

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009
(continued)

<u>Investment</u>	<u>Maturity</u>	<u>2010</u>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 1,171,861
Colorado Liquid Asset Trust (Colotrust)	Weighted average under 60 days	176,473
Total investments		<u>\$ 1,348,334</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE.

COLOTRUST

The District 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.

Restricted cash and investments

In accordance with the terms of the Colorado Water Resource and Power Development Authority Loan (see Note 6) the District is required to maintain an operating reserve in an amount equal to three months of operation and maintenance

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

expenses, excluding depreciation, as budgeted for the then-current fiscal year but in no event greater than \$1,250,000. As of December 31, 2010, the required operating reserve was approximately \$375,000.

The District had restricted cash of \$10,000, for emergencies as required by Article X, Section 20 of the Constitution of the State of Colorado (see Note 11), as of December 31, 2010.

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2010 was as follows:

	Balance at December 31, 2009	Increases	Decreases	Balance at December 31, 2010
Capital assets, not being depreciated				
Land	\$ 103,699	\$ -	\$ -	\$ 103,699
Rights and easements	101,428	-	-	101,428
Water rights	29,000	-	-	29,000
Total capital assets, not being depreciated	<u>234,127</u>	<u>-</u>	<u>-</u>	<u>234,127</u>
Capital assets being depreciated				
Buildings and improvements	1,308,093	-	-	1,308,093
Sewer system	22,169,927	354,458	-	22,524,385
Plant expansion	9,987,288	-	-	9,987,288
Vehicles and equipment	1,255,938	19,346	-	1,275,284
Furniture and office equipment	151,349	-	-	151,349
CAD maps	145,606	-	-	145,606
Total capital assets being depreciated	<u>35,018,201</u>	<u>373,804</u>	<u>-</u>	<u>35,392,005</u>
Less accumulated depreciation for				
Buildings and improvements	638,182	44,487	-	682,669
Sewer system	12,937,336	559,864	-	13,497,200
Plant expansion	1,701,074	249,682	-	1,950,756
Vehicles and equipment	1,243,006	(38,214)	-	1,204,792
Furniture and office equipment	146,840	2,387	-	149,227
CAD maps	145,606	-	-	145,606
Total accumulated depreciation	<u>16,812,044</u>	<u>818,206</u>	<u>-</u>	<u>17,630,250</u>
Total capital assets being depreciated, net	<u>18,206,157</u>	<u>(444,402)</u>	<u>-</u>	<u>17,761,755</u>
Capital assets, net	<u>\$ 18,440,284</u>	<u>\$ (444,402)</u>	<u>\$ -</u>	<u>\$ 17,995,882</u>

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

Capital asset activity for the year ended December 31, 2009 was as follows:

	Balance at December 31, 2008	Increases	Decreases	Balance at December 31, 2009
Capital assets, not being depreciated				
Land	\$ 103,699	\$ -	\$ -	\$ 103,699
Rights and easements	101,428	-	-	101,428
Water rights	29,000	-	-	29,000
Total capital assets, not being depreciated	<u>234,127</u>	<u>-</u>	<u>-</u>	<u>234,127</u>
Capital assets being depreciated				
Buildings and improvements	1,272,027	36,066	-	1,308,093
Sewer system	21,901,129	268,798	-	22,169,927
Plant expansion	9,987,288	-	-	9,987,288
Vehicles and equipment	1,249,359	6,579	-	1,255,938
Furniture and office equipment	151,349	-	-	151,349
CAD maps	145,606	-	-	145,606
Total capital assets being depreciated	<u>34,706,758</u>	<u>311,443</u>	<u>-</u>	<u>35,018,201</u>
Less accumulated depreciation for				
Buildings and improvements	590,600	47,582	-	638,182
Sewer system	12,401,590	535,746	-	12,937,336
Plant expansion	1,451,392	249,682	-	1,701,074
Vehicles and equipment	1,178,819	64,187	-	1,243,006
Furniture and office equipment	136,146	10,694	-	146,840
CAD maps	143,528	2,078	-	145,606
Total accumulated depreciation	<u>15,902,075</u>	<u>909,969</u>	<u>-</u>	<u>16,812,044</u>
Total capital assets being depreciated, net	<u>18,804,683</u>	<u>(598,526)</u>	<u>-</u>	<u>18,206,157</u>
Capital assets, net	<u>\$ 19,038,810</u>	<u>\$ (598,526)</u>	<u>\$ -</u>	<u>\$ 18,440,284</u>

Depreciation and amortization expense for the years ended December 31, 2010 and 2009 was charged as follows:

	2010	2009
Operating expenses		
Amortization of arbitration costs	\$ 48,275	\$ 48,275
Depreciation	767,635	852,088
General and administrative expenses		
Depreciation	2,296	9,606
	<u>\$ 818,206</u>	<u>\$ 909,969</u>

In 1981, after construction of the District's sewer system, the general contractor filed two claims for additional construction costs beyond the original contract bid, which were not accepted by the District. The dispute went to arbitration, and the American

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

Arbitration Association awarded the contractor \$2,283,152. The District and the contractor agreed to amend the arbitration award to \$1,931,000 and the District paid the amended award in 1986.

The arbitration award costs of \$1,931,000 are capitalized and included in capital assets as part of the sewer system. Because the arbitration cost is related to the construction of the sewer system, it is being amortized over the same period of 40 years.

The District is in the process of renewing its Special Use Permits with the U.S. Forest Service. The infrastructure, located on government land, is capitalized as part of the sewer system and the value is unknown.

Note 5 – Fair value measurement

The District has adopted the methods of fair value as defined by the U.S. generally accepted accounting principles "GAAP" to value its financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, GAAP establishes a fair value hierarchy that prioritizes observable inputs used to measure fair value into three broad levels. Cash and equivalents and investments held by the District are determined by reference to quoted market prices and other relevant information generated by market transaction (Level 1).

Note 6 – Long term obligations

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2010:

	Balance at December 31, 2009	Additions	Reductions	Balance at December 31, 2010	Due Within One Year
CWRPDA Loan	\$ 3,958,416	\$ -	\$ 328,104	\$ 3,630,312	\$ 338,688

The following is an analysis of the changes in the District's long-term obligations for the year ended December 31, 2009:

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

	<u>Balance at December 31, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at December 31, 2009</u>	<u>Due Within One Year</u>
CWRPDA Loan	<u>\$ 4,275,936</u>	<u>\$ -</u>	<u>\$ 317,520</u>	<u>\$ 3,958,416</u>	<u>\$ 328,104</u>

Colorado Water Resources and Power Development Authority Loan

In 2001, the Colorado Water Resources and Power Development Authority (CWRPDA) loaned the District \$6,498,576 to finance the construction of the District's sewer treatment plant. The loan bears interest at an average annual rate of 4.642%, and requires payments in varying amounts of principal and interest due on February 1 and August 1, through August 1, 2019. In addition, the loan requires payment of an annual administrative fee equal to 0.8% of the initial loan amount and reduces to 0.7% and 0.4% of the initial loan amount effective August 1, 2017 and August 1, 2018, respectively. These administrative fees are included in debt interest expense.

During 2005, the CWRPDA refinanced a portion of the bond issue that supplied the funds for the District's loan. The effect of this refinancing will provide a savings on future loan payments of approximately \$238,000.

The loan agreement with the CWRPDA requires the District to establish and maintain an operation and maintenance reserve fund (see Note 3). The loan agreement is secured by the District's covenant to levy property taxes in amounts necessary to pay the principal and interest on the loan, not to exceed \$560,000. The District levied 2.976 mills to generate approximately \$516,000 in property taxes for collection during 2010.

Annual debt service requirements for the loan are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 338,688	\$ 180,457	\$ 519,145
2012	354,564	169,047	523,611
2013	365,148	157,014	522,162
2014	381,024	144,746	525,770
2015	396,900	126,737	523,637
2016-2019	<u>1,793,988</u>	<u>299,844</u>	<u>2,093,832</u>
	<u>\$ 3,630,312</u>	<u>\$ 1,077,845</u>	<u>\$ 4,708,157</u>

Interest includes the required administrative fees and the credits provided by the refinancing of the loan in 2005.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

Debt authorization

At December 31, 2010, the District had no authorized but unissued indebtedness.

Note 7 – Net assets

The District has net assets consisting of three components – invested in capital assets, net of related debt, restricted, and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2010 and 2009, the District had invested in capital assets, net of related debt calculated as follows:

	2010	2009
Capital assets, net	\$ 17,995,882	\$ 18,440,284
Current portion of long-term obligations	(338,688)	(328,104)
Noncurrent portion of long-term obligations	(3,291,624)	(3,630,312)
Invested in capital assets, net of related debt	\$ 14,365,570	\$ 14,481,868

Restricted assets include net assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The purposes for the restrictions of net assets are described in Note 3. As of December 31, 2010 and 2009, the District had restricted net assets as follows:

	2010	2009
Loan operating reserve requirement	\$ 375,000	\$ 318,094
Emergency reserves	10,000	10,000
Restricted	\$ 385,000	\$ 328,094

The District's unrestricted net assets as of December 31, 2010 and 2009 were \$1,057,779 and \$991,312, respectively.

Note 8 – Intergovernmental and contract service agreements

The District entered into three intergovernmental agreements with Special Districts and one agreement with a Homeowners Association whereby the District serves as the Operator of Record of the four water systems and performs all operational duties. Pursuant to three of these agreements, the District also provides administrative functions. During 2010 and 2009, the District received \$84,936 and \$83,408, respectively, for operational and administrative services under these agreements.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

Note 9 – Employee benefit plans

Deferred compensation

The District maintains a deferred compensation plan (the "457 Plan"), in which all of its employees are eligible to participate. The 457 Plan was created in accordance with Section 457 of the Internal Revenue Code and is administered by ICMA-RC.

The 457 Plan permits participants to defer a portion of their salary until future years. All compensation deferred under the 457 Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries. Compensation deferred under the 457 Plan is not available to employees until termination, retirement, death, or unforeseeable emergency.

Employees may elect to defer any percentage of their annual compensation, provided that the total annual contribution does not exceed limitations established by Section 457 of the Internal Revenue Code. The District contributes 7.65% of gross salaries to the 457 Plan. During the years ended December 31, 2010 and 2009, the District made deferred compensation contributions of \$31,774 and \$30,867, respectively.

The individual participants determine investment decisions within the 457 Plan and, therefore, the 457 Plan's investment concentration varies between participants.

The District has no liability for losses under the 457 Plan, as it is not the trustee. Consequently, the 457 Plan is not a part of the District's financial statements.

Pension Plan

The District provides a defined contribution plan (the "401 Plan") to all its employees, which is administered by ICMA-RC.

The 401 Plan permits the District to make contributions on behalf of employees for future years. All compensation deferred under the 401 Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of the participants and their beneficiaries. Compensation deferred under the 401 Plan is not available to employees until termination, retirement, death, or unforeseeable emergency.

Employees cannot elect to defer any percentage of their annual compensation for the 401 Plan. The District contributes 7% of gross salaries to the 401 Plan. During the years ended December 31, 2010 and 2009, the District made pension contributions of \$32,348 and \$24,095, respectively.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

The District has no liability of losses under the 401 Plan. Consequently, the 401 Plan is not a part of the District's financial statements.

Note 10 – Risk management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors and omissions; injuries to personnel, or natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2010. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers' compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials liability, and workers 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.

Note 11 – 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.

Spending and revenue limits are determined based on the prior year's fiscal year spending as adjusted for allowable increases for inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenues in excess of the fiscal year spending limit must be refunded unless retention of such revenue has been approved by the voters.

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.

Three Lakes Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

**December 31, 2010 and 2009
(continued)**

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.

* * * * *

SUPPLEMENTAL INFORMATION

Three Lakes Water and Sanitation District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
For The Year Ended December 31, 2010

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Charges for services	\$ 1,265,760	\$ 1,283,663	\$ 17,903
Service contract revenue	81,942	84,936	2,994
Lab revenue	12,000	12,988	988
Property taxes	727,174	727,071	(103)
Specific ownership taxes	25,000	27,226	2,226
Rental income and damage deposit	14,400	14,400	-
Net investment income	16,000	7,525	(8,475)
Tap fees	41,250	276,300	235,050
Miscellaneous income	350	23,887	23,537
Total Revenues	<u>2,183,876</u>	<u>2,457,996</u>	<u>274,120</u>
EXPENDITURES			
Administrative			
Accounting and audit	7,100	7,156	(56)
Bookkeeping	39,936	39,447	489
Bank charges	1,400	695	705
Car allowance	3,240	3,251	(11)
Computers/printers	3,235	1,592	1,643
County Treasurer's fees	36,349	36,543	(194)
Directors fees	13,500	9,867	3,633
Dues and seminars	2,000	1,648	352
Employee benefits	27,416	28,343	(927)
Insurance	50,695	44,239	6,456
Legal	15,000	18,427	(3,427)
Miscellaneous	5,500	720	4,780
Office supplies	8,300	7,308	992
Payroll taxes	927	1,286	(359)
Pension contributions	17,527	17,067	460
Postage	7,717	6,966	751
Printing and publications	4,839	4,314	525
Repairs and maintenance	26,500	17,227	9,273
Salaries	119,638	108,563	11,075
Telephone	3,700	5,054	(1,354)
Utilities	5,914	-	5,914
Total Administrative	<u>400,433</u>	<u>359,713</u>	<u>40,720</u>

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

Three Lakes Water and Sanitation District
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)
(continued)

For The Year Ended December 31, 2010

	Original and Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Operating			
Computers and related equipment	\$ 17,545	\$ 13,472	\$ 4,073
Condo utilities and maintenance	3,000	813	2,187
Dues, training, publications	9,000	2,562	6,438
Engineering	51,500	57,934	(6,434)
Equipment repairs and maintenance	20,000	7,936	12,064
Fuel	31,600	20,905	10,695
Lab - drinking water	8,500	4,306	4,194
Locates - UNCC	1,200	1,125	75
Miscellaneous	2,000	884	1,116
Modular utilities and maintenance	5,700	(998)	6,698
Office supplies	2,000	570	1,430
Payroll expenses	129,895	132,490	(2,595)
Permits and licenses	7,000	6,708	292
Property repairs and maintenance	-	11,199	(11,199)
Radio/telemetry maintenance	900	573	327
Salaries	343,934	324,699	19,235
Shop supplies	9,600	5,141	4,459
System repairs and maintenance	100,000	113,868	(13,868)
Telephone	5,900	-	5,900
Tools	8,000	37,622	(29,622)
Treatment plant	109,200	103,843	5,357
Truck repairs and maintenance	10,000	4,739	5,261
Uniform expense	2,000	245	1,755
Utilities	218,541	231,954	(13,413)
Valves	-	(1,059)	1,059
Water rights	2,000	2,000	-
Total Operating	<u>1,099,015</u>	<u>1,083,531</u>	<u>15,484</u>
Debt service - principal	328,104	328,104	-
Debt service - interest	192,514	187,490	5,024
Capital outlay	413,797	373,804	39,993
Total Expenditures	<u>2,433,863</u>	<u>2,332,642</u>	<u>101,221</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(249,987)</u>	<u>125,354</u>	<u>375,341</u>
BEGINNING FUNDS AVAILABLE, AS RESTATED	<u>1,287,363</u>	<u>1,309,501</u>	<u>22,138</u>
ENDING FUNDS AVAILABLE	<u>\$ 1,037,376</u>	<u>\$ 1,434,855</u>	<u>\$ 397,479</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Three Lakes Water and Sanitation District
RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For The Year Ended December 31, 2010

Revenues (budgetary basis)	\$ 2,457,996
Total revenues per Statement of Revenues, Expenses and Changes in Net Assets	2,457,996
Expenditures (budgetary basis)	2,332,642
Depreciation and amortization	820,187
Debt service - principal	(328,104)
Capital outlay	(373,804)
Total expenses per Statement of Revenues, Expenses and Changes in Net Assets	2,450,921
Change in net assets per Statement of Revenues, Expenses and Changes in Net Assets	\$ 7,075

The accompanying Notes to Financial Statements are an integral part of these statements.