

BOARD OF WATER WORKS OF PUEBLO, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
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Note 1 – Following is a summary of significant accounting policies:

The Board of Water Works of Pueblo, Colorado is elected by the citizens of Pueblo and it operates a municipal water works system that provides water service to the City of Pueblo, Colorado and adjacent areas. The City’s charter provides that title to the properties of the system is in the name of the City of Pueblo, Colorado, but that the entire control, management and operation of the system shall be exercised by the Board of Water Works of Pueblo, Colorado, over which the City Council shall have no jurisdiction or control. In addition, the charter provides that the City of Pueblo, Colorado shall adopt all ordinances requested by the Board of Water Works which shall be reasonably necessary in the management of the system.

The Board of Water Works of Pueblo, Colorado’s mission statement commits the utility to providing the highest quality of water at the lowest possible cost, with an equal commitment to the work force that helps achieve that goal. The utility strives to create and maintain an environment that encourages and recognizes teamwork, individual contribution, and the integrity of each employee.

The Board of Water Works of Pueblo, Colorado implemented GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussions and Analysis – for State and Local Governments* and Statement No. 37 *Basic Financial Statements – and Management’s Discussions and Analysis – for State and Local Governments: Omnibus* in 2003, which establishes a new financial reporting model for state and local governments. Changes to the Board’s financial reporting includes:

- a) Addition of a “*management’s discussion and analysis*” (MD&A), which is considered to be required supplementary information and precedes the financial statements.
- b) Change in terminology of the balance sheet to “*statement of net assets*”. Changes in this statement are:
  - Change from the balance sheet format (assets equal liabilities plus equity) to the net assets format (assets minus liabilities equal net assets).
  - Change in terminology of “utility plant” to “*capital assets*.”
  - Change in terminology of “equity” to “*net assets*.” The net assets section changed as follows:

Retained earnings, appraisal equity and contributed equity have been replaced by the following categories of net assets:

*Invested in Capital Assets, Net of Related Debt* – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt attributable to the acquisition of those assets, i.e. short and

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long-term bonds, obligations under capital leases, etc.

Restricted – Consists of net assets constrained by external parties.

Unrestricted – Consists of assets and liabilities not included above.

c) Change in terminology of the statement of revenues, expenses and retained earnings to “*statement of revenues, expenses and changes in net assets*”. The main change in this statement is:

- Change from recording contributions from outside developers as contributed equity to a separate current year revenue item.

The 2002 financial statements were restated to conform to the new presentation.

In November 1995, voters approved an amendment to the Charter of the City of Pueblo, Colorado that makes explicit the fact that the Board of Water Works of Pueblo, Colorado does not have directly, or indirectly, the right to levy taxes. Throughout its history, the Board never levied taxes, always operating from revenues raised from the sale of water to the citizens of Pueblo and to industries and farmers.

By removing the authority to levy taxes, the voters affirmed the enterprise status of the Board of Water Works of Pueblo, Colorado in relation to Amendment One, also known as the Taxpayer’s Bill of Rights (TABOR). Amendment One was never intended to apply to enterprise activities such as the Board of Water Works of Pueblo, Colorado but some confusion existed as to whether a governmental entity having the ability to levy a tax could also be considered an exempt entity under TABOR provisions. The Board’s status is now very clear following the citizens’ affirmative vote.

In evaluating how to define the Board of Water Works of Pueblo, Colorado, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to

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exercise oversight responsibilities. Based upon the application of these criteria, there are no “component unit entities” as defined in the Governmental Accounting Standards Board Statement 14 where the Board had to consider whether to include or exclude specific entities from the financial reporting entity. However, the Board is a member of a joint venture with the City of Aurora, Colorado in the Busk-Ivanhoe Water System.

The Busk-Ivanhoe Water System was created in 1971 when the Board of Water Works of Pueblo, Colorado and the City of Aurora, Colorado each bought approximately fifty percent of the water rights of the High Line Canal Company. The System was created as a joint venture between the two purchasers for the purpose of maintaining the water collection system and collecting and distributing the water pertaining to the water rights acquired by the two joint venturers.

Although no formal organization was established, the Board of Water Works of Pueblo, Colorado and the City of Aurora, Colorado have operated the System as a joint venture governed jointly by both parties with the day-to-day operating of the system handled by the Board of Water Works of Pueblo, Colorado. This joint venture is considered a separate entity and has not been included in the financial statements of either joint venturer. Complete financial statements for the Busk-Ivanhoe Water System can be obtained from the Board of Water Works of Pueblo, Colorado.

The accompanying summary of the Board of Water Works of Pueblo, Colorado’s more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies, as presented, should be viewed as an integral part of the accompanying financial statements.

The Board of Water Works of Pueblo, Colorado is operated as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered, primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net revenue, financial position and cash flows is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods or services are financed from existing cash resources, the issuance of bonds, Federal or State grants, etc. The generally accepted accounting principles here are those applicable to similar businesses in the private sector and, therefore, assets and liabilities, and revenues and expenses are recognized on the accrual basis of accounting; thus, revenues are recognized when earned and expenses are recorded when incurred.

The Board of Water Works of Pueblo, Colorado applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements.

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The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Board of Water Works of Pueblo, Colorado annually adopts a budget for the following year. This process begins in early August when divisional budget requests are submitted to the Director of Administrative Services. These requests are reviewed by senior management, following which the Director of Administrative Services prepares a preliminary budget for the entire entity and submits it to the Executive Director for his review and input in relation to the anticipated revenues and the Board's ten year plan. In early October, the preliminary budget is submitted to the Board for its input, and it is also made available for public inspection at that time. The final budget, including all of the appropriate resolutions, is usually adopted at the Board's November meeting, and it is then submitted to the State of Colorado Department of Local Affairs. The actual results of operations are presented in accordance with generally accepted accounting principles which differ in certain respects from those practices used in the preparation of the budget. For purposes of preparing budget comparisons in this report, actual results of operations have been adjusted to a basis consistent with the budgeted revenues and expenditures.

Investments are recorded at cost. Adjustments, if applicable, are made to cost, for any premium or discount, which is amortized over the maturity of the investment. For purposes of the statement of cash flows, the Board of Water Works of Pueblo, Colorado considers all certificates of deposit, money market funds, repurchase agreements and United States Treasury bills, if any, to be cash equivalents.

Inventories are valued on the weighted average method effective December 31, 2002. Prior to then, inventories were carried at the lower of cost or market on a first-in, first-out basis.

In both 2003 and 2002, approximately 98% of the Board's services were provided to customers in the City of Pueblo, Colorado, including the Airport Industrial Park and adjacent areas of Pueblo, County. The majority of its customers are residential users; commercial customers make up the balance. The risk of loss on the accounts receivable is the balance due at the time of default.

The Board received approximately 11% and 12% of its operating revenues from one contract for non-potable water in 2003 and 2002, respectively.

The allowance for doubtful accounts is computed at one percent of customer receivables at year end.

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Capital assets are stated at:

- (a) Appraisal value for assets in service prior to June 30, 1962.
- (b) Cost for assets placed in service since June 30, 1962.
- (c) Assets are capitalized in accordance with the dollar limit stated in the statutes of the State of Colorado.
- (d) Net interest costs incurred during periods of construction are capitalized as part of the cost of the asset.

Depreciation of capital assets is computed on the straight-line method based on estimated service lives of properties by classes. Estimated useful lives used in computing depreciation are as follows:

	Years
Structures and improvements, reservoirs, intakes and mains	50
Pumping equipment	40
Meters, valves, hydrants, taps water treating equipment and wells	25
Heavy equipment, office furniture and equipment, computer equipment, pump plant controller, cathodic protection for lines and tanks, miscellaneous department equipment	5-10
Transportation equipment	4

The difference between the cost of assets removed from service and the amount of accumulated depreciation at the time of removal is written off as loss on abandonment of assets.

The Board has established a retirement plan for the benefit of all eligible employees. The contribution to the plan is approximately the amount of the normal cost as determined by actuarial calculation and is recorded as an expense in the year paid. In addition, the Board has established two deferred compensation plans. See Note 2.

Unamortized debt expense is being amortized over the periods of the related bond issues.

The sewer use fee charged by the City of Pueblo, Colorado is billed and collected by the Board of Water Works of Pueblo, Colorado and remitted to the City on a monthly basis. The uncollected sewer fees charged to customers are carried as a receivable, and unremitted and uncollected sewer fees are carried as a liability on the balance sheet.

Unbilled revenue, which results from cycle billing practices, is recorded in the following year.

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Deferred revenue, related to acquisition of water rights in 1990 and 1995, is being amortized over forty years. See Note 7.

The Board of Water Works of Pueblo, Colorado and Local 1045 of the American Federation of State, County and Municipal Employees (AFL-CIO) adopted a working policy for the period of January 1, 2003 through December 31, 2003. Approximately 71% of the Board's employees are members of Local 1045.

The Board has obtained several Right-of-Way Agreements with the U.S. Forest Service to allow it to operate on Federal lands in connection with the operation and maintenance of its water collection system.

The Board is exposed to various risks of loss related to property and casualty losses. It is the policy of the Board of Water Works of Pueblo, Colorado to purchase commercial insurance, including worker's compensation, for the risks of loss to which it is exposed. Under this arrangement, the Board assumes the risk for the amount of loss where sound risk management principles and prior loss experience indicate a premium savings greater than exposures assumed.

Note 2 – Defined Benefit Pension Plan

Plan Description

The Board contributes to the Retirement Plan for Employees of the Board of Water Works of Pueblo, Colorado, a single-employer defined benefit retirement plan that is administered by Equitable Life Assurance Society and Alliance Capital Management Corporation. The Plan provides retirement benefits to plan members and their beneficiaries. The Plan does not issue a separate financial report. Employee contributions are not required subsequent to January 1, 1975. Covered compensation is the amount of compensation paid to participating employees excluding overtime, bonuses and other extra compensation. The total amount of covered compensation for the year ended March 31, 2003, the latest year for which plan information is available, was \$ 5,926,783, and total compensation for the same period was \$ 6,682,920.

Effective April 1, 1993, each regular full-time employee is eligible to participate on the later of April 1, 1993 or the April 1<sup>st</sup> coincident with or following the completion of six months of regular full-time employment. A participant is eligible for a vested benefit, payable at age 65, after five years of credited service. The vested benefit is equal to the accrued benefit, considering service and compensation, at the time of termination. If the participant has at least fifteen years of credited service, payments may commence the first of any month following the participant's fifty-fifth birthday but are reduced for early retirement. If payments commence prior to age 65, the benefit is reduced by 5% for each year by which payments commence prior to normal retirement date. However, employees are able to retire without penalty, at or after age 55, when certain conditions are met. The number of years from date of hire combined with the employee's age must equal or exceed ninety years and advance notice in writing must be submitted six months prior to the projected retirement date. Board employees who retire at or after age 65 are entitled to

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the normal retirement benefit for life which is equal to the sum of the accrued benefit as of April 1, 1999, plus 2.3% of the employee's monthly earnings effective as of the beginning of each plan year (April 1). The minimum benefit is \$ 100 per month after fifteen years of service. Retirees of record as of December 31<sup>st</sup> may receive a cost of living adjustment annually on April 1<sup>st</sup> if certain conditions are met.

A participant is eligible for a disability payment payable at age 65, after five years of credited service. The disability benefit is equal to the projected benefit at the normal retirement date, considering increases in future earnings based upon job classification and service to the normal retirement date.

The spouse of a participant who has completed five years of credited service, and dies while in active employment, or after having completed such service requirement but before the normal retirement date, is eligible to receive a benefit, payable for life, equal to fifty percent of the accrued benefit at date of death. If the spouse is more than five years younger than the participant, the benefit is reduced by 1½ % for each year in excess of five years to reflect the difference in age. Such benefit commences on the first day of the month coincident with or following the date the member would have attained age 55 or date of death if later. In lieu of the above monthly benefit, the spouse is entitled to a single sum amount, equal to the actuarial equivalent of the above monthly benefit, payable as soon as practicable following the member's death.

Participant Data

The number of plan participants is as follows:

Active members	122
Inactive members	
With deferred benefits	17
Retired members	32
Disabled members	2
Beneficiaries	<u>4</u>
Total	<u>177</u>

Funding Policy

The contribution requirements of the plan are made by the Board to a deposit administration in amounts necessary to fund the plan as actuarially determined on a bi-annual basis.

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Annual Pension Cost

Annual contribution requirement due beginning of plan year	\$ 283,941
Contribution made	<u>283,941</u>
Increase (decrease) in net pension obligation	-
Net pension obligation, beginning of year	<u>-</u>
 Net pension obligation, end of year	 <u><u>\$ -</u></u>

The annual required contribution for the current year was determined as part of the April 1, 2001 actuarial valuation using the aggregate actuarial cost method. Under this method, the normal cost is computed as a level percentage of pay which, if paid from the valuation date until each member's retirement or termination date, will, together with the assets of the plan, accumulate with interest at the rate assumed in the valuation to a fund sufficient to pay all benefits under the plan. No benefits are projected to be greater than the limitations currently imposed by Section 415 (b) (1) (A) of the Internal Revenue Code, in accordance with the requirements of Section 404 (j) of the Code.

The total contribution requirement for the year beginning April 1, 2002 of \$ 283,941 was made in accordance with actuarially determined requirements computed through an actuarial valuation. The actuarial assumptions included a 7.5% assumed rate of return. The contribution is approximately 4.2% of total compensation.

Trend Information

Year Ended March 31	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation*
2000	\$ 334,167	84.2%	\$ 52,899
2001	338,134	81.3%	116,015
2002	343,088	82.8%	175,162
2003	343,088	82.8%	234,309

\*The Net Pension Obligation exists due to the offering of an early retirement option. Since this option has had minimal acceptance, the benefit has not been fully funded. The actuarial report for April 1, 2003 will determine the contribution requirement for the plan year ending March 31, 2004.

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Schedule of Funding Progress

Actuarial Valuation March 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1999	\$ 8,458,054	\$ 6,573,403	\$ (1,884,651)	128.7%	\$ 4,906,436	(38.4)%
2001	10,366,907	8,040,688	(2,326,219)	128.9%	5,460,288	(42.6)%
2003	11,204,108	10,332,036	(872,072)	108.4%	5,926,783	(14.7)%

In addition, various individuals are included in a supplemental benefit funded through a separate trustee at the cost of \$ 32,275 for 2003 and 2002.

Note 3 – In addition to providing pension and deferred compensation benefits, the Board began providing certain health insurance benefits for retired employees effective September 18, 1990. Substantially all of the Board’s employees, who retire after this date and meet certain requirements, are eligible for the benefit. The individual must be retired, not terminated, be at least 60 years of age and have a minimum of fifteen years of service. The maximum monthly benefit is \$ 458, and the maximum benefit period is five years. The Board recognizes this benefit by expensing the payments. During 2003, nine individuals took advantage of this benefit at a cost of \$ 33,223 to the Board.

Note 4 – Cash received by the Board of Water Works of Pueblo, Colorado is deposited in various banks or used to purchase other investments.

Investments

Colorado statutes specify in which instruments the units of local government may invest. These allowable investments include:

Certificates of deposit

Obligations of the United States or obligations unconditionally guaranteed by the United States

Repurchase agreements

The Board of Water Works’ investments are categorized below to give an indication of the level of security assumed at year-end:

Category 1 – Investments that are insured or registered or for which the securities are held by the Board or its agent in the Board’s name.

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Category 2 – Uninsured and unregistered investments for which the securities are held by the broker’s or dealer’s trust department or agent in the Board’s name.

Category 3 – Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Board’s name.

	Category			Carrying Amount	Market Value
	1	2	3		
Pooled investment funds--					
ColoTrust	\$ 14,206,148	\$ -	\$ -	\$ 14,206,148	\$ 14,206,148
Certificates of deposit	1,556,439	-	-	1,556,439	1,556,439
	<u>\$ 15,762,587</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,762,587</u>	<u>\$ 15,762,587</u>

#### Deposits

The Colorado Public Deposit Protection Act requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by the State of Colorado. Amounts in excess of Federal insurance must be collateralized. The eligible collateral is determined by the Public Deposit Protection Act. This act allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

At December 31, 2003 and 2002, the Board’s cash deposits had a bank and corresponding carrying balance of \$ 15,780,198 and \$ 15,475,992, respectively, as summarized below. All the deposits are stated at cost with accrued interest shown under a separate caption on the balance sheet.

	2003	2002
Working funds	\$ 4,400	\$ 4,400
Insured FDIC	400,000	300,354
Uninsured		
Collateral securities held by financial institution's trust department or agent	<u>15,375,798</u>	<u>15,171,238</u>
Total deposits	<u>\$ 15,780,198</u>	<u>\$ 15,475,992</u>

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	2003	2002
Total deposits represented by		
Cash on hand and in banks	\$ 17,476	\$ 65,142
Restricted cash in bank	135	16,884
Certificates of deposit	1,556,439	3,175,000
Money market funds	13,078,966	10,069,429
Restricted money market funds	1,127,182	2,149,537
Total deposits	\$ 15,780,198	\$ 15,475,992

Note 5 – Certain assets are classified as restricted assets for construction funded through the terms of the long-term debt. Liabilities that are to be paid out of assets restricted for construction funded through long-term debt include the following:

	2003	2002
Accounts payable for construction costs	\$ -	\$ 337,354
Accrued interest on construction related long-term debt	644,656	370,128
	\$ 644,656	\$ 707,482

Note 6 – Long-term debt consists of the following:

Water System Improvement Revenue Bonds, Series 2000A for \$ 38,885,000 dated January 1, 2000, were issued to improve and expand the water treatment plant for the system. Interest and principal payments are due semi-annually on May 1 and November 1 through 2021. Interest rates range from 5.0% to 6.0%.

Loan agreement with Colorado Water Resources and Power Development Authority for \$ 9,558,795 dated April 15, 2000. Interest at 4.60% and principal payments are due semi-annually on February 1 and August 1, through 2022. The loan agreement contains various restrictive covenants and requirements, including a rate covenant, maintenance of a three month operating reserve, debt service requirements and compliance with an additional bond and /or indebtedness test. At December 31, 2003, the Board was in compliance with these covenants and requirements of the loan agreement.

Repayment contract with the United States Department of the Interior, Bureau of Reclamation for \$ 2,927,094 for delivery of municipal and industrial water through and repayment for the South

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Outlet Works of the Pueblo Dam. Interest at 3.046% and principal payments are due annually July 1 through 2024.

In connection with the issuance for various debt obligations the Board incurred debt issuance costs in the amount of \$ 1,220,223. The costs are being amortized over the life of the debt obligations. The remaining unamortized expense at December 31, 2003 and 2002 is \$ 192,176 and \$ 202,750, respectively.

The total amount of general obligation and water revenue bonds, loans and other long-term debt at December 31, 2003 is \$ 49,624,022. See pages forty-four and forty-five.

Changes in long-term debt during 2003 are summarized as follows:

	<u>Balance January 1, 2003</u>	<u>Additions (Retired)</u>	<u>Discount Accretion</u>	<u>Balance December 31, 2003</u>
2000A Water System Improvement Revenue Bonds	\$ 38,885,000	\$ (1,220,000)	\$ -	\$ 37,665,000
Colorado Water Resources and Power Development Authority	9,558,795	(192,783)	-	9,366,012
United States Department of the Interior Total	<u>2,680,327</u>	<u>(87,317)</u>	<u>-</u>	<u>2,593,010</u>
	<u>\$ 51,124,122</u>	<u>\$ (1,500,100)</u>	<u>\$ -</u>	<u>\$ 49,624,022</u>

Aggregate long-term debt maturities are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 1,578,469	\$ 2,694,525	\$ 4,272,994
2005	1,640,854	2,620,918	4,261,772
2006	1,756,874	2,512,022	4,268,896
2007	1,835,139	2,430,640	4,265,779
Thereafter	<u>42,812,686</u>	<u>21,557,514</u>	<u>64,370,200</u>
Total	<u>\$ 49,624,022</u>	<u>\$ 31,815,619</u>	<u>\$ 81,439,641</u>

Interest costs are capitalized on debt where proceeds were used to finance the construction of

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assets. Interest earned on proceeds of tax exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Interest costs have been capitalized in 2003 as follows:

	<u>Total Interest Costs Incurred</u>	<u>Capitalized Interest</u>	<u>Interest Costs Expensed</u>
Water System Improvement Revenue Bonds-Series 2000A	\$ 2,210,601	\$ 2,062,455	\$ 148,146
Colorado Water Resources and Power Development	459,427	-	459,427
United States Department of the Interior, Bureau of Reclamation	<u>80,313</u>	<u>-</u>	<u>80,313</u>
Total	\$ <u>2,750,341</u>	\$ <u>2,062,455</u>	\$ <u>687,886</u>

Note 7 – In 1990 and 1995, the Board acquired water rights from the State of Colorado and the City of Pueblo, Colorado, respectively, in exchange for supplying a certain amount of water each future year. The deferred income is being amortized over a forty-year period. In 1992, the Board acquired water rights from two individuals in exchange for supplying a certain amount of water each future year. The value of these water rights, as well as those acquired in 1990 and 1995 from the State of Colorado and the City of Pueblo, Colorado were valued based upon the amount paid for similar rights acquired from a separate entity in a cash transaction.

At December 31, 2002, the Board shows \$ 672,952 of deferred revenue representing the sale of water to another city.

Note 8 – Effective July 1, 1984, all full-time employees accumulate paid sick leave at the rate of twelve hours per month. All employees who, at that date, had accumulated in excess of 720 hours were, at their option, paid for the excess hours. Any employee who did not select the optional payoff at July 1, 1984 can do so at a later date. As of January 1, 1996, new employees accumulate paid sick leave at the rate of eight hours per month. At termination, employees are paid for any accumulated sick pay. The liability for accumulated sick pay at December 31, 2003 and 2002 is \$ 1,750,998 and \$ 1,697,840.

Employees are entitled to vacation with pay for the twelve-month period following their date of hire (anniversary date) according to the following scale:

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Years of Service	Hours
1 to 5	96
6 to 10	120
11 to 15	144
15 and over	168

Each employee may carry over a maximum of 80 hours of vacation time from any previous anniversary year to the following anniversary year. At the employee's request, a payoff for a maximum of 56 hours of accumulated vacation leave can be made during the anniversary year. The vacation hours are valued at the employee's regular straight rate of pay in effect at the time. In addition, each employee receives eight hours of personal holiday each anniversary year which is not available for carryover. The liability for accumulated vacation pay at December 31, 2003 and 2002 is \$ 528,279 and \$ 495,884.

Note 9 – Accounts payable are comprised of outstanding bills for expenses, materials and capital assets related to the budget for the years ended December 31, 2003 and 2002. Included in outstanding bills at December 31, 2003 and 2002 is \$ 377,126 and \$ 426,013, respectively, owed to the City of Pueblo, Colorado for collection of the City's sewer fee.

Note 10 – The Board of Water Works of Pueblo, Colorado offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans permit employees to defer a portion of their salary to future years. Participation in the plan is optional. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Data concerning the Board's deferred compensation plans follows:

Balance, December 31, 2002	\$	6,164,001
2003 contributions		624,748
Earnings, withdrawals and market value adjustment		915,159
Balance, December 31, 2003	\$	7,703,908

The Board has no liability for losses under the plans but does have the duty of due care that would be required of an ordinary prudent investor.

Investments are managed by the plan's trustees under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

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Note 11 – Because accounting principles applied for the purposes of developing data on a budgetary basis differ from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation for the year ended December 31, 2003, is presented as follows:

Excess (deficiency ) of revenues over expenses and expenditures as presented in the schedule of revenues, expenses and expenditures as compared with budget	\$ 3,341,121
Adjustments	
Capital expenditures	1,646,403
Long-term debt payments	1,500,099
Contributions to capital assets from developers	235,769
Depreciation	(3,414,376)
Loss on abandonment of assets	<u>(3,202)</u>
Increase in net assets	<u>\$ 3,305,814</u>

Note 12 – At December 31, 2003, the Board had no uncompleted construction projects.

Note 13 – It is not practicable to estimate the fair value of the Board’s outstanding bonded indebtedness. Information pertinent to these bond issues is shown on pages forty-four and forty-five.

Note 14 – In December 2001, the Board of Water Works of Pueblo, Colorado initiated a lawsuit against the City of Pueblo, Colorado and its various council members in their official capacity. The general nature of this lawsuit was to obtain an interpretation of the City Charter confirming the independence of the Board as against the City Council in matters concerning management of the water works system. This case was dismissed without prejudice by stipulation of the parties in 2002.

Note 15 – In 2002, the Board of Water Works of Pueblo, Colorado changed the method of valuing inventories from the lower of cost or market on a first-in, first-out basis to the weighted average method. The cumulative effect of this change was a charge to chemical expense of \$ 2,140 for the change in the chemical inventory and a charge to mains of \$ 540 for the change in the warehouse inventory.