stockman kast ryan + co LLP

WIDEFIELD WATER AND SANITATION DISTRICT

Management's Discussion and Analysis

and Financial Statements

For the Years Ended December 31, 2010 and 2009,

Supplementary Information

For the Year Ended December 31, 2010

And

Independent Auditors' Report

WIDEFIELD WATER AND SANITATION DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Widefield Water and Sanitation District

We have audited the accompanying statements of net assets of Widefield Water and Sanitation District as of December 31, 2010 and 2009, and the accompanying statements of activities and changes in net assets and of 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 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 opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Widefield Water and Sanitation District at December 31, 2010 and 2009, 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.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. 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 an opinion on the basic financial statements taken as a whole. The supplemental schedule of activities compared to budget is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the District's management. Such schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Stockman Kast Ryan & Co., LLP

May 17, 2011

Certified Public Accountants and Business Advisors | 102 N. Cascade Avenue, Suite 400, Colorado Springs, CO 80903
www.skrco.com telephone: (719) 630-1186
facsimile: (719) 630-1187

WIDEFIELD WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2010 and 2009. The information is presented in conjunction with the audited basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements, and Other Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America. The Statement of Net Assets includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Activities and Changes in Net Assets identifies the District's revenues and expenses for the fiscal years ended December 31, 2010 and 2009. This statement provides information on the District's operation over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the change in the cash balance for each of the last two fiscal years.

FINANCIAL POSITION AND RESULTS FROM OPERATIONS

Operating and Non-Operating Revenue and Expenses for 2010 compared with 2009 were as follows:

	2010	2009	Increase (Decrease)
Operating Revenues	$ 6,852,626	$ 6,180,892	$ 671,734
Operating Expenses	5,762,475	5,322,829	439,646
Operating Income	1,090,151	858,063	232,088
Non-operating Revenue	1,737,824	1,105,652	632,172
Change in net assets before contributions for capital assets	2,827,975	1,963,715	864,260
Contribution for capital assets	467,514	962,382	(494,868)
Change in net assets	$ 3,295,489	$ 2,926,097	$ 369,392

Operating revenues are received primarily from customers receiving water and wastewater services from the District.

Water base and water volume rates were increased by 8% in 2010. At the end of 2010, the number of water accounts served by the District was 6,252. This compares to 6,040 accounts at the end of 2009. Water volumes in 2010 increased as a result of increased customer demand.

Wastewater base and wastewater volume rates were increased by 2% in 2010. At the end of 2010, the number of wastewater accounts served by the District was 6,969. This compares to 6,766 accounts at the end of 2009.

The District's operating expenses tend to be relatively fixed in nature with annual increases expected for inflation. Controlling operating expenses continues to be a priority of the District. In 2010, operating expenses increased by $439,646 over 2009 expenses. Increased operating costs were primarily related to a one-time lagoon cleaning project, water supply costs and filling a vacant position. Professional fees associated with water resource acquisition and engineering for infrastructure projects continue to be an emphasis in response to operation needs of the District.

Non-operating revenue consists of tap fees, water resource acquisition fees, and interest earnings. Non-operating expenses are interest payments for outstanding debt. Collection of tap fees and water resource acquisition fees occur when new connections are added to the District. In 2010, the District collected 173 water tap fees, 174 wastewater tap fees, and 160 water resource acquisition fees. This compares to 2009 when the District received fees for 149 water taps and 131 wastewater taps, and 134 water resource acquisition fees. The fees to connect to the District's system in 2009 were $4,500 per water tap, $4,500 per wastewater tap, and $6,500 per tap for water resource acquisition. The fee to connect to the District's system in 2010 was increased to $5,500 per water tap, $5,500 per wastewater tap and $7,000 per tap for water resource acquisition; all fees are based on Single Family Equivalent (SFE). A developer may provide a permanent supply of water in lieu of paying a water resource acquisition fee pursuant to the District's water policy. Development within the District continues to be impacted by a troubled real estate market. As improvements occur within the real estate market, the long term outlook for development in the District is expected to expand substantially in the next decade.

CONTRIBUTIONS FROM DEVELOPER

Developers requesting service from the District are required to build the water and sewer infrastructure for their development. Following a two year warranty period, title to the infrastructure is transferred to the District and recorded as Contributions from Developer. These contributions vary widely from year to year, dependent on development. No transfers of infrastructure to the District by developers took place in 2010 or 2009.

AMERICAN RECOVERY AND REINVESTMENT ACT CONTRIBUTIONS

In 2009, the District received a grant amounting to $1,728,593 which was funded by the federal American Recovery and Reinvestment Act program. The District has received bills amounting to $1,429,896 as of December 31, 2010 and has recorded that amount as construction in progress and contributions for capital assets.

The assets, liabilities, and net assets of 2010 compared to 2009 as follows:

	2010	2009	Increase (Decrease)
ASSETS AND LIABILITIES			
Current Assets	$ 6,916,372	$ 5,590,516	$ 1,325,856
Capital Assets, net	20,111,142	19,527,907	583,235
Other Non-current Assets	6,930,253	6,199,719	730,534
Current Liabilities	(1,481,455)	(1,544,961)	63,506
Non-current Liabilities	(15,963,948)	(16,556,306)	592,358
Net Assets	$ 16,512,364	$ 13,216,875	$ 3,295,489
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	$ 3,979,806	$ 2,817,161	$ 1,162,645
Unrestricted	12,532,558	10,399,714	2,132,844
Total	$ 16,512,364	$ 13,216,875	$ 3,295,489

Current assets increased in 2010, primarily due to significant increases in net non-operating revenue. Net capital assets increased primarily as a result of the ARRA project previously discussed. Further capital asset information is available in Note 3 of the financial statements. Other noncurrent assets increased primarily as a result of the District acquiring water rights in 2010.

Current liabilities decreased as a result of a reduction of expenses in the last quarter of the year 2010.

Non-current liabilities decreased primarily as a result of principal payments made on the District's Water and Sewer Revenue Refunding and Improvement Bonds – Series 2004. Further debt information is available in Note 5 of the financial statements.

BUDGETS

See Supplemental Schedule of Activity Comparison to Budget on page 23. The schedule shows the District's operating budget for 2010, as adopted on November 10, 2009 by Board resolution. Actual Operating Revenue for the District in 2010 was $ 6,852,626, 4.5% above the projected revenue total of $6,557,290. Actual Operating Expenses for the District in 2010 were $5,762,475, 1.5% below the projected expense total of $5,852,715.

For non-operating revenue (primarily tap fees and water resource acquisition fees) the District received $2,970,553, 68.3% above the projected revenue total of $1,765,120. The non-operating expense (interest and water acquisition costs) total in 2010 was $1,232,729, 18.3% higher than the projection of $1,041,840. Overall, the net non-operating revenue exceeded the budget amount by $1,014,544. The increase was due to a greater number of tap fees and water resource acquisition fees being collected than was forecast.

ECONOMICS AND OTHER FACTORS

District revenues tend to vary according to weather conditions and water usage from lawn irrigation, which has a significant impact on revenue. In 2010, reduced rainfall and other economic conditions resulted in an increase of water sold compared to the prior year. The District had water sales of about 781 million gallons in 2010 and in 2009 sold about 591 million gallons, a sales increase of 32.1%.

In 2009, appropriations of $748,000 were approved for District capital improvement projects, contingent upon the availability of funding (primarily tap fees), and about $422,000 was spent. In 2010, $1,390,000 was budgeted for capital projects, contingent upon the availability of funds, and $1,030,000 (excluding ARRA) was spent with $360,000 carried to 2011 for project completion(s).

A lagoon cleaning project was initiated in September 2007 and was completed in 2010. Payment for this project occurred over those years. Final payment for the project was made in 2010.

Additional highlights of the year were updates to the District Strategic Plan and the Water and Wastewater System Standard Specifications Manual.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors, and other interested parties with an overview of the District's financial operations and condition. Should the reader have any questions regarding the information included in this report, or wish to request additional financial information, please contact the District's Finance Director at 37 Widefield Blvd., Colorado Springs, Colorado 80911.

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Non-restricted	$ 3,243,427	$ 2,435,057
Restricted	2,751,709	1,923,901
Accounts and grants receivable	576,908	916,557
Prepaid expenses	331,341	301,898
Current portion of receivables — Peaceful Valley	12,987	13,103
Total current assets	6,916,372	5,590,516
NON-CURRENT ASSETS		
Capital assets, net	20,111,142	19,527,907
Other non-current assets		
Water rights	2,482,750	1,669,250
Receivables — Peaceful Valley	320,383	356,134
Contract rights	3,662,083	3,662,083
Bond issuance costs, net of amortization	312,612	335,760
District costs, net of amortization	152,425	176,492
Total other non-current assets	6,930,253	6,199,719
Total non-current assets	27,041,395	25,727,626
TOTAL	$ 33,957,767	$ 31,318,142

- Continued -

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF NET ASSETS
DECEMBER 31, 2010 AND 2009

	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 493,886	$ 565,811
Accrued expenses	179,305	173,788
Customer deposits	328,264	315,162
Current portion of bonds payable	480,000	465,000
Current portion of notes payable		25,200
Total current liabilities	1,481,455	1,544,961
NON-CURRENT LIABILITIES		
Bonds payable, net	15,963,948	16,362,844
Note payable		193,462
Total liabilities	17,445,403	18,101,267
NET ASSETS		
Invested in capital assets, net of related debt	3,979,806	2,817,161
Unrestricted	12,532,558	10,399,714
Total net assets	16,512,364	13,216,875
TOTAL	$ 33,957,767	$ 31,318,142

- Concluded -

See notes to financial statements.

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING REVENUE		
Water revenue	$ 3,712,548	$ 3,069,915
Wastewater revenue	2,688,962	2,659,501
Other operating revenue	451,116	451,476
Total operating revenue	6,852,626	6,180,892
OPERATING EXPENSES		
Employee wages and benefits	1,636,857	1,582,837
Water	1,172,165	1,026,755
Depreciation and amortization	1,054,291	1,054,375
Sludge hauling	389,359	153,740
Professional fees	371,251	357,163
Utilities	260,474	273,757
Maintenance and repairs	205,612	243,993
Water meter repair and replacement costs	136,848	126,095
Other operating costs	123,927	112,140
Office supplies	91,764	85,922
Plant supplies	90,338	79,859
Insurance	72,022	58,534
Seminars and employee education	30,980	37,799
Rent	27,600	27,600
Lab services	24,519	39,832
Dues and other fees	21,146	19,772
Telephone	19,095	19,158
Miscellaneous	34,227	23,498
Total operating expenses	5,762,475	5,322,829
OPERATING INCOME	1,090,151	858,063
NON-OPERATING REVENUE (EXPENSES)		
Tap fees	1,908,500	1,260,000
Water acquisition fees	1,039,500	871,000
Water acquisition costs	(197,625)	
Interest income	22,553	23,779
Interest expense	(1,035,104)	(1,049,127)
Total	1,737,824	1,105,652
CHANGE IN NET ASSETS BEFORE CONTRIBUTIONS FOR CAPITAL ASSETS	2,827,975	1,963,715
CONTRIBUTIONS FOR CAPITAL ASSETS	467,514	962,382
CHANGE IN NET ASSETS	3,295,489	2,926,097
NET ASSETS, Beginning of year	13,216,875	10,290,778
NET ASSETS, End of year	$ 16,512,364	$ 13,216,875

See notes to financial statements.

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES		
Receipts from customers	$ 6,780,363	$ 6,166,502
Payments to suppliers	(3,173,315)	(2,663,528)
Payments to employees	(1,630,720)	(1,573,682)
Net cash provided by operating activities	1,976,328	1,929,292
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Water acquisition fees	1,039,500	871,000
Water acquisition costs	(197,625)	
Acquisition and construction of capital assets	(1,509,207)	(741,287)
Sale of capital assets		2,000
Interest paid on bonds and capital lease obligation	(1,035,104)	(1,049,127)
Proceeds from receivables — Peaceful Valley	35,867	12,355
Tap fees	1,908,500	1,260,000
Principal payments on bonds	(465,000)	(445,000)
Principal payments on note payable	(218,662)	(26,447)
Purchases of water rights	(813,500)	(313,500)
Cash contributions received for capital assets	892,528	537,368
Net cash provided by (used in) capital and related financing activities	(362,703)	107,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash provided by investing activities — Interest on investments	22,553	23,779
INCREASE IN CASH AND CASH EQUIVALENTS	1,636,178	2,060,433
CASH AND CASH EQUIVALENTS, Beginning of year	4,358,958	2,298,525
CASH AND CASH EQUIVALENTS, End of year	$ 5,995,136	$ 4,358,958

- Continued -

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 892,526	$ 858,063
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,054,291	1,054,375
Other		(529)
Change in operating assets and liabilities:		
Accounts receivable	(85,365)	(18,138)
Prepaid expenses	(29,443)	(6,115)
Accounts payable and accrued expenses	(66,408)	37,359
Customer deposits	13,102	4,277
Net cash provided by operating activities	$ 1,778,703	$ 1,929,292
NON-CASH ACTIVITIES		
Construction of capital assets financed through grant contributions to be received	$ —	$ 425,014

- Concluded -

See notes to financial statements.

WIDEFIELD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Widefield Water and Sanitation District of El Paso County, Colorado (the District), conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies consistently applied in the preparation of the financial statements.

Reporting Entity — The District was organized on May 17, 1996 and is governed by a Board of Directors that is selected by an election of landowners within the District's legal boundaries. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District supplies water and sanitary sewer services for the geographical service area known as the Widefield Water and Sanitation District. The District has no component units.

Basis of Accounting — The financial statements of the District are accounted for on a flow of economic resources measurement focus. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. The District is accounted for as an enterprise fund and has elected to implement the provisions of GASB Statement No. 20 with regard to the application of Financial Accounting Standards Board (FASB) Pronouncements to its proprietary funds. In accordance with the provisions of GASB Statement No. 20, the District has elected not to apply those FASB Statements and Interpretations issued after November 30, 1989. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise; (a) 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 revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Net Assets — The District's net assets are classified in the following three components:

- Invested in capital assets, net of related debt — This component consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

- Restricted — This component consists of net assets which have constraints placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets — This component consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Budgets — In the fall, the Budget officer is required to submit to the Board of Directors a budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted by the District to obtain public comments on the budget. Prior to December 31, the budget is officially adopted by the Board. The District is authorized to transfer budgeted amounts between line items of the budget; however, any revisions that alter the total expenditures of the District must be approved by the Board of Directors.

Capital Assets — Capital assets, which consist primarily of water and sanitary sewer systems, are stated at historical cost or fair market value at the time of donation. Depreciation is calculated using the straight-line method over the estimated useful lives ranging from three to seventy-five years.

Cash and Cash Equivalents — Cash in excess of daily requirements is invested in money market accounts. Such accounts, demand deposits and cash on hand, are deemed to be cash equivalents for the purpose of the statement of cash flows.

Accounts Receivable — Accounts receivable are stated at invoiced amounts. Management has determined that accounts receivable are collectible and no allowance for doubtful accounts is deemed necessary.

Other Costs — Bond issuance costs and District costs are recorded at cost and amortized using the interest method over the term of the bonds for bond issuance costs and twenty years for District costs. Certain contract rights donated in 1997 are recorded at fair market value at the time of donation. No amortization of the contract rights is recognized since they are perpetual.

Fair Value of Financial Instruments — The District's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The District estimates that the fair values of its financial instruments at December 31, 2010 and 2009 do not differ materially from the carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Operating Revenue and Expenses — Operating revenue and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Use of Estimates — Preparation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through May 17, 2011, the date the financial statements were available for issuance.

2. RECEIVABLES — PEACEFUL VALLEY

The District installed a water transmission system for a subdivision known as Peaceful Valley Lake Estates (Peaceful Valley). The cost of the improvements was $789,818 and was financed by the District's 1997 Series A bonds. Each homeowner within the subdivision was asked to pay a one-time charge equal to a pro-rata share of the overall cost or agree to a separate monthly assessment sufficient to amortize the pro-rata cost using a term and interest rate roughly equivalent to the 1997 Series A bonds. The amounts due from Peaceful Valley homeowners at December 31, 2010 and 2009 were $333,370 and $369,237, respectively. The receivables are secured by liens on each of the properties within Peaceful Valley.

After a one year warranty period, the District assumed ownership and maintenance responsibility for the system. Accordingly, the District has recorded the cost of the system as an asset and capital contribution. The receivables bear interest at 5.89% and are due as follows:

Year Ending December 31,	
2011	$ 12,987
2012	13,773
2013	14,608
2014	15,492
2015	16,430
2016 – 2020	76,291
2021 – 2025	124,406
2026 – 2028	59,383
Total	$ 333,370

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2010 and 2009 is as follows:

	Balance at January 1, 2010	**Increases**	**Decreases**	**Balance at December 31, 2010**
Land	$ 317,572	$ 177,594		$ 495,166
Equipment and systems	28,688,779	194,347	$ (185,192)	28,697,934
Office furniture and equipment	27,984			27,984
Construction in progress	990,879	1,137,266		2,128,145
Total capital assets	30,025,214	1,509,207	(185,192)	31,349,229
Less accumulated depreciation for:				
Equipment and systems	(10,470,137)	(925,158)	185,192	(11,210,103)
Office furniture and equipment	(27,170)	(814)		(27,984)
Total accumulated depreciation	(10,497,307)	(925,972)	185,192	(11,238,087)
Capital assets, net	$ 19,527,907	$ 583,235	$ —	$ 20,111,142

	Balance at January 1, 2009	Increases	Decreases	Balance at December 31, 2009
Land	$ 317,572			$ 317,572
Equipment and systems	28,524,837	$ 196,266	$ (32,324)	28,688,779
Office furniture and equipment	27,984			27,984
Construction in progress	20,844	970,035		990,879
Total capital assets	28,891,237	1,166,301	(32,324)	30,025,214
Less accumulated depreciation for:				
Equipment and systems	(9,576,134)	(924,856)	30,853	(10,470,137)
Office furniture and equipment	(25,147)	(2,023)		(27,170)
Total accumulated depreciation	(9,601,281)	(926,879)	30,853	(10,497,307)
Capital assets, net	$ 19,289,956	$ 239,422	$ (1,471)	$ 19,527,907

4. LONG-TERM DEBT

A summary of long-term debt is as follows:

	Balance at January 1, 2010	Increases	Decreases	Balance at December 31, 2010	Amounts Due Within One Year
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2004	$ 14,030,000		$ (465,000)	$ 13,565,000	$ 480,000
Tap and System Development Fee Revenue Bonds, Series 1997 B	4,000,000			4,000,000	
Promissory note	218,662		(218,662)		
Deferred amount on refunding	(1,323,201)		91,226	(1,231,975)	
Unamortized portion of original issue premium	121,045		(10,122)	110,923	
Total	$ 17,046,506	$ —	$ (602,558)	$ 16,443,948	$ 480,000

	Balance at January 1, 2009	Increases	Decreases	Balance at December 31, 2009	Amounts Due Within One Year
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2004	$ 14,475,000		$ (445,000)	$ 14,030,000	$ 465,000
Tap and System Development Fee Revenue Bonds, Series 1997 B	4,000,000			4,000,000	
Promissory note	245,109		(26,447)	218,662	25,200
Deferred amount on refunding	(1,414,028)		90,827	(1,323,201)	
Unamortized portion of original issue premium	131,490		(10,445)	121,045	
Total	$ 17,437,571	$ —	$ (391,065)	$ 17,046,506	$ 490,200

The following is a summary of bond principal maturities and interest requirements:

Year Ending December 31,	Series 2004 Bonds	Series 1997B Bonds	Total
2011	$ 1,099,175	$ 400,000	$ 1,499,175
2012	1,093,575	400,000	1,493,575
2013	1,096,425	400,000	1,496,425
2014	1,097,300	400,000	1,497,300
2015	1,097,425	400,000	1,497,425
2016 – 2020	5,500,100	4,366,667	9,866,767
2021 – 2025	5,505,375		5,505,375
2026 – 2030	4,385,000		4,385,000
Total	20,874,375	6,366,667	27,241,042
Less interest	7,309,375	2,366,667	9,676,042
Outstanding principal	$ 13,565,000	$ 4,000,000	$ 17,565,000

Series 1997B Bonds:

The Tap and System Development Fee Revenue Bonds, Series 1997B (Series B Bonds) were issued as part of the consideration given to acquire the District assets. The bonds were originally issued for $4,000,000 and bear interest at 10%. Interest is payable semi-annually on June 1 and December 1. The principal and interest on Series B Bonds are payable only from the "Series 1997B Tap and System Development Fees", after payment of any costs of collection (the "Net Tap and System Development Fee Revenue"). The Series 1997B Tap and System Development Fees are defined by the Bond Resolution as the amount of $2,450 of any combined water tap and system development fee per Single Family Equivalent (SFE), and the amount of $2,450 of any combined sewer tap and system development fee per SFE, or similar charges collected by the district from properties connecting to or receiving service from its water or sewer system. The Series B Bonds constitute an irrevocable and first lien upon the Net Tap and System Development Fee Revenue, but not necessarily an exclusive lien.

To the extent not paid when due, interest on the Series B bonds shall remain an obligation of the District, but shall not compound or bear additional interest. In the event that principal is not paid on December 1, 2016, such principal shall cease to bear any additional interest. In the event any principal and interest is due on the Series B Bonds at maturity (whether the original maturity or an extended maturity as provided) and not paid, all or any portion of the remaining principal and interest due on the Series B Bonds may be discharged by giving the registered owner a dollar-for-dollar credit for one or more prepaid Tap and System Development Fees at the then existing cost, such credit to be made proportionally in accordance with the amount owed each registered owner of the Series B Bonds.

Accordingly, the District records tap fees issuable and additional tap fee revenue for any amount of Series B Bond interest accrued and unpaid during the period the Series B Bonds are outstanding. As of December 31, 2010 and 2009 there was no accrued and unpaid Series B Bond interest and, accordingly, the District has recorded no tap fees issuable and no accrued interest.

Series 2004 Bonds:

In 2004 the District issued Water and Sewer Revenue Refunding and Improvement Bonds Series 2004 in order to defease the District's Series 1997A Bonds and to finance the cost of certain capital improvements to the water and wastewater systems. The Bonds have a face amount of $16,175,000 with interest ranging from 2% to 5%.

The District's "Net Revenue" is pledged to pay the principal and interest of Series 2004 Bonds. Net Revenue is generally defined as all income and revenue derived by the District from the operation and use of the water and wastewater systems less all reasonable and necessary expenses incurred for operating, maintaining and repairing the Systems.

Promissory Note:

In 2008, the District in its capacity as a Water Activity Enterprise, entered into a loan agreement with an initial principal balance of $250,000. The District was to make monthly payments of $2,100 plus interest accrued for 58 months with a final principal payment of $126,530 due in August 2013. The loan accrued interest at LIBOR plus 1.5%. The District's repayment obligations under the note were payable from the District's available net water and sewer revenues not otherwise pledged to existing debt obligations of the District, or otherwise necessary for the operation and maintenance of the District's systems. As of December 31, 2009 the balance outstanding on the note was $218,662. During 2010, the District paid the entire principle and interest balance in advance.

5. WATER RIGHTS

As of December 31, 2010 and 2009, the District owned 241 shares and 203 shares, respectively, of stock in Fountain Mutual Irrigation Company, which are recorded at cost. Each share provides a right to 0.7 acre feet of water. In addition, during the year ended December 31, 2010, the District acquired 3 1/3% interest in certain water rights referred to as the Cody Water Rights (See Note 7), which is also recorded at cost.

6. DEPOSITS

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash into eligible public depositories as determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA which 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

At December 31, 2010 and 2009, the carrying amount of the District's cash was \$5,995,136 and \$4,358,958, respectively, and the bank balances were \$5,137,039 and \$4,410,757, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance and \$4,887,039 and \$4,160,757 is required by Colorado Statutes to be collateralized with securities held by the pledging financial institution's trust department in the District's name.

7. WATER PURCHASE COMMITMENTS

Fountain Valley Authority:

Fountain Valley Authority (the Authority) is a political subdivision of the State of Colorado formed in 1979 for the primary purpose of constructing and operating a water treatment plant for its five customers, each of which owns and operates a water system. The District has a 7.46% share in the Authority and is a customer of the Authority. The Authority has entered into a water treatment and delivery contract with its five customers in which each customer agrees to pay the Authority its proportionate share of all costs, including bonded indebtedness, whether or not such customer requests or receives any treated water.

During 1996, the Authority issued \$12,225,000 Water Treatment Refunding Revenue Bonds, Series 1996. The outstanding balances of the 1996 refunding revenue bonds as of December 31, 2010 and 2009 are \$6,625,566 and \$7,211,377, respectively.

In addition, the Authority has conveyance contracts with the United States Department of the Interior through the Southeastern Colorado Water Conservancy District which has constructed a conduit from the Pueblo Reservoir to the site of the water treatment plant. Construction costs of this project will be reimbursed with interest over a 40-year period by conveyance service rates based upon the scheduled acre feet of water to be conveyed for each customer.

The District's participation is 1,500 acre-feet (7.46% of the total). The Authority charges contract participants amounts necessary to recover its construction costs and to purchase and treat the raw water. Total expenses under this arrangement were \$800,287 and \$781,798 for the years ended December 31, 2010 and 2009, respectively.

1997 Master Lease of Water:

In 1997, the District entered into a perpetual Master Lease of Water (Water Lease) under which the District agreed to pay the lessor for the first six years of the lease a payment of \$125 per acre-foot at the bottom of the well for all water pumped. Terms of the Water Lease require the District to acquire a minimum of 1,000 acre feet annually. The lease provides that on March 1, 2003 and on each ten-year anniversary thereafter, the lease payment of \$125 per acre-foot is to be adjusted to the then market value. Each year after a market value determination has been made and until the next market value determination, annual adjustments shall be made to the lease rate pursuant to the CPI. Effective March 1, 2010 and 2009, the rate was $170 and $171 per acre foot, respectively.

2006 Water Rights Agreement:

In December, 2006, the District, together with Security Water District (Security), entered into a perpetual Water Rights Agreement with Pikes Peak Community Foundation to lease approximately 1,350 acre feet of water per year for an initial payment of $300,000 for years 2006 and 2007 and a minimum rent of $216,563 beginning in 2008. Terms of the agreement provide for the District and Security each receiving, and paying for, one half of the water available and include future annual CPI adjustments to lease payments. Concurrent with the lease, the District and Security entered into a Water Rights Sublease with the City of Fountain (Fountain) to lease to Fountain approximately 1,125 acre feet of water per year through December, 2011. Fountain made an initial payment of $280,175 for years 2006 and 2007 and the minimum required sublease payments in 2008, 2009 and 2010. Payments under the sublease are subject to annual CPI adjustments. Commencing January 1, 2012 Fountain has the continuing right to lease water that the District and Security are unable to use or do not wish to use. Also, commencing January 1, 2012, Fountain is entitled to lease, in perpetuity, 10% of the amount of water available under the Water Rights Lease Agreement with Pikes Peak Community Foundation. The District and Security will share the remaining water 45% each. Additional terms of the Water Rights Sublease require Fountain to pay for the necessary well rehabilitation and pipeline installations with an understanding that at the end of the five year sublease period the District and Security will reimburse Fountain for two-thirds of the costs of infrastructure that benefits them.

Wescliffe Water:

In 2008, the District entered into an agreement with the City of Fountain (Fountain) and the owner of H20 Ranch (the Ranch) in Wescliffe, Colorado, the owner of 486 acres and certain water rights. Terms of the agreement provided for Fountain to buy the Ranch and the appurtenant water rights for $3,500,000, including $2,000,00 at closing and a note for $1,500,000 due in monthly installments of $12,000 including interest at 7%. The District is a party to this agreement and, in a separate agreement with Fountain, agreed to reimburse Fountain for 50% of the costs incurred in the original deal in exchange for 50% of the water which becomes decreed for municipal use. An application has been filed with the Water Court by Fountain and the District as co-applicants to obtain a final non-appealable decree for the change of use to municipal. If the decree has not been entered within four years of the filing of the application, the seller has certain options which include allowing the Water Court case to continue; buy the property back; or require a sale of the property.

Cody Water Rights:

On August 31, 2010, the District entered into a Water Rights Sale Agreement (the Agreement) with Widefield H2O Supply, LLC (WHS), a related entity owned by two members of the District's Board of Directors. The Agreement requires the District to purchase, and WHS to sell, certain water rights acquired by WHS (Cody Water Rights).

Concurrent with the Agreement between the District and WHS, WHS entered into a Purchase and Sale Contract (the Contract) with Cody Land and Water Wyoming, LLC and CLWA, LLC (collectively "Cody"), the owner of 1,273.93 acre feet of water rights located in the Fountain Creek Drainage Basin of El Paso County, Colorado. Under the terms of the Contract, WHS acquired Cody at a purchase price of $15,000,000 consisting of a payment of $500,000 paid at closing and a $14,500,000 promissory note. The note bears interest at 6½% and is payable in minimum semi-annual payments of $125,000 due at the end of each February and September through August 31, 2020. In addition to the minimum semi-annual payments, the February payment shall include additional amounts equal to (i) all revenues paid to WHS or to the District as rent or lease payments in the prior calendar year for the use of Cody Water Rights and (ii) 75% of water resource acquisition fees collected by the District in excess of $250,000 in the prior calendar year. Any remaining unpaid amounts, including accrued and compounded interest is due in full on August 31, 2020.

The Agreement between the District and WHS requires the District to make payments to WHS equal to the minimum payments required of WHS to Cody pursuant to the Contract between WHS and Cody as described above, plus an additional 4% of all principle payments made to Cody from WHS (Re-Sale Mark-Up).

During 2010, the District made a payment to WHS of $500,000, for amounts due Cody at closing, plus an additional $20,000 Re-Sale Mark-Up in exchange for a 3 1/3% interest in the Cody Water Rights. The remaining 96 2/3% of the Cody Water Rights and associated structures acquired by WHS from Cody shall be sold to the District in installments in the proportion that the amount of principal payment made as part of each respective payment bears to the $15,000,000 purchase price plus the Re-Sale Mark-Up.

As of December 31, 2010, the District recognized a payable in the amount of $280,958, representing its pro-rated semi-annual minimum payment and the pro-rated additional 75% of water acquisition fees collected by the District. The District records the $125,000 minimum semi-annual payment as the cost of water under operating expenses and any additional amount above the minimum payment as a reduction of Other Revenue in order to reflect the source from which the payments are to be paid. Accordingly, at December 31, 2010, the District recorded the prorated minimum payment of $83,333 as an operating expense and $197,625, the payment amount required by the water resource acquisition fee revenue received during the four month period ended December 31, 2010, as a reduction of Other Revenue. On February 28, 2011, the District made its first semi-annual payment to WHS in the amount of $467,377, the full amount of interest accrued on the note from WHS to Cody at that date.

8. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. There were no claims resulting from these risks that exceeded commercial insurance coverage during 2010 and 2009.

9. TAX, SPENDING AND DEBT LIMITATIONS

In November 1992 Colorado voters approved Amendment 1 to the state Constitution which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The amendment applies to all units of local government and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The amendment does not apply to units of local government that are defined as an "Enterprise".

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 substantially all of its operations qualify for this exclusion. Therefore, the District adopted a resolution pursuant to CRS 37-45.1-101 et seq. to establish a water activity enterprise.

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 qualification as an Enterprise will require judicial interpretation.

10. PENSION PLAN

The District contributes to the Colorado County Officials and Employees Retirement System (CCOERS), a cost-sharing multiple-employer defined contribution pension plan administered by the Colorado County Officials and Employees Retirement Association (CCOERA). CCOERS provides pension benefits and deferred compensation for members and beneficiaries. The plan was adopted by the District with a start date of March 1, 1997. Employees regularly employed on a full-time basis for five months a year and having completed 90 days of service are eligible for the plan and participants become fully vested 12 months later. Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 54, Part 101 of the Colorado Revised Statutes (CRS), as amended. The District is required to contribute between 3% and 6% of the participant's compensation. The District's board approved rate is 4% of compensation. Total contributions made by the District and participants for the years ended December 31, 2010, 2009 and 2008 were $44,042, $41,496 and $40,827, respectively. CCOERA issues a publicly available annual financial report that includes financial statements and required supplementary information for CCOERS. That report may be obtained by writing to CCOERA, 4949 South Syracuse Street, Suite 400, Denver, Colorado 80237 or by calling CCOERA at (303) 713-9400 in the Denver metro area, or 1-800-352-0313 from outside the metro area.

11. JOINT FACILITIES OPERATING AGREEMENT

The District has a Joint Facilities Operating Agreement (Agreement) with the City of Fountain (Fountain), Colorado. The purpose of the Agreement is to provide for the ownership, operation, and use of water storage tanks and related facilities. Under the Agreement, the facilities were constructed at a cost of $2,623,177 shared equally by the District and Fountain.

The District provides day-to-day operational control and revenues and costs generally are shared equally.

12. WIDEFIELD AQUIFER RECHARGE ASSOCIATION

During 2003, the District entered into an agreement with Security Water District (Security) to form the Widefield Aquifer Recharge Association (the Association), made up of the District and Security as members. The Association was formed to engage in the planning, evaluation, design and financial feasibility of jointly developing a public water treatment and supply facility that would utilize certain water rights controlled by the Members. In 2008, the agreement was amended for the purpose of including the City of Fountain (Fountain) into the Association. The Association's purpose continues to be the same and will ultimately utilize water rights of the Members to enhance each Member's developed water supply. The Association will continue until the earlier of: (a) the execution of a new agreement between the parties, (b) the withdrawal of a member, (c) the mutual agreement of the Members to dissolve or (d) December 31, 2011, unless the term of the Association is extended by mutual agreement of the Members. The Association is governed by a Board of Directors which consists of a representative from each of the Member entities. Each member contributes one third (1/3) of the annual operating budget. District contributions were $15,000 and $25,000 in 2010 and 2009, respectively. The Association had $135,798 and $119,626 cash remaining at December 31, 2010 and 2009, respectively.

13. ARRA GRANT

During the year ended December 31, 2009, the District was awarded a grant from the Colorado Water Resources and Power Development Authority (the Authority) for the construction of a wastewater collection system. Under terms of the grant, funds were borrowed on a loan for construction and, simultaneously, funding from the American Recovery and Reinvestment Act (ARRA) pays off the amounts loaned. As the entire balance of the loan is forgiven as it is borrowed, the District does not have an obligation at December 31, 2010.

Total construction costs incurred in 2010 and 2009 under this program were $467,514 and $962,382, respectively, while actual cash funding received from the Authority was $892,528 and $537,368, respectively.

14. COMMITMENTS AND CONTINGENCIES

On December 18, 2007, the District entered into an operating agreement with the Security Water District and the City of Fountain. The operating agreement details the responsibilities of each entity for operations of the Venetucci Well Field which is under lease by the District. Under the operating agreement, the City of Fountain is responsible for the initial development, construction and ownership of a facility, which is eventually to be jointly owned, for the initial sublease period from January 1, 2007 through December 31, 2011. After the initial sublease period, the District is required to reimburse the City of Fountain for 45% of cost incurred during the initial sublease period for development, construction and operations of the jointly owned facility and the District will have joint ownership in the facility. Upon termination of the initial sublease, all operating costs for the jointly owned facility are allocated based on the respective entity's ownership of the jointly owned facility and all operating costs for the jointly constructed facility are allocated based on use and benefit that the entities incur from the jointly constructed facility. The District will be responsible for 45% of operating cost for the jointly owned facility.

As part of the construction of the new wastewater collection system, the District entered into various construction and engineering contracts. As of December 31, 2010, $143,557 of the contracts has not been expended or incurred in liabilities.

WIDEFIELD WATER AND SANITATION DISTRICT

SUPPLEMENTAL SCHEDULE

WIDEFIELD WATER AND SANITATION DISTRICT

SUPPLEMENTAL SCHEDULE OF ACTIVITIES COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2010

	Original and Final Budget	Actual	Variance
OPERATING REVENUE			
Water revenue	$ 3,464,100	$ 3,712,548	$ 248,448
Wastewater revenue	2,711,570	2,688,962	(22,608)
Other income	381,620	451,116	69,496
Total	6,557,290	6,852,626	295,336
OPERATING EXPENSES			
Employee wages and benefits	1,627,715	1,636,857	9,142
Depreciation and amortization	1,064,350	1,054,291	(10,059)
Water	1,111,900	1,172,165	60,265
Maintenance and repairs	350,000	205,612	(144,388)
Professional fees	404,000	371,251	(32,749)
Utilities	352,000	260,474	(91,526)
Plant supplies	103,650	90,338	(13,312)
Insurance	80,950	72,022	(8,928)
Other expense	758,150	899,465	141,315
Total	5,852,715	5,762,475	(90,240)
OPERATING INCOME	704,575	1,090,151	385,576
NON-OPERATING REVENUE	723,280	1,737,824	1,014,544
CHANGE IN NET ASSETS BEFORE CONTRIBUTIONS FOR CAPITAL ASSETS	1,427,855	2,827,975	1,400,120
CONTRIBUTIONS FOR CAPITAL ASSETS		467,514	467,514
CHANGE IN NET ASSETS	$ 1,427,855	$ 3,295,489	$ 1,867,634