

**Northern Hills Water and Sewer Co.**  
**Utility Exhibit One**  
**Financial Statements**

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CITY OF DENVER

## Northern Hills Water &amp; Sewer Company

Schedule A

BALANCE SHEET  
December 31, 2002

<u>ASSETS</u>		LIABILITIES AND OTHER CREDITS	
		=====	
Plant In Service		Capital Stock and Retained Earnings	
Water	\$ 383,429	Common Stock and Paid In Capital	\$ 157,662
Sewer	<u>449,561</u>	Retained Earnings	(71,952)
Total	<u>\$ 832,990</u>	Total	<u>\$ 85,709</u>
Accumulated Depreciation-Water	(115,910)	Current and Accrued Liabilities	
Accumulated Depreciation-Sewer	(168,418)	Accounts Payable-Trade	0
Total	<u>\$ (284,327)</u>	Taxes Accrued	2,305
Net Utility Plant	<u>\$ 548,662</u>	Customer Deposits	0
		Customer Deposits - Interest	0
		A/P - Assoc. Companies	123,992
		Total	<u>\$ 126,297</u>
Utility Plant Acquisition Adjustment - Water	15,140	Advances from UI	(5,475)
Utility Plant Acquisition Adjustment - Sewer	<u>12,698</u>	Contributions In Aid of Construction	
Total	<u>\$ 27,838</u>	Water	140,454
Current Assets		Sewer	214,359
Cash	0	Total	<u>\$ 354,813</u>
Accounts Receivable - Net	8,452	Accumulated Deferred Income Tax	
Other Current Assets	<u>308</u>	Unamortized ITC	0
Total	<u>\$ 8,760</u>	Deferred Tax - Federal	24,430
Deferred Charges	<u>558</u>	Deferred Tax - State	43
TOTAL ASSETS	<u>\$ 585,817</u>	Total	<u>\$ 24,473</u>
		TOTAL LIABILITIES AND OTHER CREDITS	<u>\$ 585,817</u>

**Northern Hills Water & Sewer Company**  
 Combined Operations  
 Test Year Ended December 31, 2002

	<u>Per Books</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Present</u>	<u>Proposed Increase</u>	<u>Pro Forma Proposed</u>
<b>Operating Revenues</b>					
Service Revenues - Water	\$ 40,860	\$ -	\$ 40,860	\$ 5,325 [a]	\$ 46,185
Service Revenues - Sewer	46,456		46,456	13,520	59,976
Miscellaneous Revenues	317		317		317
Uncollectible Accounts	(219)		(219)	(47) [b]	(266)
<b>Total Operating Revenues</b>	<b>87,415</b>	<b>0</b>	<b>87,415</b>	<b>18,798</b>	<b>106,212</b>
<b>Maintenance Expenses</b>					
Salaries and Wages	11,868	356 [c]	12,224		12,224
Purchased Power	6,206		6,206		6,206
Purchased Sewer & Water	0		0		0
Maintenance and Repair	21,986		21,986		21,986
Maintenance Testing	2,527		2,527		2,527
Meter Reading	1,136		1,136		1,136
Chemicals	4,720		4,720		4,720
Transportation	1,087		1,087		1,087
Operating Exp. Charged to Plant	(490)		(490)		(490)
Outside Services - Other	986		986		986
<b>Total</b>	<b>50,025</b>	<b>356</b>	<b>50,381</b>	<b>0</b>	<b>50,381</b>
<b>General Expenses</b>					
Salaries and Wages	4,733	142 [c]	4,875		4,875
Office Supplies & Other Office Exp.	2,078		2,078		2,078
Regulatory Commission Exp.	0	1,929 [d]	1,929		1,929
Pension & Other Benefits	3,092	2,007 [e]	5,099		5,099
Rent	95		95		95
Insurance	1,296	478 [f]	1,774		1,774
Office Utilities	1,056		1,056		1,056
Miscellaneous	247		247		247
WSC Allocation Increase	0	538 [g]	538		538
<b>Total</b>	<b>12,598</b>	<b>5,095</b>	<b>17,692</b>	<b>0</b>	<b>17,692</b>
Depreciation	17,693	354 [h]	18,047		18,047
Taxes Other Than Income	4,594	46 [i]	4,640	57 [i]	4,697
Income Taxes - Federal	1,925	(3,414) [j]	(1,489)	6,053 [j]	4,565
Income Taxes - State	(94)	(136) [j]	(230)	937 [j]	707
Amortization of CIAC	(10,991)	2,748 [k]	(8,243)		(8,243)
<b>Total</b>	<b>13,127</b>	<b>(402)</b>	<b>12,725</b>	<b>7,047</b>	<b>19,772</b>
<b>Total Operating Expenses</b>	<b>75,750</b>	<b>5,048</b>	<b>80,798</b>	<b>7,047</b>	<b>87,845</b>
<b>Net Operating Income</b>	<b>\$ 11,664</b>	<b>\$ (5,048)</b>	<b>\$ 6,616</b>	<b>\$ 11,751</b>	<b>\$ 18,367</b>
Interest During Construction	0	0	0	0	0
Interest on Debt	7,926	1,580 [l]	9,506	0	9,506
<b>Net Income</b>	<b>\$ 3,738</b>	<b>\$ (6,628)</b>	<b>\$ (2,890)</b>	<b>\$ 11,751</b>	<b>\$ 8,861</b>

MAY 20 2003

WATER AND SEWER DEPARTMENT  
 FINANCIAL OFFICE

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
<u>Operating Revenues</u>					
Service Revenues - Water	\$ 40,860		\$ 40,860	\$ 5,325 [a]	\$ 46,185
Service Revenues - Sewer			0		0
Miscellaneous Revenues	150		150		150
Uncollectible Accounts	(102)		(102)	(13) [b]	(115)
<b>Total Operating Revenues</b>	<b>40,908</b>	<b>0</b>	<b>40,908</b>	<b>5,312</b>	<b>46,220</b>
<u>Maintenance Expenses</u>					
Salaries and Wages	5,702	171 [c]	5,873		5,873
Purchased Power	1,649		1,649		1,649
Purchased Water	0		0		0
Maintenance and Repair	2,300		2,300		2,300
Maintenance Testing	1,064		1,064		1,064
Meter Reading	1,136		1,136		1,136
Chemicals	2,268		2,268		2,268
Transportation	522		522		522
Operating Exp. Charged to Plant	(235)		(235)		(235)
Outside Services - Other	467		467		467
<b>Total</b>	<b>14,873</b>	<b>171</b>	<b>15,044</b>	<b>0</b>	<b>15,044</b>
<u>General Expenses</u>					
Salaries and Wages	2,274	68 [c]	2,342		2,342
Office Supplies & Other Office Exp.	999		999		999
Regulatory Commission Exp.	0	927 [d]	927		927
Pension & Other Benefits	1,486	964 [e]	2,450		2,450
Rent	46		46		46
Insurance	623	230 [f]	853		853
Office Utilities	508		508		508
Miscellaneous	119		119		119
WSC Allocation Increase	0	258 [g]	258		258
<b>Total</b>	<b>6,053</b>	<b>2,448</b>	<b>8,500</b>	<b>0</b>	<b>8,500</b>
Depreciation	8,081	697 [h]	8,778		8,778
Taxes Other Than Income	2,206	22 [i]	2,228	16 [i]	2,244
Income Taxes - Federal	901	269 [j]	1,169	1,711 [j]	2,880
Income Taxes - State	(44)	225 [j]	181	265 [j]	446
Amortization of CIAC	(4,350)	1,087 [k]	(3,262)		(3,262)
<b>Total</b>	<b>6,795</b>	<b>2,300</b>	<b>9,095</b>	<b>1,991</b>	<b>11,086</b>
<b>Total Operating Expenses</b>	<b>27,720</b>	<b>4,919</b>	<b>32,639</b>	<b>1,991</b>	<b>34,630</b>
<b>Net Operating Income</b>	<b>\$ 13,188</b>	<b>\$ (4,919)</b>	<b>\$ 8,269</b>	<b>\$ 3,320</b>	<b>\$ 11,590</b>
Interest During Construction	0	0	0	0	0
Interest on Debt	3,865	2,134 [l]	5,999	0	5,999
<b>Net Income</b>	<b>\$ 9,323</b>	<b>\$ (7,053)</b>	<b>\$ 2,270</b>	<b>\$ 3,320</b>	<b>\$ 5,590</b>

  
 MAY 21 2003  
 ROBERT L. SMITH, CEO  
 NORTHERN HILLS WATER & SEWER COMPANY

	Per Books	Pro Forma Adjustments	Pro Forma Present	Proposed Increase	Pro Forma Proposed
<u>Operating Revenues</u>					
Service Revenues - Water					
Service Revenues - Sewer	\$ 46,456	\$ -	\$ 46,456	\$ 13,520 [a]	\$ 59,976
Miscellaneous Revenues	167		167		167
Uncollectible Accounts	(117)		(117)	(34) [b]	(151)
<b>Total Operating Revenues</b>	<b>46,507</b>	<b>0</b>	<b>46,507</b>	<b>13,486</b>	<b>59,992</b>
<u>Maintenance Expenses</u>					
Salaries and Wages	6,166	185 [c]	6,351		6,351
Purchased Power	4,557		4,557		4,557
Purchased Sewer & Water	0		0		0
Maintenance and Repair	19,685		19,685		19,685
Maintenance Testing	1,463		1,463		1,463
Meter Reading	0		0		0
Chemicals	2,452		2,452		2,452
Transportation	565		565		565
Operating Exp. Charged to Plant	(254)		(254)		(254)
Outside Services - Other	518		518		518
<b>Total</b>	<b>35,152</b>	<b>185</b>	<b>35,337</b>	<b>0</b>	<b>35,337</b>
<u>General Expenses</u>					
Salaries and Wages	2,459	74 [c]	2,533		2,533
Office Supplies & Other Office Exp.	1,080		1,080		1,080
Regulatory Commission Exp.	0	1,002 [d]	1,002		1,002
Pension & Other Benefits	1,607	1,043 [e]	2,649		2,649
Rent	49		49		49
Insurance	673	248 [f]	921		921
Office Utilities	549		549		549
Miscellaneous	128		128		128
WSC Allocation Increase	0	280 [g]	280		280
<b>Total</b>	<b>6,545</b>	<b>2,647</b>	<b>9,192</b>	<b>0</b>	<b>9,192</b>
Depreciation	9,612	(343) [h]	9,269		9,269
Taxes Other Than Income	2,388	24 [i]	2,412	41 [i]	2,453
Income Taxes - Federal	1,024	(3,682) [j]	(2,658)	4,343 [j]	1,685
Income Taxes - State	(50)	(361) [j]	(411)	672 [j]	261
Amortization of CIAC	(6,641)	1,660 [k]	(4,981)		(4,981)
<b>Total</b>	<b>6,333</b>	<b>(2,703)</b>	<b>3,630</b>	<b>5,056</b>	<b>8,686</b>
<b>Total Operating Expenses</b>	<b>48,030</b>	<b>129</b>	<b>48,160</b>	<b>5,056</b>	<b>53,215</b>
<b>Net Operating Income</b>	<b>\$ (1,524)</b>	<b>\$ (129)</b>	<b>\$ (1,653)</b>	<b>\$ 8,430</b>	<b>\$ 6,777</b>
Interest During Construction	0	0	0	0	0
Interest on Debt	4,061	(554) [l]	3,507	0	3,507
<b>Net Income</b>	<b>\$ (5,585)</b>	<b>\$ 425</b>	<b>\$ (5,160)</b>	<b>\$ 8,430</b>	<b>\$ 3,270</b>

APPROVED AND FORWARDED:  
 DATE: MAY 20 2003  
 ACCOUNTING DEPARTMENT

- [a] Revenues are annualized at proposed rates using the average test year customers.
- [b] Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to pro-forma proposed revenues.
- [c] Salaries and Wages are adjusted by a 3% increase to represent anticipated raises that will be initiated by year-end.
- [d] Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 3 years. This adjustment does not include the expense of a cost of capital witness as the Utility does not anticipate using one. However, the Utility reserves the right to use a cost of capital witness and will be requesting actual rate case expense at the time of the hearing in the form of a late filed exhibit.
- [e] Pension and Other Benefits have been adjusted to reflect the rising costs of health insurance and the 3% increase in Salaries and Wages.
- [f] Insurance is adjusted by a 36.88% increase to represent the anticipated increase in costs of Automobile, Workers' Compensation, and Property Insurance.
- [g] An adjustment for an increase in the expenses allocated by Water Service Corp. reflects the increase in Common Expenses and Computer Related Expenses incurred between the test year and the prior year. The Company anticipates a similar increase in allocated expenses at year-end.
- [h] Depreciation Expense has been adjusted to reflect the additional expense incurred to change from the composite method of calculating depreciation to the class-of-asset method. This change in calculation methods is consistent with Commission practice in prior rate proceedings.
- [i] Taxes Other than Income is adjusted for the 3% increase in Payroll Taxes due to the 3% increase in Salaries and Wages.
- [j] Income Taxes are computed on taxable income at current rates of 5% (state) and 34% (federal).
- [k] Amortization Expense is annualized.
- [l] Interest on Debt has been computed using a 59.76%/40.24% debt/equity ratio and a 7.24% cost of debt.

MAY 20 2003

	<u>Per Books</u>	<u>Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Proposed Increase</u>	<u>Effect of Proposed Increase</u>
Net Operating Income	\$ 11,664	(5,048)	\$ 6,616	11,751	\$ 18,367
Gross Plant In Service	\$ 832,990		\$ 832,990		\$ 832,990
Accumulated Depreciation	(284,327)		(284,327)		(284,327)
Net Plant In Service	548,662	0	548,662	0	548,662
Cash Working Capital	8,402	688 [a]	9,090		9,090
Contributions In Aid of Construction	(354,813)	0	(354,813)		(354,813)
Accumulated Deferred Income Taxes	(24,387)	0	(24,387)		(24,387)
Customer Deposits	0	0	0		0
Plant Acquisition Adjustment	27,838	0	27,838		27,838
Water Service Corporation	10,400	0	10,400		10,400
Pro Forma Plant	0	3,000 [b]	3,000		3,000
Total Rate Base	\$ 216,102	\$ 3,688	\$ 219,790	\$ 0	\$ 219,790
<u>Return on Rate Base</u>	<u>5.40%</u>		<u>3.01%</u>		<u>8.36%</u>

[a] Working Capital is calculated based on pro forma expenses.

[b] Pro Forma Plant is adjusted for planned additional capital investments.

DEC 20 2002

W. H. RAYMOND & COMPANY, S.L.W.  
 CONSULTANTS IN P.C.E.

	Per Books	Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	<u>13,188</u>	<u>(4,919)</u>	<u>8,269</u>	<u>3,320</u>	<u>11,590</u>
Gross Plant In Service	\$ 383,429		383,429		383,429
Accumulated Depreciation	<u>(115,910)</u>		<u>(115,910)</u>		<u>(115,910)</u>
Net Plant In Service	267,519	0	267,519	0	267,519
Cash Working Capital	2,891	331 [a]	3,222		3,222
Contributions In Aid of Construction	<u>(140,454)</u>	0	<u>(140,454)</u>		<u>(140,454)</u>
Accumulated Deferred Income Taxes	<u>(11,717)</u>	0	<u>(11,717)</u>		<u>(11,717)</u>
Customer Deposits	0	0	0		0
Plant Acquisition Adjustment	15,140	0	15,140		15,140
Water Service Corporation	4,997	0	4,997		4,997
Pro Forma Plant	<u>0</u>	<u>0</u>	<u>0</u>		<u>0</u>
Total Rate Base	\$ <u>138,376</u>	\$ <u>331</u>	\$ <u>138,707</u>	\$ <u>0</u>	\$ <u>138,707</u>
Return on Rate Base	<u>9.53%</u>		<u>5.96%</u>		<u>8.36%</u>

[a] Working Capital is calculated based on pro forma expenses.

SEAL  
 JUL 20 2003  
 OFFICE OF THE COMMISSIONER  
 WATER UTILITIES

Northern Hills Water & Sewer Company  
 Sewer Operations  
 Rate Base and Rate of Return  
 Test Year Ended December 31, 2002

	Per Books	Pro Forma Adjustments	As Adjusted	Proposed Increase	Effect of Proposed Increase
Net Operating Income	(1,524)	(129)	(1,653)	8,430	6,777
Gross Plant In Service	\$ 449,561		449,561		449,561
Accumulated Depreciation	(168,418)		(168,418)		(168,418)
Net Plant In Service	281,143	0	281,143	0	281,143
Cash Working Capital	5,511	357 [a]	5,868		5,868
Contributions In Aid of Construction	(214,359)	0	(214,359)		(214,359)
Accumulated Deferred Income Taxes	(12,670)	0	(12,670)		(12,670)
Customer Deposits	0	0	0		0
Plant Acquisition Adjustment	12,698	0	12,698		12,698
Water Service Corporation	5,403	0	5,403		5,403
Pro Forma Plant	0	3,000 [b]	3,000		3,000
Total Rate Base	\$ 77,726	\$ 3,357	\$ 81,083	\$ 0	\$ 81,083
Return on Rate Base	-1.96%		-2.04%		8.36%

[a] Working Capital is calculated based on pro forma expenses.

[b] Pro Forma Plant is adjusted for planned additional capital investments.

MAY 20 2003  
 U.S. DEPARTMENT OF JUSTICE  
 FEDERAL BUREAU OF INVESTIGATION  
 WASHINGTON, D.C. 20535

TEST YEAR / PRESENT REVENUES

**WATER**

<u>Bill code</u>	<u>Gallonage</u>	<u>Usage Charge</u>	<u>Units</u>	<u>BFC</u>	<u>Revenues</u>
All Subs: 06601	10,844,549	\$ 2.84	2,062	\$ 5.00	\$ 41,109
Total	<u>10,844,549</u>		<u>2,062</u>		<u>\$ 41,109</u>

per t/b	\$	40,860
difference	\$	249
difference	%	0.61%

**SEWER**

<u>Bill code</u>	<u>Units</u>	<u>Rate</u>	<u>Revenues</u>
All Subs: 06621	2,206	\$ 21.23	\$ 46,833
Total	<u>2,206</u>		<u>\$ 46,833</u>

per t/b	\$	46,456
difference	\$	377
difference		0.81%

MAY 20 2003

LLS (S) COMM. WKS. UNIT 3007  
 CONFIDENTIAL

PROPOSED REVENUES

**WATER**

<u>Bill code</u>	<u>Gallonage</u>	<u>Usage Charge</u>	<u>Units</u>	<u>BFC</u>	<u>Revenues</u>
<u>All Subs:</u>					
06601	10,844,549	\$ 3.07	2,062	\$ 6.25	\$ 46,185
Total	<u>10,844,549</u>		<u>2,062</u>		<u>\$ 46,185</u>

Difference	\$	5,325
% Increase		13.03%

**SEWER**

<u>Bill code</u>	<u>Units</u>	<u>Rate</u>	<u>Revenues</u>
<u>All Subs:</u>			
06621	2,206	27.19	\$ 59,976
Total	<u>2,206</u>		<u>\$ 59,976</u>

Difference	\$	13,519
% Increase		29.10%

APPROVED  
 MAY 20 2003  
 MANAGER OF UTILITY SERVICES  
 NORTHERN HILLS WATER & SEWER COMPANY