

BACA GRANDE WATER AND SANITATION
DISTRICT

FINANCIAL STATEMENTS

December 31, 2004



Wall, Smith, Bateman & Associates, Inc.
Certified Public Accountants

BACA GRANDE WATER AND SANITATION DISTRICT
TABLE OF CONTENTS
December 31, 2004

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	2
Business-Type Fund Financial Statements:	
Statement of Revenues, Expenses and Changes in Net Assets	3
Schedule of Revenues, Expenditures, and Changes in Net Assets – Budget and Actual	4
Statement of Cash Flows	6
Notes to the Basic Financial Statements	7

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Baca Grande Water and Sanitation District
Crestone, Colorado 81131

We have audited the accompanying financial statements of the business-type activities of the Baca Grande Water and Sanitation District (the District), as of and for the year ended December 31, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Baca Grande Water and Sanitation District, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the Major fund, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, during 2004 the District implemented a new financial reporting model as required by the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*; No. 37, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments: Omnibus*; No. 38, *Certain Financial Statement Note Disclosure*. In addition, during 2004 the District implemented the provisions of GASB Statements No. 36, *Receipt Reporting for Certain Shared Nonexchange Revenues*; No. 39, *Determining Whether Certain Organizations are Component Units*, and No. 41, *Budgetary Comparison Schedules – Perspective Differences*.

The District has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Wall, Smith, Bateman and Associates, Inc.

Wall, Smith, Bateman and Associates, Inc.
Alamosa, Colorado
June 28, 2005

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF NET ASSETS
December 31, 2004

	2004
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 82,555
Accounts Receivable, Net of Allowance for Doubtful Accounts \$86,793	25,071
Due from Other Governments	4,114
Note Receivable - Land	15,000
Property Taxes Receivable	288,565
Total Current Assets	415,305
Capital Assets	
Land	51,423
Land Improvements	87,524
Sewage Plant	4,094,244
Water Plant	4,244,817
Machinery and Equipment	516,887
As Built Drawings	7,000
Construction in Progress	18,560
Less Accumulated Depreciation	(4,160,098)
Total Capital Assets	4,860,357
TOTAL ASSETS	5,275,662
LIABILITIES	
Current Liabilities	
Accounts Payable	12,552
Payroll Taxes Payable	(59)
Accrued Interest Payable	743
Tap Fees Payable	15,000
Long-Term Debt - Current Portion	175,685
Deferred Revenue - Availability of Service	129,102
Deferred Revenue - Property Taxes	288,565
Total Current Liabilities	621,588
Long-term Liabilities	
Lease Payable	202,592
Notes Payable	827,586
Total Long-term Liabilities	1,030,178
TOTAL LIABILITIES	1,651,766
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,654,494
Restricted for:	
TABOR	30,051
Unrestricted	(60,649)
TOTAL NET ASSETS	\$ 3,623,896

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2004

	2004
OPERATING REVENUES	
Water and Sewer Service Charge	\$ 306,912
Fire Hydrant Revenue	13,348
Availability of Service Fees	122,634
Tap Fees	43,400
Miscellaneous Revenue	28,114
Hook Up Fees	37,200
	37,200
Total Operating Revenues	551,608
OPERATING EXPENSES	
Salaries and Benefits	328,785
Directors Fees	6,000
Legal and Accounting Fees	23,747
Repair and Maintenance	24,685
Utilities	57,712
Insurance and Bonds	18,620
Office Expense	27,099
Other Supplies	44,110
Vehicle Operations	21,991
Water Costs	16,584
Testing	9,253
Other	5,708
Bad Debt Expense	4,981
Interest on Debt	53,484
Depreciation	192,644
	192,644
Total Operating Expenses	835,403
Operating Income	(283,795)
NONOPERATING REVENUES (EXPENSES)	
Property Taxes and Specific Ownership Tax, Net	357,366
Interest on Investments	2,152
In Lieu of Taxes	2,090
Saguache County Settlement	60,000
Proceeds from Land Sales	28,500
	28,500
Total Nonoperating Revenues (Expenses)	450,108
Net Income	166,313
Net Assets, Beginning of Year	3,457,583
Net Assets, End of Year	\$ 3,623,896

BACA GRANDE WATER AND SANITATION DISTRICT
BUSINESS-TYPE ACTIVITIES
WATER AND SEWER FUND
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL
For the Year Ended December 31, 2004

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
				POSITIVE (NEGATIVE)
OPERATING REVENUES				
Water and Sewer Service Charge	\$ 280,000	\$ 280,000	\$ 306,912	\$ 26,912
Service Charges - Town of Crestone	5,600	5,600	-	(5,600)
Availability of Service Fees	161,704	161,704	122,634	(39,070)
Tap Fees	20,000	20,000	43,400	23,400
Fire Hydrant Revenue	15,000	15,000	13,348	(1,652)
Miscellaneous Revenue	1,000	1,000	28,114	27,114
Hook Up Fees	21,600	21,600	37,200	15,600
Total operating revenues	504,904	504,904	551,608	46,704
OPERATING EXPENSES				
Salaries and Benefits	310,914	310,914	328,785✓	(17,871)
Directors Fees	6,000	6,000	6,000✓	-
Legal and Accounting Fees	36,600	36,600	23,747✓	12,853
Repair and Maintenance	88,200	88,200	24,685✓	63,515
Utilities	50,211	50,211	57,712✓	(7,501)
Insurance and Bonds	20,000	20,000	18,620✓	1,380
Office Expense	26,265	26,265	27,099✓	(834)
Other Supplies	10,500	10,500	44,110✓	(33,610)
Vehicle Operations	20,000	20,000	21,991✓	(1,991)
Water Costs	42,000	42,000	16,584✓	25,416
Water Tap Assembly	30,000	30,000	-	30,000
Testing	12,000	12,000	9,253✓	2,747
Bad Debt Expense	-	-	4,981✓	(4,981)
Interest on Debt	50,374	50,374	53,484✓	(3,110)
Principal Payments on Debt	169,157	169,157	249,800	(80,643)
Capital Improvements/Equipment	235,000	235,000	560,342✓	(325,342)
Other	7,000	7,000	5,708✓	1,292
Total operating expenses	1,114,221	1,114,221	1,452,901	(338,680)
Operating income (loss)	(609,317)	(609,317)	(901,293)	(291,976)
NONOPERATING REVENUES (EXPENSES)				
Property Taxes and Specific Ownership Tax	328,500	328,500	357,366	28,866
Interest on Investments	2,400	2,400	2,152	(248)
Availability of Service Fees Interest	-	-	-	-
Saguache County Settlement	-	-	60,000	60,000
Land Sales	15,000	15,000	28,500	13,500
Debt Proceeds	195,705	195,705	319,290	123,585
In Lieu of Taxes	2,000	2,000	2,090	90
Total nonoperating revenues (expenses)	543,605	543,605	769,398	225,793

BACA GRANDE WATER AND SANITATION DISTRICT
BUSINESS-TYPE ACTIVITIES
WATER AND SEWER FUND
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN
NET ASSETS - BUDGET AND ACTUAL (CONTINUED)
For the Year Ended December 31, 2004

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
Net Income (Loss) - Budget Basis	(65,712)	(65,712)	(131,895)	(66,183)
Add: Items not considered expenses on Statement of Operations:				
Principal Payments on Debt			249,800	
Capital Improvements/Equipment			560,342	
Less: Items not considered revenues on Statement of Operations				
Debt Proceeds			(319,290)	
Tap Fees			-	
Less: Items considered expenses on Statement of Operations:				
Depreciation			(192,644)	
Net Income (Loss)			166,313	
Net Assets at beginning of year	128,683	128,683	3,457,583	3,328,900
Net Assets at end of year	\$ 62,971	\$ 62,971	\$ 3,623,896	\$ 3,560,925

BACA GRANDE WATER AND SANITATION DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2004

	2004
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from Customers	\$ 623,708
Cash payments to Employees	(328,185)
Cash paid for Directors Fees	(6,000)
Cash payments for Goods and Services	(266,385)
	23,138
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property Taxes	357,366
In Lieu of Taxes	2,090
Saguache County Settlement	60,000
	419,456
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Land Sales	28,500
Principal and Interest on Debt	(303,284)
Additions to Plant and Equipment	(560,652)
Debt Proceeds	319,290
	(516,146)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	2,152
	2,152
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	
Net Increase (Decrease) in Cash and Cash Equivalents	(71,400)
Cash and Cash Equivalents, Beginning of Year	153,955
Cash and Cash Equivalents, End of Year	\$ 82,555
Interest Paid on Notes Payable and Leases Payable	\$ 53,484
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Income (Loss)	\$ (283,795)
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation	192,644
Interest on Debt	53,484
(Increase) Decrease in:	
Accounts Receivable, Net	14,483
Due from County Treasurer	959
Intergovernmental Agreement	15,821
Tap Fees	3,600
Increase (Decrease) in:	
Accounts Payable	(16,876)
Deferred Revenue - A of S	42,218
Payroll Taxes Payable	600
	23,138
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 23,138

**BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District reflected in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*. This year's financial report has been prepared in accordance with GASB Statement No. 34 issued in June 1999. Under GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* infrastructure is reported and other capital assets are depreciated. The adoption of GASB 34 required the following changes.

- Reporting revenues by function and classifying revenues as program revenues (e.g. charges for services) or general revenues.
- Presenting Management's Discussion and Analysis, which summarizes the financial data for the District.
- Classification of net assets into three categories, invested in fixed assets net of related debt, restricted net assets, and unrestricted net assets.

REPORTING ENTITY

Primary Government

The Baca Grande Water and Sanitation District was formed January 1, 1972 pursuant to Chapter 89, Article 5 C.R.S. to provide water and sanitation services to residents of the District.

Component Units

The District's financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The District holds the corporate powers of the organization
- The District appoints a voting majority of the organization's board
- The District is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the District
- There is fiscal dependency by the organization on the District
- The organization is financially accountable to the District
- The organization receives or holds funds that are for the benefit of the District; and the District has access to a majority of the funds held; and the funds that are accessible are also significant to the District

Based on the aforementioned criteria, the Baca Grande Water and Sanitation District has no component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net assets and the statement of activities. Government-wide statements report information on all of the activities of the District.

**BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

The statement of activities reflects the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include:

- Charges to customers or applicants who purchase, use, or directly benefit from services, or privileges provided by a given function or segment and
- Grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This measurement is also used for the proprietary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue when all applicable eligibility requirements, imposed by the provider, are met.

Proprietary Fund Financial Statements are used to account for activities, which are similar to those often in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The District's only fund is a proprietary fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

Cash

The District's cash and cash equivalents are considered to be cash in bank, certificates of deposit and liquid investments.

Inventory

Inventory items consist of expendable supplies held for consumption. These items have been recorded as an expense when purchased. Therefore, no inventory is included on the balance sheet.

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (CONTINUED)

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 each year. The taxes are payable in two installments on March 15 and June 15, Or in full on May 1. The County Treasurer bills and collects all property taxes for the District. Property taxes revenue is recognized by the District to the extent they result in a current receivable.

The 2004 property tax levy due January 1, 2005 has been recorded in the financial statements as a receivable and in a corresponding deferred revenue account.

Capital Assets

Capital Assets, which include land, buildings, equipment and vehicles, are reported in the applicable columns in the Government-wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building	50
Equipment and Vehicles	3-15

Compensated Absences

The District has not recorded an accrued liability for vacation or sick time as the District does not accumulate unused time.

Interest

Interest is capitalized by the District in accordance with FASB No. 62. For the current year ended, no interest has been capitalized.

Encumbrances

The District does not record purchase orders in the accounting system until invoices are ready for payment. Unfulfilled purchase commitments outstanding at the end of the budget year are re-budgeted in the succeeding year. End of the year fund balance intended to be used in the succeeding year is reported as designated fund balance.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

During the year ended December 31, 2004, the District implemented the following provisions of the Governmental Accounting Standards Board (GASB):

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, establishes a new financial reporting model to be used by state and local governments.

GASB Statement No. 34 requires the presentation of government-wide financial statements prepared using the accrual basis of accounting and economic resources measurement focus for all of the District’s activities. Government-wide financial statements distinguish between the District’s governmental and business type activities and activities of discretely presented component units on a statement of net assets and a statement of activities. The statement of net assets includes not only assets and liabilities but also all capital assets (including governmental infrastructure assets) and other long-term assets and liabilities. The statement of activities reports all of the District’s revenues and costs (including depreciation expense on capital assets) of providing services. Accordingly, the District recorded capital assets and certain other long-term assets and liabilities in the statement of net assets, and reported all revenues and the cost of providing services using the accrual basis of accounting in the statement of activities.

GASB Statement No. 34 also required that financial statements be accompanied by Management’s Discussion and Analysis (MD&A), as required supplementary information, to include a narrative introduction and analytical overview of the District’s financial activities. Statement No. 34 also eliminated contributed capital and classified net assets into invested in capital assets net of related debt, restricted and unrestricted.

GASB Statement No. 36, *Receipt Reporting for Certain Shared Nonexchange Revenues* amends GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, with respect to the manner in which shared nonexchange revenues are accounted for by recipient governments. GASB Statement No. 36 did not have any material impact in the way the District records revenues.

GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* amends GASB Statement No. 34 to clarify certain provisions and modified other provisions that had unintended consequences in some circumstances. Accordingly, the District considered the effects of this statement when adopting the provisions of GASB Statement No. 34 as described above.

GASB Statement No. 38, *Certain Financial Statement Note Disclosures* modifies, establishes, and rescinds certain note disclosures to be adopted concurrent with the implementation of GASB Statement No. 34. Accordingly, the District revised certain note disclosures to conform to the requirements of GASB Statement No. 38 when adopting the provisions of GASB Statement No. 34 as described above.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* amends GASB Statement No. 14, *The Financial Reporting Entity*. GASB Statement No. 39 provides additional guidance to determine whether certain organizations for which a primary government is not financially accountable should be reported as component units based upon the nature and significance of the relationship between them and the primary government. Accordingly, the District did not change the reporting of any component units based upon the adoption of the standard.

**BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES (CONTINUED)

GASB Statement No. 40, Deposit and Investment Risk Disclosures amends GASB Statement No. 3, establishes and modifies disclosure requirements related to deposit and investment risks. Accordingly, the District revised certain note disclosures to conform to this statement.

GASB Statement No. 41, Budgetary Comparison Schedules – Perspective Differences amends GASB Statement No. 34 to clarify budgetary presentation requirements. Accordingly, the District considered the effects of this statement when adopting the provisions of GASB Statement No. 34 as described above.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The Baca Grande Water and Sanitation District follows the procedures outlined in the Financial Management Manual – A Guide for Colorado Local Governments – when preparing annual budgets for each fund. Budget procedures include:

- 1) Preparation of budget documents by administrative staff shall be submitted to the Board no later than October 15 of each year.
- 2) Publication of a notice stating that the budget is available for public inspection.
- 3) Discussion of the budget in a meeting open to the public.
- 4) Adoption of the budget in a public meeting by appropriate resolution.
- 5) Ordinance to adopt supplemental appropriations

Formal budgetary integration is employed as a management control device for all funds of the District.

The proprietary fund budget is adopted using the same accounting methods as governmental fund types; this procedure follows Colorado State Statute, but is not in accordance with GAAP.

The total expenditures for the proprietary fund cannot exceed the budgeted amount unless a supplemental appropriation is adopted. The District did not adopt supplemental appropriations during fiscal year 2004.

All budget amounts presented reflect the original budget and the final amended budget if applicable.

Stewardship

The District had actual expenditures exceeding the final budgeted amount by \$338,680. Such over expenditures are a violation of Colorado State Statute.

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 3 CASH AND DEPOSITS

A summary of Cash for the District is as follows:

Cash Deposited with Banks	\$ <u>82,555</u>
TOTAL CASH AND DEPOSITS: (Book Balance)	\$ <u>82,555</u>

Cash and Deposits

Colorado State Statutes govern the District's deposits of cash. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance (FDIC) on deposits held.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA.

PDPA allows the institution to create a single collateral pool for all public funds 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 the aggregate uninsured deposits. Deposits are categorized as follows:

- *Category 1* includes deposits that are insured by the FDIC.
- *Category 2* includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- *Category 3* includes uncollateralized, uninsured deposits.

The District does not have any deposits in Category 3.

As of December 31, 2004, the District's cash deposits had a carrying balance of \$ 82,555 and corresponding bank balances as follows:

	<u>Bank Balance</u>
Categorized deposits	
Insured (Category 1)	\$ 100,000
Deposits Collateralized in institution pools (Category 2)	<u>1,749</u>
Total Cash Deposits	<u>\$ 101,749</u>

All deposits made by the District in FY2004 were done so in eligible public depositories, as defined by the Public Deposit Protection Act of 1989.

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	<u>BALANCE</u> 12/31/2003	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> 12/31/2004
BUSINESS-TYPE ACTIVITIES				
Capital assets not being depreciated				
Land	\$ 27,609	\$ 23,814	\$ -	\$ 51,423
Construction in Progress	636,432	18,560	636,432	18,560
Total capital assets not being depreciated	<u>664,041</u>	<u>42,374</u>	<u>636,432</u>	<u>69,983</u>
Capital assets being depreciated				
Land Improvements	74,678	12,846	-	87,524
Sewage Plant	3,097,802	996,442	-	4,094,244
Water Plant	4,151,800	93,017	-	4,244,817
Machinery, Buildings and Equipment	464,792	52,095	-	516,887
As Built Drawings	7,000	-	-	7,000
Total capital assets being depreciated	<u>7,796,072</u>	<u>1,154,400</u>	<u>-</u>	<u>8,950,472</u>
Less accumulated depreciation for:				
Land Improvements	10,145	3,546	-	13,691
Sewage Plant	1,550,203	71,271	-	1,621,474
Water Plant	2,034,671	84,307	-	2,118,978
Machinery, Buildings and Equipment	365,435	33,520	-	398,955
As Built Drawings	7,000	-	-	7,000
Total accumulated depreciation	<u>3,967,454</u>	<u>192,644</u>	<u>-</u>	<u>4,160,098</u>
Total Capital Assets being depreciated, net	<u>3,828,618</u>	<u>961,756</u>	<u>-</u>	<u>4,790,374</u>
BUSINESS-TYPE ACTIVITIES				
CAPITAL ASSETS, NET	<u>\$ 4,492,659</u>	<u>\$ 1,004,130</u>	<u>\$ 636,432</u>	<u>\$ 4,860,357</u>

Depreciation expense is as follows:

Business-type activities:	
Depreciation Expense	\$ 192,644
Total depreciation expense – business-type activities	<u>\$ 192,644</u>

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 5 LONG-TERM DEBT

Changes in Long-term Debt

	Beginning Balance <u>12/31/03</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>12/31/04</u>	Due Within <u>One Year</u>
Business-type activities:					
Revenue Bonds	\$ 813,873	\$ 53,068	\$ 88,166	\$ 778,775	\$ 92,055
Revenue Bonds – 2003	179,986	-	19,120	160,866	19,999
Capital Lease	<u>142,514</u>	<u>266,222</u>	<u>142,514</u>	<u>266,222</u>	<u>63,631</u>
Business-type activities long-term debt	<u>\$ 1,136,373</u>	<u>\$ 319,290</u>	<u>\$ 249,800</u>	<u>\$ 1,205,863</u>	<u>\$ 175,685</u>

Revenue Bonds Payable

Revenue Bonds payable to Colorado Water Resources and Power Development Authority. Maximum principal amount \$500,000, interest rate 4.5%, payments are made quarterly over a ten year period. Final payment due in 2005. \$ 62,565

Revenue Bonds payable to Colorado Water Resources and Power Development Authority. Maximum principal amount \$800,000, interest rate 4.0%, payments are made quarterly over a twenty year period. Final payment due 2022. 716,210

Revenue Bonds payable to Wells Fargo. Maximum principal amount \$200,000, interest rate 4.6%, payments are made annually over a five year period. Final payment due 2011. 160,866

Total Revenue Bonds Payable \$ 939,641

The annual debt service for the revenue bonds are as follows:

Revenue Bonds - \$500,000

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2005	\$ <u>62,565</u>	\$ <u>1,770</u>	\$ <u>64,335</u>

Revenue Bonds - \$800,000

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2005	\$ 29,491	\$ 28,809	\$ 58,300
2006	30,688	27,612	58,300
2007	31,934	26,366	58,300
2008	33,230	25,070	58,300
2009	34,580	23,720	58,300
2010 – 2022	<u>556,287</u>	<u>173,403</u>	<u>729,690</u>
	<u>\$ 716,210</u>	<u>\$ 304,980</u>	<u>\$ 1,021,190</u>

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 5 LONG-TERM DEBT (CONTINUED)

Revenue Bonds - \$200,000

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2005	\$ 19,999	\$ 7,401	\$ 27,400
2006	20,919	6,481	27,400
2007	21,882	5,518	27,400
2008	22,888	4,512	27,400
2009	23,942	3,458	27,400
2010 - 2011	51,236	3,562	54,798
	<u>\$ 160,866</u>	<u>\$ 30,932</u>	<u>\$ 191,798</u>

Capital Leases Payable

Capital Lease payable to Bank. Interest rate 2.95%, total payment \$47,121.81 annually including interest. Final payment due in 2008. Note is collateralized by equipment with book value \$335,954.

\$ 164,472

Capital Lease payable to Bank. Interest rate 3.25%, total payment \$22,376.41 annually including interest. Final payment due in 2009. Note is collateralized by equipment with book value \$100,000.

101,750

Total Capital Lease Payable

\$ 266,222

The annual debt service for the capital leases are as follows:

Capital Lease – Interest rate 2.95%

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2005	\$ 44,561	\$ 2,561	\$ 47,122
2006	43,584	3,538	47,122
2007	44,870	2,252	47,122
2008	31,457	928	32,385
	<u>\$ 164,472</u>	<u>\$ 9,279</u>	<u>\$ 173,751</u>

Capital Lease – Interest rate 3.25%

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2005	\$ 19,070	\$ 3,306	\$ 22,376
2006	19,689	2,687	22,376
2007	20,329	2,047	22,376
2008	20,990	1,386	22,376
2009	21,672	704	22,376
	<u>\$ 101,750</u>	<u>\$ 10,130</u>	<u>\$ 111,880</u>

**BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004**

NOTE 6 DEFERRED REVENUE – AVAILABILITY OF SERVICE

The District is allowed to collect availability of service revenue in the amount equal to their debt service on their CWPA loans. The difference of \$129,102 has been deferred.

NOTE 7 SEGMENT INFORMATION

The Baca Grande Water and Sanitation District provides water and sewer services for District residents. The District has one enterprise fund to account for these activities.

The following segment information is provided as required by GASB Reporting Requirements:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Service Charges and Hook Up Fees	\$ 269,290	\$ 74,822	\$ 344,112
Depreciation Expense	\$ 104,614	\$ 88,030	\$ 192,644
Operating Income (Loss)	\$ (38,644)	\$ (245,151)	\$ (283,795)
Property, Plant and Equipment:			
Additions	\$ 137,394	\$ 422,948	\$ 560,342

Because amounts for water and sewer services are recorded in one fund, several items cannot be allocated between water and sewer. Therefore, some line items have been omitted in the segment information.

NOTE 8 PENSION PLAN

Plan Description

The Baca Grande Water and Sanitation District (the District) contributes to the Municipal Division Trust Fund (MDTF), a cost-sharing multiple-employer defined benefit pension plan and to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer post-employment healthcare plan. Both the MDTF and the HCTF are administered by the Public Employees' Retirement Association of Colorado (PERA). The MDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. The HCTF provides a healthcare premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. All employees of the District are members of the MDTF and HCTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the MDTF and HCTF. The report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Basis of Accounting

The financial statements of MDTF and HCTF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. MDTF and HCTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

**BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004**

NOTE 8 PENSION PLANS (CONTINUED)

Funding Policy

The District employees contribute 8.0 percent of their wages to an individual account in the plan. During 2004, the District contributed 10.0 percent of the employees' wages, which was allocated to three separate programs by PERA according to statutory formula as follows:

- 1.02 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement set by the PERA board was allocated to individual member's eligible voluntary tax-deferred retirement program. For the calendar year 2004, the matching amount was set at 100 percent of the first 3 percent of employee salary. Two percent of the gross salary plus fifty percent of any reduction in the overall contribution rate due to over-funding of the pension plan was available for the match.
- The balance remaining after allocations to the Matchmaker Program and the Healthcare Trust Fund was allocated to the defined benefit plan.

The District's total contributions to PERA for the calendar years ending December 31, 2004, 2003, and 2002, were \$21,271, \$18,427, and \$18,026, respectively. These contributions met the contribution requirements for each year.

PERA Matchmaker Program

Beginning on January 1, 2001, employees were eligible to contribute to PERA's voluntary 401K plan. The plan is entirely separate from the defined benefit pension plan.

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There have been no significant reductions in insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage for the current year or the three prior years.

NOTE 10 TABOR EMERGENCY RESERVE

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

Fiscal year spending and revenue limits are determined based on the prior years' spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

On November 3, 1998 voters approved a ballot which stated that the District is authorized to collect, retain and expend all revenues including grants and other funds collected during 1998 and each subsequent year from any source, notwithstanding the limitations of Article X, Section 20 of the Colorado constitution, effective January 1, 1998, provided however that no property tax mill levy be increased at any time nor shall any new tax be imposed without the prior approval of the voters.

BACA GRANDE WATER AND SANITATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2004

NOTE 10 TABOR EMERGENCY RESERVE (CONTINUED)

The amendment also requires that Emergency Reserves be established. These reserves must be at least 3 percent of fiscal year spending. This Emergency Reserve has been presented as a reservation of fund balance where applicable. The entity is not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

NOTE 11 RELATED PARTY TRANSACTION

In 2004 the District paid the manager \$10,000 for engineering services to provide the District design and engineering services in conjunction with certain phases of the District's planned construction project as set forth in the 201 Facilities Plan.

The District also had an accounts receivable from the Challenger Golf Club, which is leased by the manager of the District in the amount of \$1,542 for water service.