

**Baca Grande Water and Sanitation District
Saguache County, Colorado**

**Financial Statements
December 31, 2008**

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Financial Statements
December 31, 2008**

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Baca Grande Water and Sanitation District
Saguache County, Colorado**

We have audited the accompanying basic financial statements of the governmental activities, business-type activities, and each major fund of the Baca Grande Water and Sanitation District (the "District") as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position governmental activities, business-type activities, and each major fund of the Baca Grande Water and Sanitation District as of December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

The budgetary schedules of revenues, expenditures, and transfers for the General Fund found in Section D are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Baca Grande Water and Sanitation District's basic financial statements. The budgetary schedule in Section E is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McMahan and Associates, L.L.C.

**McMahan and Associates, L.L.C.
July 30, 2009**

Performing services for local governments throughout Colorado

*D. Jerry McMahan, C.P.A.
Paul J. Backes, C.P.A.*

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National and Colorado Government Finance Officers Association/Colorado Municipal League

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**Baba Grande Water and Sanitation District
Statement of Net Assets
December 31, 2008**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	211,218	2,943	214,161
Receivables, net:			
Property tax	646,452	-	646,452
Accounts	-	56,915	56,915
Other governments	4,242	-	4,242
Capital assets, net	-	6,991,086	6,991,086
Total Assets	<u>861,912</u>	<u>7,050,944</u>	<u>7,912,856</u>
Liabilities:			
Vouchers/accounts payable	173,887	15,623	189,510
Accrued interest payable	-	11,992	11,992
Property taxes assessed, but not collectible until subsequent year	646,452	-	646,452
Deferred availability of service fees	-	306,301	306,301
Lease payable:			
Due within one year	-	101,576	101,576
Due in more than one year	-	564,520	564,520
Loan payable:			
Due within one year	-	34,580	34,580
Due in more than one year	-	571,287	571,287
Bonds payable:			
Due within one year	-	23,941	23,941
Due in more than one year	-	51,236	51,236
Total Liabilities	<u>820,339</u>	<u>1,681,056</u>	<u>2,501,395</u>
Net Assets:			
Invested in capital assets, net of related debt	-	5,643,946	5,643,946
Restricted for emergencies	18,305	-	18,305
Unrestricted	23,268	(274,058)	(250,790)
Total Net Assets	<u>41,573</u>	<u>5,369,888</u>	<u>5,411,461</u>

The accompanying notes are an integral part of these financial statements.

Baca Grande Water and Sanitation District
Statement of Activities
December 31, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs:						
Governmental Activities:						
General government	-	-	-	(372,462)	-	(372,462)
Total Governmental Activities	372,462	372,462	372,462	(372,462)	(372,462)	(372,462)
Business-type Activities:						
Water and sanitation	522,308	-	75,814	(400,062)	(59,574)	(400,062)
Interest on debt	59,574	-	-	(59,574)	-	(59,574)
Total Business-type Activities	1,057,758	522,308	75,814	(459,636)	(459,636)	(459,636)
Total	1,430,220	522,308	75,814	(372,462)	(459,636)	(832,098)
General Revenues:						
Taxes:						
Property tax				533,554	-	533,554
Specific ownership tax				75,008	-	75,008
Investment earnings				1,621	-	1,621
Transfers				(196,148)	196,148	-
Total General Revenues and Transfers				414,035	196,148	610,183
Change in Net Assets				41,573	(263,488)	(221,915)
Net Assets - Beginning (As previously stated)					3,861,917	3,861,917
Revaluation of Capital Assets				-	1,771,459	1,771,459
Net Assets - Beginning (As restated)					5,633,376	5,633,376
Net Assets - Ending				41,573	5,369,888	5,411,461

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**Baca Grande Water and Sanitation District
Balance Sheet
General Fund
December 31, 2008**

Assets:

Cash and cash equivalents	211,218
Due from County Treasurer	4,242
Property taxes assessed but not collected until subsequent year	<u>646,452</u>
Total Assets	<u><u>861,912</u></u>

Liabilities and Fund Balances:

Liabilities:

Vouchers/accounts payable	173,887
Property taxes assessed but not collected until subsequent year	<u>646,452</u>
Total Liabilities	<u><u>820,339</u></u>

Fund Balances:

Reserved for emergencies	18,305
Unreserved	<u>23,268</u>
Total Fund Balances	<u><u>41,573</u></u>

Total Liabilities and Fund Balances	<u><u>861,912</u></u>
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The accompanying notes are an integral part of these financial statements.

**Baca Grande Water and Sanitation District
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
For the Year Ended December 31, 2008**

Revenues:	
Taxes	608,562
Other	<u>1,621</u>
Total Revenues	<u><u>610,183</u></u>
Expenditures:	
Administration	<u>372,462</u>
Total Expenditures	<u><u>372,462</u></u>
(Deficiency) of Revenues Over Expenditures	<u><u>237,721</u></u>
Other Financing Sources (Uses):	
Transfers in (out)	<u>(196,148)</u>
Total Other Financing Sources	<u><u>(196,148)</u></u>
Change in Fund Balances	<u><u>41,573</u></u>
Fund Balances - Beginning	<u><u>-</u></u>
Fund Balances - Ending	<u><u><u>41,573</u></u></u>

The accompanying notes are an integral part of these financial statements.

**Baca Grande Water and Sanitation District
Proprietary Fund
Statement of Net Assets
December 31, 2008**

Assets:

Current Assets:

Cash and cash equivalents	2,943
Accounts receivable, net	56,915
Total Current Assets	<u>59,858</u>

Non-current Assets:

Land	51,423
Sewer plant	6,534,966
Water plant	5,835,815
Less accumulated depreciation	(5,431,118)
Total Non-current Assets	<u>6,991,086</u>

Total Assets	<u>7,050,944</u>
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Liabilities:

Current Liabilities:

Accounts payable	13,629
Accrued interest payable	11,992
Payroll taxes payable	1,994
Lease payable - current portion	101,576
Loan payable - current portion	34,580
Bond payable - current portion	23,941
Deferred revenue - availability of service	306,301
Total Current Liabilities	<u>494,013</u>

Non-current Liabilities:

Lease payable	564,520
Loan payable	571,287
Bond payable	51,236
Total Non-current Liabilities	<u>1,187,043</u>

Total Liabilities	<u>1,681,056</u>
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Net Assets:

Invested in capital assets, net of related debt	5,643,946
Unrestricted	(274,058)
Total Net Assets	<u>5,369,888</u>

The accompanying notes are an integral part of these financial statements.

Baca Grande Water and Sanitation District
Proprietary Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2008

Operating Revenues:	
Water and sewer fees	387,291
Availability of service fees	35,542
Fire hydrant revenue	24,790
Miscellaneous revenue	10,584
System improvement fees	64,101
Total Operating Revenues	<u>522,308</u>
Operating Expenses:	
Salaries and benefits	227,446
Legal and accounting fees	21,295
Repair and maintenance	160,951
Operating expenses	12,575
Utilities	108,646
Insurance and bonds	22,301
Office expense	20,007
Supplies	15,457
Vehicle operations	26,205
Water costs	23,697
Testing	15,810
Other	2,037
Depreciation	341,757
Total Operating Expenses	<u>998,184</u>
Operating (Loss)	<u>(475,876)</u>
Non-operating Revenues (Expenses):	
Interest on debt	(59,574)
Transfers in	196,148
Total Non-operating Revenues (Expenses)	<u>136,574</u>
Income Before Capital Contributions	(339,302)
Capital Contributions - Tap Fees	<u>75,814</u>
Change in Net Assets	(263,488)
Total Net Assets - Beginning (As previously stated)	3,861,917
Revaluation of Capital Assets	1,771,459
Total Net Assets - Beginning (As restated)	<u>5,633,376</u>
Total Net Assets - Ending	<u>5,369,888</u>

The accompanying notes are an integral part of these financial statements.

**Baca Grande Water and Sanitation District
Proprietary Fund
Statement of Cash Flows
For the Year Ended December 31, 2008**

Cash Flows from Operating Activities:	
Cash received from customers	555,993
Cash paid for payroll and benefits	(233,047)
Cash paid for goods and services	(441,668)
Net Cash Provided (Used) by Operating Activities	<u>(118,722)</u>
Cash Flows from Noncapital Financing Activities:	
Property taxes	25,279
Transfers in	196,148
Net Cash Provided (Used) by Noncapital Financing Activities	<u>221,427</u>
Cash Flows from Capital and Related Financing Activities:	
Tap fees received	75,814
Principal paid on long term obligations	(153,747)
Interest paid on long term obligations	(60,830)
Cash paid for construction and acquisition of capital assets	(55,290)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(194,053)</u>
Net Change in Cash	(91,348)
Cash and Cash Equivalents - Beginning	94,291
Cash and Cash Equivalents - Ending	<u>2,943</u>
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:	
Operating income (loss)	<u>(475,876)</u>
Adjustments:	
Depreciation	341,757
Change in valuation of accumulated depreciation	74,637
(Increase) decrease in accounts receivable	(7,797)
Increase (decrease) in accounts payable	(87,324)
Increase (decrease) in payroll liabilities	(5,601)
Increase (decrease) in deferred revenue	41,482
Total Adjustments	<u>357,154</u>
Net Cash Provided (Used) by Operating Activities	<u>(118,722)</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008

I. Summary of Significant Accounting Policies

Baca Grande Water and Sanitation District (the "District") is a quasi-municipal corporation and political subdivision of the State of Colorado organized and operated pursuant to provisions set forth in the Colorado Special District Act. The District was established on January 21, 1972 to provide water and sewer services within and outside of its boundaries.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements after that date to its enterprise fund, the District has chosen not to do so. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The District is governed by a Board of Directors, which is responsible for setting policy, appointing administrative personnel and adopting an annual budget in accordance with the provisions of the Local Government Budget Law of Colorado. The reporting entity consists of (a) the primary government (i.e., the District), and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

The District is not financially accountable for any other entity based on the above criteria nor is the District a component unit of any other entity.

B. Fund Accounting

The District uses an enterprise fund to report on its financial position, the results of its operations and its cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The District uses a proprietary fund-type, an enterprise fund, to account for its activities, providing wastewater treatment and water services to taxpayers within the District's boundaries. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

1. Long-term Economic Focus and Accrual Basis

Proprietary funds use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

2. Financial Statement Presentation

Proprietary funds distinguish operating revenues and expenses from non-operating 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. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Financial Statement Accounts

1. Cash and Cash Equivalents

All short-term investments that are considered highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

2. Receivables

Receivables are reported net of an allowance for uncollectible accounts. However, no allowance for uncollectible accounts has been established, as the District considers all accounts to be collectible.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

3. Capital Assets

Capital assets, which include land, water rights, a water plant and distribution systems and related improvements and equipment, and sewer collection systems and related improvements and equipment, are reported in the financial statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase is capitalized as part of the value of the assets constructed.

Prior to 2007, the District had been depreciating the water and sewer plants and related improvements over 50 years. The District has revised this estimate in 2007 to a 40 year maximum and reduced the estimated lives of the plants and related assets accordingly. For the year ended December 31, 2007, capital assets, except land and water rights, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Water plant and distribution systems	10-40
Sewer plant and collection systems	15-40
Buildings	15-40
Equipment	5-15

4. Compensated Absences

Effective January 1, 2008, employees are permitted to carryover "paid days off" up to two times their permitted annual accrual (40 to 200 hours, depending on years of service) and are encouraged to utilize the accumulated time within two years of accrual.

5. Use of Estimates

The preparation of financial statements to conformity with GAAP 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

6. Restricted Assets

When both restricted and unrestricted assets are available for expenditure, it is the District's policy to first use restricted assets and then use unrestricted assets as necessary.

II. Stewardship, Compliance, and Accountability

A. Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Local Government Budget Law of Colorado.

The budget for the proprietary fund is adopted on a non-GAAP basis and is reconciled to GAAP as follows:

Change in Net Assets - Non-GAAP Basis	\$ (130,768)
Adjustments to GAAP Basis:	
Debt proceeds	-
Depreciation	(341,757)
Debt principal payments	153,747
Capitalized assets	55,290
Total Adjustments	<u>(132,720)</u>
Change in Net Assets - GAAP Basis	<u>\$ (263,488)</u>

Expenditures may not legally exceed appropriations at the fund level and all appropriations lapse at year-end.

As required by Colorado statutes, the District followed the following timetable in approving and enacting a budget for 2008:

- (1) For the 2008 budget, prior to August 25, 2007, the County Assessor sent to the District a certified assessed valuation of all taxable property within the District's boundaries. The County Assessor may change the assessed valuation on or before December 10, 2007 only once by a single notification to the District.
- (2) On or before October 15, 2007, the District's management submitted to the District's Board of Directors a recommended budget which detailed the necessary property taxes, if applicable, needed along with other available revenues to meet the District's operating requirements.
- (3) For the 2008 budget, prior to December 15, 2007, the District computed and certified to the County Commissioners a rate of a levy that derived the necessary property taxes, if applicable, as computed in the proposed budget.
- (4) After a required publication of "Notice of Proposed Budget" and a public hearing, the District adopted the proposed budget and an appropriating resolution, which legally appropriated expenditures for the upcoming year.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

A. Budgets and Budgetary Accounting

- (5) After adoption of the budget resolution, the District may make the following changes: (a) transfer appropriated monies between funds or between spending agencies within a fund, as determined by the original appropriation level; (b) approve supplemental appropriations to the extent of revenues in excess of the estimated in the budget; (c) approve emergency appropriations; and (d) reduce appropriations for which originally estimated revenues are insufficient.

The District exceeded budget appropriations in the Enterprise Fund by \$63,526.

B. TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increases, a mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish an emergency reserve to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. The reserve is calculated at 3% of fiscal year spending. Fiscal year spending excludes bonded debt service and enterprise spending. The District has reserved \$18,305 which is the approximate required reserve at December 31, 2008.

On November 3, 1998, the 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.

On May 2, 2000, the voters approved a ballot question authorizing the District debt to be increased by \$800,000, with a repayment cost of \$1,260,000; such debt to be issued for the purpose of financing improvements to its sanitary sewer collection and treatment system; such debt bearing interest at a rate not to exceed 5%; and the proceeds of such debt be collected and spent as a voter-approved revenue change under Article X, Section 20 of the Colorado constitution or any other law.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment

On November 4, 2008, the District's electors approved the following ballot questions:

Shall Baca Grande water and sanitation district taxes be increased \$700,000 annually, commencing in collection year 2009, or by such greater or lesser annual amount as may be derived from an ad valorem mill levy not in excess of 50 mills annually (provided that such maximum mill levy shall be adjusted up or down to account for changes in law or the method by which assessed valuation is calculated occurring after 2008, so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted, are neither diminished nor enhanced as a result of such changes), the revenues therefrom to be used for the purpose of paying the district's operations, maintenance, and other expenses, such taxing authority, if approved, to replace any previous taxing authority for operational purposes heretofore approved or exercised; and shall the proceeds of such taxes and investment income thereon be collected and spent by the district as a voter-approved revenue change in 2008 and in each year thereafter, without regard to any spending, revenue-raising, or other limitation contained within article x, section 20 of the Colorado Constitution, or section 29-1-30 1, Colorado revised statutes, and without limiting in any year the amount of other revenues that may be collected and spent by the district?

Shall Baca Grande water and sanitation district debt be increased \$3,000,000, with a repayment cost of \$9,000,000 and shall Baca Grande Water and Sanitation District taxes be increased \$450,000 annually, or by such lesser annual amount as may be necessary to pay the district's debt: such debt to consist of general obligation bonds or other obligations, including contracts, issued or incurred for the purpose of paying, reimbursing, or financing all or any part of the costs of acquiring, constructing, relocating, installing, completing, and otherwise providing, within or without the boundaries of the district, a complete potable and non-potable water supply, storage, transmission and distribution system, including transmission lines, distribution mains and laterals, irrigation facilities, and storage facilities, together with all necessary, incidental, and appurtenant facilities, equipment, land, and easements, and extensions of and improvements to said facilities, such debt to bear interest at a net effective interest rate not in excess of 8.50% per annum, such interest to be payable at such time or times and which may compound periodically as may be determined by the district board, such debt to be sold in one series or more at a price above, below, or equal to the principal amount of such debt and on such terms and conditions as the district may determine, including provisions for redemption of the debt prior to maturity with or without payment of premium in an amount not in excess of 5% of the principal amount being redeemed, such debt to be paid from any legally available moneys of the district, including the proceeds of ad valorem property taxes; such taxes to consist of an ad valorem mill levy imposed on all taxable property of the district, without limitation of rate or with such limitations as may be determined by the district board, and in amounts sufficient to produce the annual increase set forth above or such lesser amount as may be necessary, to be used solely for the purpose of paying the principal of, premium if any, and interest on the district's debt; and shall the proceeds of any such debt and the proceeds of such taxes, any other revenue used to pay such debt, and investment income thereon, be collected and spent by the district as a voter-approved revenue change, without regard to any spending, revenue-raising, or other limitation contained within article X, section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the district?

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

II. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment (continued)

Shall Baca Grande Water and Sanitation District debt be increased \$3,000,000, with a repayment cost of \$9,000,000; and shall Baca Grande Water and Sanitation District taxes be increased \$450,000 annually, or by such lesser annual amount as may be necessary to pay the district's debt: such debt to consist of general obligation bonds or other obligations, including contracts, issued or incurred for the purpose of paying, reimbursing, or financing all or any part of the costs of acquiring, constructing, relocating, installing, completing, and otherwise providing, within or without the boundaries of the district, a complete local sanitary sewage collection and transmission system, including collection mains and laterals, transmission lines, treatment facilities, storm sewer, flood, and surface drainage facilities and systems, and detention and retention ponds, together with all necessary, incidental, and appurtenant facilities, equipment, land, and easements, and extensions of and improvements to said facilities, such debt to bear interest at a net effective interest rate not in excess of 8.50% per annum, such interest to be payable at such time or times and which may compound periodically as may be determined by the district board, such debt to be sold in one series or more at a price above, below, or equal to the principal amount of such debt and on such terms and conditions as the district may determine, including provisions for redemption of the debt prior to maturity with or without payment of premium in an amount not in excess of 5% of the principal amount being redeemed, such debt to be paid from any legally available moneys of the district, including the proceeds of ad valorem property taxes; such taxes to consist of an ad valorem mill levy imposed on all taxable property of the district, without limitation of rate or with such limitations as may be determined by the district board, and in amounts sufficient to produce the annual increase set forth above or such lesser amount as may be necessary, to be used solely for the purpose of paying the principal of, premium if any, and interest on the district's debt; and shall the proceeds of any such debt and the proceeds of such taxes, any other revenue used to pay such debt, and investment income thereon, be collected and spent by the district as a voter-approved revenue change, without regard to any spending, revenue-raising, or other limitation contained within article X, section 20 of the Colorado Constitution, and without limiting in any year the amount of other revenues that may be collected and spent by the district?

III. Detailed Notes on the Fund

A. Deposits and Investments

The District's deposits are entirely covered by federal depository insurance ("FDIC") or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$100,000 of the District's deposits at each financial institution. Deposit balances over \$100,000 are collateralized as required by PDPA.

The carrying amounts of the District's demand deposits were \$214,161 at December 31, 2008, and are summarized below:

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

III. Detailed Notes on the Fund

A. Deposits and Investments (continued)

	Standard & Poors Rating	Carrying Amounts	Maturities	
			Less than one year	Less than five years
<i>Deposits:</i>				
Checking	Not rated	97,378	-	-
Savings	Not rated	<u>116,783</u>	-	-
Total		<u><u>214,161</u></u>		

Interest Rate Risk. As a means to limit its exposure to interest rate risk, the District limits its investments to savings accounts and investment pools where each share is equal to one dollar. As a result of the limited length of maturities, the District has limited its interest rate risk.

Credit Risk. Colorado statutes specify instruments in which local governments may invest, including:

- Obligations of the U.S. and certain U.S. government agencies securities
- Certain international agency securities
- General obligation and revenue bonds for U.S. local government entities
- Bankers acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

III. Detailed Notes on the Fund (continued)

B. Capital Assets

Capital asset activity for 2008 in business-type activities was as follows:

	Beginning Balance	Revaluation	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:					
Land	\$ 51,423	-	-	-	51,423
Total capital assets, not being depreciated	51,423	-	-	-	51,423
Capital assets, being depreciated:					
Water plant and distribution system	5,047,757	749,259	38,800	-	5,835,816
Sewer plant and collection system	4,759,846	1,758,630	16,490	-	6,534,966
Machinery and equipment	627,772	(627,772)	-	-	-
Total capital assets, being depreciated	10,435,375	1,880,117	55,290	-	12,370,782
Less accumulated depreciation for:					
Water plant and distribution system	(2,592,516)	(9,128)	(166,397)	-	(2,768,041)
Sewer plant and collection system	(1,939,985)	(547,733)	(175,360)	-	(2,663,078)
Machinery and equipment	(448,204)	448,204	-	-	-
Total accumulated depreciation	(4,980,705)	(108,657)	(341,757)	-	(5,431,119)
Total capital assets, being depreciated, net	5,454,670	1,771,460	(286,467)	-	6,939,663
Total Capital Assets, Net	\$ 5,506,093	1,771,460	(286,467)	-	6,991,086

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

III. Detailed Notes on the Fund (continued)

C. Long Term Obligations

1. 2002 Enterprise Revenue Loan Payable

On June 1, 2002, the District entered into a loan agreement with the Colorado Water Resources and Power Development Authority in the amount of \$800,000. The loan requires quarterly payments of \$14,575 on March 1, June 1, September 1, and December 1, for a total of \$58,300 annually, over 20 years. The annual interest rate on the bonds is 4%. Annual debt service requirements at December 31, 2008, are as follows:

2002 Revenue Loan Payable			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 34,580	23,720	58,300
2010	35,984	22,316	58,300
2011	37,444	20,856	58,300
2012	38,965	19,355	58,320
2013	40,548	17,752	58,300
2014-2018	228,815	62,685	291,500
2019-2022	189,531	14,519	204,050
	<u>605,867</u>	<u>181,203</u>	<u>787,070</u>

2. 2003 Revenue Bonds Payable (New Wells and Reservoir)

On February 26, 2003, the District issued Series 2003 Revenue Bonds in the principal amount of \$200,000 with interest payable at 4.6% annually. Annual payments of \$27,399 are due December 15 with the final payment in 2011.

2003 Revenue Bond Payable			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 23,941	3,458	27,399
2010	25,042	2,357	27,399
2011	26,194	1,205	27,399
	<u>75,177</u>	<u>7,020</u>	<u>82,197</u>

3. Capital Leases

\$101,750 Capital Lease, 2004 (Lift Stations)

On February 24, 2004, the District entered into a capital lease with Wells Fargo in the principal amount of \$101,750 with interest payable at 3.25% annually. Annual payments of \$22,376 are due February 24 with the final payment in 2009.

\$508,750 Capital Lease, 2005 (Water Meters and Equipment)

On December 20, 2005, the District entered into a capital lease with Wells Fargo in the principal amount of \$508,750 with interest payable at 4.25% annually. Quarterly payments of \$14,535, for an annual total of \$47,122, are due March 20, June 20, September 20, and December 20, with the final payment in 2016. This lease was refunded on May 15, 2009 (See Note IV.E.).

**Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)**

III. Detailed Notes on the Fund (continued)

C. Long Term Obligations (continued)

2. Capital Leases (continued)

\$333,722 Capital Lease, 2007 (Refinance and New Money)

On January 19, 2007, the District entered into a capital lease with Wells Fargo in the principal amount of \$333,722 with interest payable at 4.20% annually. Annual payments of \$48,360 are due March 30 with the final payment in 2014.

Annual debt service requirements on capital leases at December 31, 2008, are as follows:

	Capital Leases		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 101,576	27,301	128,877
2010	83,310	23,191	106,501
2011	86,862	19,639	106,501
2012	90,564	15,937	106,501
2013	94,423	12,078	106,501
2013-2016	209,362	13,421	222,783
	<u>666,097</u>	<u>111,567</u>	<u>777,664</u>

Schedule of Changes in Long Term Obligations

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
CWRPDA Loan Payable	639,098	-	(33,231)	605,867	34,580
Revenue Bond Payable	98,065	-	(22,888)	75,177	23,941
Capital Leases	763,726	-	(97,628)	666,098	101,577
	<u>1,500,889</u>	<u>-</u>	<u>(153,747)</u>	<u>1,347,142</u>	<u>160,098</u>

D. Deferred Revenue – Availability of Service

The District is allowed to collect availability of service revenue in an amount equal to its debt service of its CWRPDA bonds. The difference between the amount collected and the debt service of \$306,301 has been deferred.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

IV. Other Information

A. Segment Information

The District uses one fund to account for the water and sewer services provided to District residents. The following table presents segment information:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	254,305	268,003	522,308
Depreciation	166,397	175,360	341,757
Operating Income (Loss)	(231,698)	(244,178)	(475,876)
Capital Assets:			
Additions	38,800	16,490	55,290

B. Pension Plan

Plan Description

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 participants 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 1-800-759-7372.

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.

Funding Policy

The District employees contribute 8% of their wages to an individual account in the plan. During 2008, the District contributed 11.9% of the employees' wages

The District's total contributions to PERA for the years ending December 31, 2008, 2007, 2006, and 2005, were \$19,442, \$35,746, \$32,541, and \$24,900, respectively. These contributions met the contribution requirements for each year.

Baca Grande Water and Sanitation District
Notes to the Financial Statements
December 31, 2008
(Continued)

IV. Other Information

C. Risk Management

Except as provided in the Colorado Governmental Immunity Act (24-10-101, et seq. C.R.S.), as amended from time to time, the District may be exposed to various risks of loss related to general liability; torts; theft of, damage to, and destruction of assets; and errors and omissions. The District's management has acquired commercial insurance coverage for these risks and does not expect claims to exceed their coverage. There have been no significant reductions in coverage from 2007 to 2008 and settlements have not exceeded coverage during the past three years.

D. Prior Period Adjustment of Capital Assets and Accumulated Depreciation

The District's records of capital assets prior to 2008 were inadequate. During 2008, the District performed a comprehensive inventory and valuation of all capital assets valued over \$5,000, including plant components, buildings, distribution lines, and vehicles and equipment. The assets inventoried were initially valued at replacement cost with estimates (or actual records) of their age and remaining useful life. The replacement costs were then discounted at 3% annually to arrive at an estimated historical cost based on the age of the asset. Assets with values less than \$5,000 after the discount remain on the inventory list for insurance purposes, but were removed for financial reporting purposes. Accumulated depreciation was estimated on an accumulated straight line basis over the estimated useful life of the asset at the time of acquisition.

As a result of the inventory and valuation procedures, the District recognized a prior period adjustment equal to an increase in net assets of \$1,771,459.

E. Subsequent Event – General Obligation Bonds, Series 2009

On May 15, 2009, the District issued \$3,105,000 of Bank Qualified Tax Exempt General Obligation Bonds, Series 2009. The bonds were issued to fund certain capital improvements to various components of the water and wastewater treatment and distribution systems and refund the 2005 capital lease obligation.

The bonds will bear interest at a tax-exempt rate of 5.25% per annum over the first five years. On June 1, 2014, the bonds shall re-price at a rate not to exceed 8.5%. It is the intent of Vectra Bank to enter into negotiations with the District 180 days prior to June 1, 2014, to reissue the bonds at an interest rate compatible with market conditions at that time; however, the District can negotiate with any bank to refund the bonds at that time.

REQUIRED SUPPLEMENTARY INFORMATION

Baca Grande Water and Sanitation District
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Net Assets
Budget and Actual
For the Year Ended December 31, 2008

	<u>Original Budget</u>	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
Property tax	53,500	527,559	533,554	5,995
Specific ownership tax	-	70,071	75,008	4,937
Interest	-	2,949	1,621	(1,328)
Total Revenues	<u>53,500</u>	<u>600,579</u>	<u>610,183</u>	<u>9,604</u>
Expenses				
Management fees	53,500	134,367	136,716	(2,349)
Professional fees	-	116,991	106,202	10,789
Legal fees	-	66,496	60,003	6,493
Elections	-	38,093	37,268	825
Office expense	-	6,337	8,616	(2,279)
Directors' fees	-	7,032	7,682	(650)
Treasurer's fees	-	15,726	15,975	(249)
Contingency and emergency reserve	-	164,958	-	164,958
Total Expenses	<u>53,500</u>	<u>550,000</u>	<u>372,462</u>	<u>177,538</u>
Excess (Deficiency) of Revenues Over Expenditures		<u>50,579</u>	<u>237,721</u>	<u>187,142</u>
Other Financing Sources (Uses)				
Transfers out		(136,272)	(196,148)	(59,876)
Total Other Financing Sources (Uses)		<u>(136,272)</u>	<u>(196,148)</u>	<u>(59,876)</u>
Change in Fund Balance		<u>(85,693)</u>	<u>41,573</u>	<u>127,266</u>

SUPPLEMENTARY INFORMATION

Baca Grande Water and Sanitation District
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended December 31, 2008

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Financing Sources (Uses)			
Bond proceeds	2,900,000	-	2,900,000
Grant revenue	317,638	-	317,638
Other	(120,000)	-	(120,000)
Cost of issuance	(213,000)	-	(213,000)
Transfers out	(672,276)	-	(672,276)
Total Other Financing Sources (Uses)	<u>2,212,362</u>	<u>-</u>	<u>2,212,362</u>

**Baca Grande Water and Sanitation District
 Capital Projects Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 For the Year Ended December 31, 2008**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenses:				
Capital outlay	-	1,300,000	-	1,300,000
Total Expenses	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>-</u>	 <u>(1,300,000)</u>	 <u>-</u>	 <u>(1,300,000)</u>
 Other Financing Sources (Uses)				
Transfers in	672,276	672,276	-	672,276
Total Other Financing Sources (Uses)	<u>672,276</u>	<u>672,276</u>	<u>-</u>	<u>672,276</u>

Baca Grande Water and Sanitation District
Water and Sewer Fund
Schedule of Revenues, Expenditures and Changes in Fund Net Assets
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2008
(With Comparative Actual Amounts for 2007)

	2008		Variance Positive (Negative)	2007
	Original and Final Budget	Actual		Actual
Revenues:				
Water and sewer fees	408,726	387,291	(21,435)	367,938
Availability of service fees	77,132	35,542	(41,590)	58,300
Tap and line extension fees	28,625	75,814	47,189	116,292
Fire hydrant revenue	24,810	24,790	(20)	30,523
Miscellaneous revenue	4,241	10,584	6,343	2,176
System improvement fees	64,166	64,101	(65)	67,356
Hook up fees	-	-	-	9,050
Total Revenues	607,700	598,122	(9,578)	651,635
Expenses:				
Salaries and benefits	237,520	227,446	10,074	386,600
Legal and accounting fees	9,342	21,295	(11,953)	33,177
Repair and maintenance	109,949	160,951	(51,002)	30,343
Operating expenses	12,924	12,575	349	65,806
Utilities	96,192	108,646	(12,454)	97,525
Insurance and bonds	18,990	22,301	(3,311)	19,461
Office expense	16,937	20,007	(3,070)	7,846
Supplies	17,314	15,457	1,857	7,252
Vehicle operations	39,241	26,205	13,036	26,390
Water costs	55,294	23,697	31,597	24,117
Testing	11,327	15,810	(4,483)	15,801
Interest on debt	63,134	59,574	3,560	78,126
Principal on debt	151,444	153,747	(2,303)	158,449
Capital outlay	20,874	55,290	(34,416)	400,137
Other	1,030	2,037	(1,007)	3,449
Total Expenses	861,512	925,038	(63,526)	1,354,479
Excess (Deficiency) of Revenues Over Expenditures	(253,812)	(326,916)	(73,104)	(702,844)
Other Financing Sources (Uses)				
Property taxes and specific ownership taxes, net	-	-	-	421,027
Interest on investments	-	-	-	8,136
Rent income	-	-	-	4,400
Transfers in	136,272	196,148	(59,876)	-
Debt proceeds	-	-	-	333,722
In lieu of taxes	10,644	-	10,644	10,644
Total Non-operating Revenues (Expenses)	146,916	196,148	(49,232)	777,929

Baca Grande Water and Sanitation District
Water and Sewer Fund
Schedule of Revenues, Expenditures and Changes in Fund Net Assets
Budget (Non-GAAP Basis) and Actual With Reconciliation to GAAP Basis
For the Year Ended December 31, 2008
(With Comparative Actual Amounts for 2007)
(Continued)

	<u>2008</u>		<u>2007</u>
	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Net Income (Loss) - Budget Basis	<u>(106,896)</u>	<u>(130,768)</u>	<u>(122,336)</u>
Adjustments to GAAP Basis:			
Debt proceeds		-	(333,722)
Depreciation		(341,757)	(359,467)
Debt principal payments		153,747	158,449
Capitalized assets		55,290	400,137
Total Adjustments		<u>(132,720)</u>	<u>(134,603)</u>
Change in Net Assets - GAAP Basis		<u>(263,488)</u>	<u>(59,518)</u>