

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

**Financial Statements  
December 31, 2007**



**McMAHAN AND ASSOCIATES, L.L.C.**  
*Certified Public Accountants and Consultants*

**Baca Grande Water and Sanitation District  
Financial Statements  
December 31, 2007**

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# MCMAHAN AND ASSOCIATES, L.L.C.

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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 Baca Grande Water and Sanitation District (the "District") as of and for the year ended December 31, 2007, 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.

Except as discussed in the following paragraph, 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.

Because of the inadequacy of accounting records, we were unable to form an opinion regarding the amounts at which capital assets and accumulated depreciation are recorded in the accompanying statement of net assets at December 31, 2007 (stated at \$10,493,798 and \$4,913,067, respectively), or the amount of depreciation expense for the year then ended (stated at \$359,467).

In our opinion, except for the effects of such adjustments, if any, as might have been determined necessary had the accounting records concerning capital assets and accumulated depreciation been adequate, the financial statements referred to above present fairly, in all material respects, the financial position of the Baca Grande Water and Sanitation District as of December 31, 2007, 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.

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 D 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.  
October 6, 2008**

*Performing services for local governments throughout Colorado*

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Members: American Institute of Certified Public Accountants/Colorado Society of Certified Public Accountants  
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**BASIC FINANCIAL STATEMENTS**

**Baca Grande Water and Sanitation District**  
**Statement of Net Assets**  
**December 31, 2007**

**Assets:**

**Current Assets:**

Cash and cash equivalents	94,291
Accounts receivable, net	49,118
Due from other governments	25,279
Property taxes receivable	518,862
<b>Total Current Assets</b>	<u>687,550</u>

**Non-current Assets:**

Land	51,423
Sewer plant	4,766,846
Water plant	5,047,757
Machinery and equipment	627,772
Less accumulated depreciation	<u>(4,913,067)</u>
<b>Total Non-current Assets</b>	<u>5,580,731</u>

**Total Assets** 6,268,281

**Liabilities:**

**Current Liabilities:**

Accounts payable	100,953
Accrued interest payable	13,248
Payroll taxes payable	7,595
Long-term debt - current portion	153,746
Deferred revenue - availability of service	264,819
Deferred revenue - property taxes	518,862
<b>Total Current Liabilities</b>	<u>1,059,223</u>

**Non-current Liabilities:**

Lease payable	741,274
Bonds payable	605,867
<b>Total Non-current Liabilities</b>	<u>1,347,141</u>

**Total Liabilities** 2,406,364

**Net Assets:**

Invested in capital assets, net of related debt	5,010,446
Restricted under TABOR	10,982
Unrestricted	<u>(1,159,511)</u>
<b>Total Net Assets</b>	<u>3,861,917</u>

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

**Baca Grande Water and Sanitation District**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended December 31, 2007**

<b>Operating Revenues:</b>	
Water and sewer fees	367,938
Availability of service fees	58,300
Fire hydrant revenue	30,523
Miscellaneous revenue	2,176
System improvement fees	67,356
Hook up fees	9,050
<b>Total Operating Revenues</b>	<u>535,343</u>
<b>Operating Expenses:</b>	
Salaries and benefits	386,600
Legal and accounting fees	33,177
Repair and maintenance	30,343
Operating expenses	65,806
Utilities	97,525
Insurance and bonds	19,461
Office expense	7,846
Supplies	7,252
Vehicle operations	26,390
Water costs	24,117
Testing	15,801
Other	3,449
Depreciation	359,467
<b>Total Operating Expenses</b>	<u>1,077,234</u>
<b>Operating (Loss)</b>	<u>(541,891)</u>
<b>Non-operating Revenues (Expenses):</b>	
Property taxes and specific ownership taxes	421,027
Interest on investments	8,136
Interest on debt	(78,126)
Rent income	4,400
In lieu of taxes	10,644
<b>Total Non-operating Revenues (Expenses)</b>	<u>366,081</u>
<b>Income Before Capital Contributions</b>	(175,810)
<b>Capital Contributions - Tap Fees</b>	<u>116,292</u>
<b>Change in Net Assets</b>	(59,518)
<b>Total Net Assets - Beginning</b>	<u>3,921,435</u>
<b>Total Net Assets - Ending</b>	<u><u>3,861,917</u></u>

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

**Baca Grande Water and Sanitation District**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2007**

<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	546,335
Cash paid for payroll and benefits	(395,306)
Cash paid for goods and services	(281,972)
<b>Net Cash Provided by Operating Activities</b>	<u>(130,943)</u>
<b>Cash Flows from Noncapital Financing Activities:</b>	
Property taxes	399,679
Rental income	4,400
Other income	10,644
<b>Net Cash (Used) by Noncapital Financing Activities</b>	<u>414,723</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Tap fees received	101,292
Principal paid on note payable	(226,028)
Interest paid on note payable	(65,621)
Debt proceeds	333,722
Cash paid for construction and acquisition of capital assets	(400,137)
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<u>(256,772)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest received	8,136
<b>Net Cash Provided by Investing Activities</b>	<u>8,136</u>
<b>Net Change in Cash</b>	35,144
<b>Cash and Cash Equivalents - Beginning</b>	59,147
<b>Cash and Cash Equivalents - Ending</b>	<u>94,291</u>
<b>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:</b>	
Operating income (loss)	<u>(541,891)</u>
<b>Adjustments:</b>	
Depreciation	359,467
(Increase) decrease in accounts receivable	(11,174)
Increase (decrease) in accounts payable	49,195
Increase (decrease) in payroll liabilities	(8,706)
Increase (decrease) in deferred revenue	22,166
<b>Total Adjustments</b>	<u>410,948</u>
<b>Net Cash Provided by Operating Activities</b>	<u>(130,943)</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, 2007**

**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 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, 2007**  
**(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, 2007**  
**(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**

As of December 31, 2007, the District's employees did not accumulate unused vacation or sick time; therefore, an accrued liability for vacation or sick time has not been recorded.

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, 2007**  
**(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:

<b>Change in Net Assets - Non-GAAP Basis</b>	<b>\$</b>	<b>75,085</b>
<b>Adjustments to GAAP Basis:</b>		
Debt proceeds		(333,722)
Depreciation		(359,467)
Debt principal payments		158,449
Capitalized assets		400,137
<b>Total Adjustments</b>		<u>(134,603)</u>
 <b>Change in Net Assets - GAAP Basis</b>	 <b>\$</b>	 <u><b>(59,518)</b></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 2007:

- (1) For the 2007 budget, prior to August 25, 2006, 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, 2006 only once by a single notification to the District.
- (2) On or before October 15, 2006, 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 2007 budget, prior to December 15, 2006, 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, 2007**  
**(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.

During 2007, no supplemental appropriations were made.

**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 \$10,982 which is the approximate required reserve at December 31, 2007.

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, 2007**  
**(Continued)**

**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 \$94,291 at December 31, 2007, and are summarized below:

	Standard & Poors Rating	Carrying Amounts	Maturities	
			Less than one year	Less than five years
<i>Deposits:</i>				
Checking	Not rated	\$ 8,993	8,993	-
Savings	Not rated	85,298	85,298	-
<b>Total</b>		<b>\$ 94,291</b>	<b>94,291</b>	<b>-</b>

**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, 2007**  
**(Continued)**

**III. Detailed Notes on the Fund (continued)**

**B. Capital Assets**

Capital asset activity for 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 51,423	-	-	51,423
Construction in progress	55,446	-	(55,446)	-
Total capital assets, not being depreciated	<u>106,869</u>	<u>-</u>	<u>(55,446)</u>	<u>51,423</u>
Capital assets, being depreciated:				
Land improvements	87,524	-	(87,524)	-
Water plant and distribution system	4,879,095	168,662	-	5,047,757
Sewer plant and collection system	4,496,286	263,560	-	4,759,846
Machinery and equipment	516,887	110,885	-	627,772
Total capital assets, being depreciated	<u>9,979,792</u>	<u>543,107</u>	<u>(87,524)</u>	<u>10,435,375</u>
Less accumulated depreciation for:				
Land improvements	(22,711)	-	22,711	-
Water plant and distribution system	(2,308,029)	(209,849)	-	(2,517,878)
Sewer plant and collection system	(1,776,957)	(163,028)	-	(1,939,985)
Machinery and equipment	(438,903)	(9,301)	-	(448,204)
Total accumulated depreciation	<u>(4,546,600)</u>	<u>(382,178)</u>	<u>22,711</u>	<u>(4,906,067)</u>
Total capital assets, being depreciated, net	<u>5,433,192</u>	<u>160,929</u>	<u>(64,813)</u>	<u>5,529,308</u>
<b>Total Capital Assets, Net</b>	<u><u>\$ 5,540,061</u></u>	<u><u>160,929</u></u>	<u><u>(120,259)</u></u>	<u><u>5,580,731</u></u>

**Baca Grande Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2007**  
**(Continued)**

**III. Detailed Notes on the Fund (continued)**

**B. Capital Assets (continued)**

A reconciliation of capital outlay, depreciation expense, and reclassifications (category change) to the "Increases" column in the table above is as follows:

	<u>Capital Outlay</u>	<u>Category Change</u>	<u>Total Increase</u>
Water plant and distribution	81,138	87,524	168,662
Sewer plant and collection	208,114	55,446	263,560
Machinery and equipment	110,885	-	110,885
	<u>400,137</u>	<u>142,970</u>	<u>543,107</u>

  

	<u>Depreciation</u>	<u>Category Change</u>	<u>Total Increase</u>
Water plant and distribution	187,138	22,711	209,849
Sewer plant and collection	163,028	-	163,028
Machinery and equipment	9,301	-	9,301
	<u>359,467</u>	<u>22,711</u>	<u>382,178</u>

**C. Bonds and Capital Leases Payable**

**1. 2002 Enterprise Revenue Bonds Payable**

On June 1, 2002, the District issued Enterprise Revenue Bonds in the amount of \$800,000. The bonds require 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, 2007, are as follows:

	<b>2002 Enterprise Revenue Bonds</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 33,231	25,069	58,300
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
2013-2017	219,887	71,613	291,500
2018-2022	239,007	23,343	262,350
	<u>639,098</u>	<u>206,272</u>	<u>845,370</u>



**Baca Grande Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2007**  
**(Continued)**

**III. Detailed Notes on the Fund (continued)**

**C. Bonds and Capital Leases Payable (continued)**

**2. Capital Leases**

**\$200,000 Capital Lease, 2003 (New Wells and Reservoir)**

On February 26, 2003, the District entered into a capital lease with Wells Fargo 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.

**\$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.

**\$164,473 Capital Lease, 2004 (Refinance and New Money)**

On September 10, 2004, the District entered into a capital lease with Wells Fargo in the principal amount of \$164,473 with interest payable at 2.95% annually. Annual payments of \$47,122 were due March 20 with the final payment in 2008. This lease was refinanced (paid off) in 2007 with the \$333,722 capital lease (see lease information below).

**\$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.

**\$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. This lease refinanced the 2004 lease (see above).

	<b>Capital Leases</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 120,516	35,760	156,276
2009	125,517	30,759	156,276
2010	108,352	25,548	133,900
2011	113,056	20,844	133,900
2012	90,564	15,937	106,501
2013-2016	303,785	25,499	329,284
	<u>861,790</u>	<u>154,347</u>	<u>1,016,137</u>

**Baca Grande Water and Sanitation District  
Notes to the Financial Statements  
December 31, 2007  
(Continued)**

**III. Detailed Notes on the Fund (continued)**

**C. Bonds and Capital Leases Payable (continued)**

**Schedule of Changes in Bonds and Capital Leases Payable**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
CWRPDA Bonds Payable	671,032		(31,934)	639,098	33,231
Capital Leases	722,161	333,722	(194,093)	861,790	120,516
	<u>1,393,193</u>	<u>333,722</u>	<u>(226,027)</u>	<u>1,500,888</u>	<u>153,747</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 \$264,819 has been deferred.

**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	300,465	234,878	535,343
Depreciation	191,789	167,678	359,467
Operating Income (Loss)	(304,140)	(237,751)	(541,891)
Capital Assets:			
Additions	136,580	263,557	400,137

**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.

**Baca Grande Water and Sanitation District**  
**Notes to the Financial Statements**  
**December 31, 2007**  
**(Continued)**

**IV. Other Information**

**B. Pension Plan (continued)**

*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 percent of their wages to an individual account in the plan. During 2007, the District contributed 11 percent of the employees' wages

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

**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 2006 to 2007 and settlements have not exceeded coverage during the past three years.

**SUPPLEMENTARY INFORMATION**

**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, 2007**  
**(With Comparative Actual Amounts for 2006)**

	2007		Variance Positive (Negative)	2006
	Original and Final Budget	Actual		Actual
<b>Operating Revenues</b>				
Water and sewer fees	393,274	367,938	(25,336)	356,911
Availability of service fees	90,936	58,300	(32,636)	58,353
Tap and line extension fees	92,000	116,292	24,292	39,444
Fire hydrant revenue	31,500	30,523	(977)	9,676
Miscellaneous revenue	5,250	2,176	(3,074)	22,067
System improvement fees	60,000	67,356	7,356	71,348
Hook up fees	20,000	9,050	(10,950)	70,645
<b>Total Operating Revenues</b>	<u>692,960</u>	<u>651,635</u>	<u>(41,325)</u>	<u>628,444</u>
<b>Operating Expenses</b>				
Salaries and benefits	370,067	386,600	(16,533)	374,921
Legal and accounting fees	34,000	33,177	823	40,366
Repair and maintenance	109,270	30,343	78,927	170,216
Operating expenses	12,250	65,806	(53,556)	-
Utilities	85,806	97,525	(11,719)	90,916
Insurance and bonds	22,000	19,461	2,539	18,724
Office expense	-	7,846	(7,846)	36,530
Supplies	24,000	7,252	16,748	53,070
Vehicle operations	36,500	26,390	10,110	39,624
Water costs	28,643	24,117	4,526	27,279
Testing	7,500	15,801	(8,301)	8,393
Interest on debt	58,036	78,126	(20,090)	69,049
Principal on debt	156,814	158,449	(1,635)	171,985
Capital outlay	375,000	400,137	(25,137)	722,106
Other	3,700	3,449	251	25,181
<b>Total Operating Expenses</b>	<u>1,323,586</u>	<u>1,354,479</u>	<u>(30,893)</u>	<u>1,848,360</u>
<b>Operating Income (Loss)</b>	<u>(630,626)</u>	<u>(702,844)</u>	<u>(72,218)</u>	<u>(1,219,916)</u>
<b>Non-operating Revenues (Expenses)</b>				
Property taxes and specific ownership taxes, net	429,000	421,027	7,973	402,023
Interest on investments	2,730	8,136	(5,406)	6,520
Other income	-	-	-	89,458
Rent income	7,200	4,400	2,800	7,200
Reimbursements	-	-	-	39,769
Debt proceeds	250,000	333,722	(83,722)	15,000
In lieu of taxes	6,600	10,644	(4,044)	-
<b>Total Non-operating Revenues (Expenses)</b>	<u>695,530</u>	<u>777,929</u>	<u>(82,399)</u>	<u>559,970</u>

(continued)

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

**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, 2007**  
**(With Comparative Actual Amounts for 2006)**  
**(Continued)**

	<u>2007</u>	<u>Variance</u>	<u>2006</u>
	<u>Original</u>	<u>Positive</u>	
	<u>and Final</u>	<u>(Negative)</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
<b>Net Income (Loss) - Budget Basis</b>	64,904	75,085	(154,617)
<b>Adjustments to GAAP Basis:</b>			
Debt proceeds		(333,722)	(15,000)
Depreciation		(359,467)	(198,409)
Debt principal payments		158,449	171,985
Capitalized assets		400,137	722,106
<b>Total Adjustments</b>		<u>(134,603)</u>	<u>680,682</u>
<b>Change in Net Assets - GAAP Basis</b>		<u>(59,518)</u>	<u>20,736</u>

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