

**PAGOSA AREA WATER AND  
SANITATION DISTRICT**

**FINANCIAL STATEMENTS**

**Year Ended December 31, 2008**

**PAGOSA AREA WATER AND SANITATION DISTRICT  
TABLE OF CONTENTS**

	<u>Page Number</u>
<b>FINANCIAL SECTION</b>	
<b>Accountant's Report</b> .....	i
<b>Management's Discussion and Analysis</b> .....	ii - xii
<b>Basic Financial Statements</b>	
<b>Government-Wide Financial Statements</b>	
Statement of Net Assets.....	1
Statement of Activities.....	2
<b>Fund Financial Statements</b>	
<b>Governmental Funds</b>	
Balance Sheet.....	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	4
Statement of Revenues, Expenditures and Changes in Fund Balances.....	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities..	6
<b>Proprietary Funds</b>	
Statement of Net Assets.....	7
Statement of Revenues, Expenses and Changes in Fund Net Assets.....	8
Statement of Cash Flows.....	9 - 10
<b>Notes to Financial Statements</b> .....	11 - 34
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>Budgetary Comparison Schedules</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis)	
General Fund.....	35
Special Revenue Fund.....	36
Notes to Required Supplementary Information.....	37 - 38
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
<b>Budgetary Comparison Schedules</b>	
<b>Governmental Funds</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Budgetary Basis)	
Capital Projects Fund.....	39
Debt Service Fund.....	40
<b>Enterprise Funds</b>	
Schedules of Revenues, Expenses and Changes in Net Assets Budget and Actual (Budgetary Basis)	
Water Fund.....	41 - 44
Wastewater Fund.....	45 - 48

**INDEPENDENT AUDITORS' REPORT**

The Honorable Board of Directors  
Pagosa Area Water and Sanitation District  
Pagosa Springs, Colorado 81157

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Pagosa Area Water and Sanitation District, Colorado (the District), as of and for the year ended December 31, 2008, 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 governmental activities, the business type activities, and each major fund of the Pagosa Area Water and Sanitation District, Colorado, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information consisting of management's discussion and analysis beginning on page ii to xiii, budgetary comparison schedules for the General Fund and Special Revenue Funds, and the notes to required supplementary information presented on pages 35 to 38 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules, listed in the table of contents as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wall, Smith, Bateman and Associates, Inc.*

Wall, Smith, Bateman and Associates, Inc.  
Alamosa, Colorado

July 30, 2009

## Management's Discussion and Analysis

The management of Pagosa Area Water and Sanitation District (the District) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended December 31, 2008.

This section provides a summary of the District's financial performance. It contains an overview and analysis of the District's financial activities for the year ended December 31, 2008. The financial statements are an integral part of this analysis and should be read in conjunction with this document.

### FINANCIAL HIGHLIGHTS

1. The District's net assets total \$66,006,122 an increase of \$4,298,383 over the previous year.
2. Operating expenses of \$5,935,994 exceeded operating revenues of \$5,008,646 by \$927,348.
3. General revenues total \$3,051,017.
4. Capital contributions are for system investment fees and total \$1,836,716.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements consist of four parts: management's discussion and analysis, basic financial statements including the notes to the financial statements, required supplementary information and other supplementary information.

### BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Pagosa Area Water and Sanitation District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements present information for the governmental funds and the business-type activities.

The Statement of Net Assets (see page 1) presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities (see page 2) presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are

reported on the accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The financial statements presented for the governmental funds are the balance sheet and the statement of revenues, expenditures and changes in fund balances.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Pagosa Area Water and Sanitation District has four governmental funds: General Fund, Special Revenue Fund, Capital Projects Fund and Debt Service Fund. The District considers all of these funds important to financial statement users and has presented them all as major funds.

**Proprietary Funds.** Proprietary fund accounting uses the same basis of accounting as private-sector business enterprises. The District uses two enterprise funds: Water Fund and Wastewater Fund. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used.

Revenue is recorded when earned and expenses are recorded when incurred. The proprietary fund basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in fund net assets, and a statement of cash flows.

The Statement of Net Assets presents information on the assets and liabilities of the District's enterprise funds, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District's enterprise funds is improving or deteriorating.

The Statement of Revenue, Expenses and Changes in Fund Net Assets reports the operating revenues and expenses and non-operating revenues and expenses of the District's enterprise funds for the year with the difference - the net income or loss - being combined

with any capital contributions to determine the net change in assets for the fiscal year. That change combined with the net assets at the end of the previous year total to the net assets at the end of the current fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities of the two enterprise funds for the fiscal year resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current year.

The District adopts an annual appropriated budget for each of its funds. Budgetary comparison statements have been provided for the General Fund and Special Revenue Fund as Required Supplementary Information in the audited financial statements; budget comparisons for the Capital Projects Fund, Debt Service Fund, Water Fund and Wastewater Fund are presented in Other Supplementary Information in the audited financial statements to demonstrate compliance with their budgets.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11 to 34 of this report.

### **FINANCIAL POLICY PRIORITIES**

The financial goal of the District is to operate in a cost efficient manner that is similar to the practices of private enterprise. The District annually reviews its financial policies to assess their impact upon financial activities. Policies that affected financial activities are:

1. Growth pays its own way
2. Debt service is funded from user fees and property taxes
3. Administration and operations are funded from user fees, property taxes and specific ownership taxes
4. User fees will fund a portion of capital improvement needs
5. Capital Investment Fees are earmarked for capital uses

In 2008, the District completed several major construction projects and continued work on other projects. As planned, this had the effect of reducing reserves. The District expended \$14,120,715 in 2008 on water projects and \$623,915 on wastewater projects.

The District reviews Capital Investment Fees on an annual basis to insure that growth pays for future expansion.

Past expansion and improvements have been paid with a combination of user fees, property taxes and bond issues. The District's policies also made it possible for the District to complete the year with cash and investments in all funds of \$20,969,840 of which \$16,555,630 is designated for future construction projects.

## **Day-to-Day Operational Control of the District**

For operational control, the District has 6 funds: the General Fund, Special Revenue Fund, Capital Projects Fund, Debt Service Fund, Water Fund and Wastewater Fund.

The General Fund provides for the administration of the District and also transfers monies to other funds. A total of \$660,941 was transferred to other funds. The major sources of revenue are monies collected for property taxes and specific ownership taxes. In 2008, the General Fund collected \$1,296,065 in property taxes and specific ownership taxes. In 2008, there was a \$220,816 increase in fund balance over the previous year. This increase was primarily due to an increase in property taxes and specific ownership tax revenues. The ending fund balance in the General Fund at December 31, 2008, was \$675,802. \$40,932 of this amount is set aside as a reserve (see note 14 on page 31 of the financial statements). Of the remaining balance, \$618,155 has been designated to use for future expenditures, and \$16,715 is undesignated.

The Special Revenue Fund is designated to receive and hold general obligation bond proceeds along with interest earned until the designated construction projects are in process and funds are needed by the Capital Projects Fund. In 2008, these funds earned interest of \$155,955. Funds transferred to capital projects from the Special Revenue Fund were \$3,569,008. Funds remaining in the Special Revenue Fund bank accounts at the end of 2008 were \$1,637,706. The Special Revenue Fund balance decreased by \$3,413,053 from 2007 to 2008. This is a planned decrease as transfers are made out of the Special Revenue Fund to the fund incurring capital expenditures. The ending fund balance in the Special Revenue Fund was \$818,202; all of this amount has been designated to use for future expenditures.

The Capital Projects Fund is used to record the infrastructure development and other capital purchases of the District's governmental funds. Revenue in the Capital Projects Fund consists of transfers from other funds. In 2008, \$3,614,449 was transferred into the Capital Projects Fund from other funds. Construction projects are identified through short and long term planning. The fund balance is \$0.

The Debt Service Fund records the collection of property taxes for debt service payments on general obligation bonds. In 2008, property taxes collected for debt service were \$1,167,941; \$645,000 was paid in principal payments and \$543,395 was paid for interest. The 2008 fund balance for the Debt Service Fund decreased by \$11,572 from 2007. This decrease was due to receiving less in tax revenues than required debt service payments. The Debt Service Fund balance at the end of 2008 was (\$8,489).

The District operates its Water and Wastewater funds as self-supporting enterprises. Revenues received from user fees and other general fund sources are sufficient to cover the day-to-day operating expenses of these funds, as well as assist in the funding of capital improvements.

The Water Fund had an increase in fund balance of \$5,392,428 for 2008. Of this amount, operating income was \$253,772; \$975,638 was from non-operating revenues; and \$4,163,018 was from contributions and transfers. The contributions and transfers are primarily non-cash additions that increase fixed assets. At the end of 2008, the Water Fund had net assets of \$50,497,205. Of this amount, \$35,829,034 is invested in capital assets,

net of related debt and is not available for future appropriations; \$719,514 is restricted for bond payments; and \$13,948,657 has been designated for future expenses.

The Wastewater Fund had an increase in fund balance of \$1,085,103 for 2008. Of this amount, operating income had a deficit of (\$207,744); \$948,416 was from non-operating revenues; and \$344,431 was from contributions and transfers. The contributions and transfers are primarily non-cash additions that increase fixed assets. At the end of 2008, the Wastewater Fund has net assets of \$23,308,514. Of this amount \$19,038,633 is invested in capital assets, net of related debt and is not available for future appropriations; \$85,675 is restricted for bond payments; \$4,184,206 has been designated for future expenses.

Capital projects, including infrastructure and equipment purchases, are funded from a variety of non-operating revenues including bond proceeds and Capital Investment Fees. The District, operating under a "pay-as-you-go" philosophy, is consciously building reserves sufficient to handle most of the infrastructure expenses that are anticipated in the next fifteen to seventeen years. We are also projecting that future bond issues will contribute to the overall financial plan.

The District's day-to-day operational control involves many levels of planning, forecasting, and budgeting. Revenues and expenses are allocated to specific functions of the District. The staff presents quarterly financial reports to the board of directors. The reports contain revenues and expenditures compared to the adopted budget. It is an essential tool that is critical to the District's long-range financial planning efforts.

## **Financial Analysis**

### **Net Assets**

A summary of the statement of net assets for 2008 and 2007 is shown in Table A on page vii. The District's net assets (the difference between assets and liabilities) are one way to measure the financial health of the District. Increases or decreases in the District's net assets are indicators of improving or deteriorating financial health. This, coupled with factors such as population growth, legislative changes or policy changes, provide an integrated assessment of the District's health.

TABLE A  
CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets	\$2,090,485	\$1,842,900	\$1,667,682	\$1,664,399	\$3,758,167	\$3,507,299
Restricted assets	3,067,287	5,680,299	18,930,651	20,865,083	21,997,938	26,545,382
Capital assets	540,813	541,230	79,668,899	65,072,384	80,209,712	65,613,614
Total assets	5,698,585	8,064,429	100,267,232	87,601,866	105,965,817	95,666,295
Current liabilities	1,823,182	996,880	10,731,338	2,700,926	12,554,520	3,697,806
Long-term debt outstanding	11,675,000	12,350,000	15,730,175	17,910,750	27,405,175	30,260,750
Total liabilities	13,498,182	13,346,880	26,461,513	20,611,676	39,959,695	33,958,556
Net assets:						
Invested in capital assets, net of related debt	540,813	541,230	54,867,667	55,434,009	55,408,480	55,975,239
Restricted	40,932	10,021	805,189	1,088,877	846,121	1,098,898
Unrestricted	(8,381,342)	(5,833,702)	18,132,863	10,467,304	9,751,521	4,633,602
Total net assets	(\$7,799,597)	(\$5,282,451)	\$73,805,719	\$66,990,190	\$66,006,122	\$61,707,739

Table A indicates that the District finances are stable. Net assets have increased \$4,298,383 over the prior year primarily due to increases in capital assets. Total restricted assets of \$21,997,838 are designated for future capital projects that are projected to total approximately \$258,912,605 over the next 46 years. It is estimated that another \$236,914,667 will be needed to address water and wastewater system needs over the next 46 years; however that number may undergo substantial revision. As of December 31, 2008, governmental activities show a deficit in unrestricted net assets of (\$8,381,342), which is an increase in the deficit from 2007. However this is not an area of concern to the District, because this is a planned deficit. Construction projects are being paid for out of the governmental funds and then transferred over to the business-type activities. Part of the deficit is also due to the effects of the conversion to GASB 34 which brought in the liabilities for long term debt; future tax revenues will pay off this liability and reduce the deficit. The net assets in the business-type activities indicate that \$18,132,863 is unrestricted and available for future appropriations. This is an increase from the prior year. Restricted net assets shown of \$805,189 and the net assets invested in capital assets, net of related debt, of \$54,867,667 are not available for future appropriations.

On a year-to-year basis the District plans to operate within its policies. Operations are expected to produce sufficient income to allow the District to implement its long range plans.

In the capital improvements portion of the budget, annual expenditures may, at times, exceed annual revenues. This is accounted for in the long range financial planning of the District.

Table B on page ix shows the revenues, expenses, and changes in net assets for 2008 and 2007.

**TABLE B**  
**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Charges for services	\$2,094	\$9,750	\$5,006,552	\$3,944,591	\$5,008,646	\$3,954,341
Total operating expenses	610,355	952,579	5,325,639	4,631,731	5,935,994	5,584,310
Operating income (loss)	<u>(608,261)</u>	<u>(942,829)</u>	<u>(319,087)</u>	<u>(687,140)</u>	<u>(927,348)</u>	<u>(1,629,969)</u>
General Revenues						
Property taxes and specific ownership taxes	2,573,508	2,553,399			2,573,508	2,553,399
Investment earnings	25,056	312,450	452,453	770,194	477,509	1,082,644
General revenues	<u>2,598,564</u>	<u>2,865,849</u>	<u>452,453</u>	<u>770,194</u>	<u>3,051,017</u>	<u>3,636,043</u>
Net income before contributions and transfers	1,990,303	1,923,020	133,366	83,054	2,123,669	2,006,074
Capital contributions						
Donated assets			1,836,716	2,249,344	1,836,716	2,249,344
Transfers:				877,558		877,558
Construction projects	(3,569,008)	(962,410)	3,569,008	962,410		
General Fund	(551,000)	(490,000)	551,000	490,000		
Debt Service Fund	(543,395)	(20,000)	543,395	20,000		
Special Revenue Fund	155,954		(155,954)			
Change in net assets	<u>(2,517,146)</u>	<u>450,610</u>	<u>6,477,531</u>	<u>4,682,366</u>	<u>3,960,385</u>	<u>5,132,976</u>
Beginning net assets	(5,282,451)	(5,685,443)	66,990,190	62,307,824	61,707,739	56,622,381
Interest adjustments		<u>(47,618)</u>	<u>337,998</u>		<u>337,998</u>	<u>(47,618)</u>
Beginning net assets, as corrected	<u>(5,282,451)</u>	<u>(5,733,061)</u>	<u>67,328,188</u>	<u>62,307,824</u>	<u>62,045,737</u>	<u>56,574,763</u>
Ending net assets	<u>(\$7,799,597)</u>	<u>(\$5,282,451)</u>	<u>\$73,805,719</u>	<u>\$66,990,190</u>	<u>\$66,006,122</u>	<u>\$61,707,739</u>

An examination of Table B for 2008 shows that the District's change in net assets in the business-type activities is \$6,477,531; this is an increase over the prior year. Net income before contributions and transfers increased by \$50,312; the contributions and transfers increased by \$1,744,853. The governmental activities show a change in net assets of (\$2,517,146). This is a decrease of \$2,967,756 from the prior year; this decrease is due to the increase in fund transfers out of the governmental funds. Although the District shows an operating loss for 2008, the governmental funds use property taxes levied for general purposes to meet operating needs and the business-type activities use transfers from the General Fund to meet their operating needs.

### **BUDGETARY HIGHLIGHTS**

Pagosa Area Water and Sanitation District received additional revenues in 2008 and all of its budgets were amended to reflect the additional funding and expenditures. An explanation of these amendments is included on page 38 in Notes to Required Supplementary Information.

The schedules of revenues and expenses, actual compared to final budget, for the General Fund and the Special Revenue Fund are included in the required supplementary information. The General Fund budgeted to spend \$1,201,608 and actually spent \$1,210,526. The Special Revenue Fund budgeted to spend \$3,569,008 and spent \$3,569,008. The Special Revenue Fund has \$1,637,706 in its cash reserves, which will be used to complete construction projects.

Budgets for the other governmental funds, Capital Projects Fund and Debt Service Fund, are included in the other supplementary information along with the budgets for the proprietary funds, the Water Fund and the Wastewater Fund.

### **CAPITAL ASSETS AND DEBT ACTIVITIES**

During 2008, the District invested \$14,744,630 in capital projects. Capital projects that were substantially completed in 2008 were:

- Chris Mountain Village II water and wastewater line installation
- Stevens Reservoir Enlargement
- Automated Meter Reading technology implementation
- Water line replacement and upgrades on Lakewood and Appaloosa Streets

Capital projects still in process at the end of 2008 were:

- Stevens Reservoir Wetland mitigation
- Highlands Lagoon and Collection System improvement

At the conclusion of 2008, the District's outstanding debt was \$37,273,904 for various bond issues. The loans were incurred for the following construction projects as well as some of the above projects:

- Enlargement of Stevens Reservoir and Dutton Ditch Pipeline Extension
- Hatcher Water Treatment Plant Improvements
- Highlands Lagoon and Collection System Improvements
- Dry Gulch Water Storage Project

Property tax revenues and water and wastewater revenues are sufficient to pay the scheduled debt service amounts. A new revenue note in the amount of \$7,158,870 was issued on June 23, 2008. The proceeds from this bond issue are being used for upgrades to the Hatcher Water Treatment Plant and to implement automated meter reading technology.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Board of Directors and the management of Pagosa Area Water and Sanitation District consider many factors when setting the budget for 2009. Projected user fees, growth, and Capital Investment Fees are all evaluated and considered before a final budget is adopted. The 2009 budget also attempts to project new expenses associated with operating new plants and systems. These expenses are reconciled to projected revenues. Initial estimates shows the following additional operating increases (decreases) are anticipated for the 2009 budget year.

The General Fund has budgeted \$1,101,084; this is a decrease of \$109,442 over 2008 expenditures. The District anticipates a decrease in transfers to the debt service, water and wastewater funds.

The Special Revenue Fund has budgeted \$970,151; this is a decrease of \$2,598,857 over the 2008 expenditures. The District plans to transfer less money to the Capital Projects Fund than it did in 2008.

The Capital Projects Fund has budgeted \$1,019,451; this is a decrease of \$2,594,998 over the 2008 expenditures because the Stevens Reservoir Enlargement is substantially complete with only the wetland mitigation for completion by 2010.

The Debt Service Fund has budgeted \$1,262,497; this is a slight increase from the 2008 expenditures.

The Water Fund has budgeted \$12,711,950; this is a decrease of \$1,579,956 from 2008 expenditures. The District amended its 2008 Budget in anticipation of paying off short-term bridge financing with Wells Fargo Brokerage Services with proceeds from a long-term loan from the Colorado Water Conservation Board. That transaction was delayed until January of 2009 which will necessitate amending the 2009 Budget.

The Wastewater Fund has budgeted \$2,325,185; this is an increase of \$262,431 over the 2008 expenditures. The District anticipates an increase in operating costs.

Capital projects which are scheduled for 2009 are as follows:

- Hatcher Water Treatment Plant Improvements.
- Continued work toward construction of the Stevens Reservoir Wetlands
- Infiltration reduction and collection system improvements in the Highlands Lagoon area
- Water Line replacement and upgrades on 5<sup>th</sup>, Rock Ridge and Sawmill Roads
- Wastewater line replacement and upgrades on Park Avenue

It is anticipated that the following projects will extend into 2010 and 2011:

- Hatcher Water Treatment Plant upgrades
- Main water and wastewater line installation and upgrades in various areas of the District

### **CONTACTING THE DISTRICT'S MANAGER**

This financial report is designed to provide our citizens, customers, investors, and creditors with the general overview of the District's finances and demonstrates the District's accountability for the money it receives. If you have any questions concerning this report or need additional information please contact Carrie Weiss, Manager of the Pagosa Area Water and Sanitation District at 100 Lyn Avenue, Pagosa Springs, Colorado.

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## **BASIC FINANCIAL STATEMENTS**

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**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**December 31, 2008**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets			
Cash	\$ 179,933	\$ 82,940	\$ 262,873
Receivables (net of allowances for doubtful accounts, where applicable)			
Customer accounts	1,110	418,769	419,879
Other governments	12,630		12,630
Taxes receivable, current	1,146,141		1,146,141
Taxes receivable, delinquent	88,710		88,710
Other		12,260	12,260
Investments	659,711	739,566	1,399,277
Inventories	2,250	414,147	416,397
Total Current Assets	<u>2,090,485</u>	<u>1,667,682</u>	<u>3,758,167</u>
Non-Current Assets			
Restricted			
Cash	1,636,512	15,206,999	16,843,511
Investments	7,205	2,456,974	2,464,179
Customer accounts receivable (net of allowances for doubtful accounts)		868,274	868,274
Taxes receivable, non-current	1,230,908		1,230,908
Other receivables	1,417		1,417
Prepaid insurance	87,557	70,979	158,536
Unamortized bond discount	103,688	327,425	431,113
Capital assets - net	540,813	72,414,455	72,955,268
Construction work in process		7,254,444	7,254,444
Total Non-Current Assets	<u>3,608,100</u>	<u>98,599,550</u>	<u>102,207,650</u>
<b>Total Assets</b>	<u><b>5,698,585</b></u>	<u><b>100,267,232</b></u>	<u><b>105,965,817</b></u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	1,017,399	411,838	1,429,237
Accrued expenses	101,283	229,874	331,157
Deposits payable	29,500	56,857	86,357
Deferred revenues		616,962	616,962
Bond premium		24,934	24,934
Capital lease, current portion		53,330	53,330
Bonds payable, current portion	675,000	9,337,543	10,012,543
Total Current Liabilities	<u>1,823,182</u>	<u>10,731,338</u>	<u>12,554,520</u>
Non-Current Liabilities			
Capital lease, due after one year		143,814	143,814
Bonds payable, due after one year	11,675,000	15,586,361	27,261,361
Total Non-Current Liabilities	<u>11,675,000</u>	<u>15,730,175</u>	<u>27,405,175</u>
<b>Total Liabilities</b>	<u><b>13,498,182</b></u>	<u><b>26,461,513</b></u>	<u><b>39,959,695</b></u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	540,813	54,867,667	55,408,480
Restricted for debt service and construction	40,932	805,189	846,121
Unrestricted	(8,381,342)	18,132,863	9,751,521
<b>Total Net Assets</b>	<u><b>\$ (7,799,597)</b></u>	<u><b>\$ 73,805,719</b></u>	<u><b>\$ 66,006,122</b></u>

See Notes to the Basic Financial Statements

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**Year ended December 31, 2008**

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government:</b>						
Governmental Activities						
Administrative services	\$ 610,355	\$ -	\$ -	\$ (608,261)	\$ -	\$ (608,261)
<b>Total Governmental Activities</b>	<u>610,355</u>	<u>-</u>	<u>-</u>	<u>(608,261)</u>	<u>-</u>	<u>(608,261)</u>
<b>Business-Type Activities</b>						
Water	3,675,924	-	1,060,656	-	946,036	946,036
Wastewater	1,649,715	-	776,060	-	571,593	571,593
<b>Total Business-Type Activities</b>	<u>5,325,639</u>	<u>-</u>	<u>1,836,716</u>	<u>-</u>	<u>1,517,629</u>	<u>1,517,629</u>
<b>Total Primary Government</b>	<u>\$5,935,994</u>	<u>\$ -</u>	<u>\$ 1,836,716</u>	<u>(608,261)</u>	<u>1,517,629</u>	<u>909,368</u>
<b>General Revenues</b>						
Taxes						
Property taxes, levied for general purposes				1,173,186	-	1,173,186
Property taxes, levied for debt service				1,203,324	-	1,203,324
Specific ownership taxes				196,998	-	196,998
Investment earnings				25,056	452,453	477,509
Transfers						
Construction projects				(3,569,008)	3,569,008	-
General Fund				(551,000)	551,000	-
Special Revenue Fund				155,954	(155,954)	-
Debt Service Fund				(543,395)	543,395	-
<b>Change in Net Assets</b>				<u>(2,517,146)</u>	<u>6,477,531</u>	<u>3,960,385</u>
<b>Beginning Net Assets, as Previously Stated</b>				<u>(5,282,451)</u>	<u>66,990,190</u>	<u>61,707,739</u>
Prior Period Adjustment - capitalized interest				-	337,998	337,998
<b>Beginning Net Assets, as Restated</b>				<u>(5,282,451)</u>	<u>67,328,188</u>	<u>62,045,737</u>
<b>Ending Net Assets</b>				<u>\$ (7,799,597)</u>	<u>\$ 73,805,719</u>	<u>\$66,006,122</u>

**PAGOSA AREA WATER AND SANITATION DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2008**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash	\$ 21,002	\$ -	\$ 158,931	\$ -	\$ 179,933
Receivables (net of estimated uncollectible, where applicable)					
Customers	1,110				1,110
Other governments	12,630				12,630
Taxes receivable, current	1,146,141				1,146,141
Taxes receivable, delinquent	88,710				88,710
Investments	659,711				659,711
Due from other funds	14,500		847,335		861,835
Inventories	2,250				2,250
<b>Restricted Assets</b>					
Cash		1,635,986		526	1,636,512
Investments		1,720		5,485	7,205
Receivables (net of estimated uncollectible, where applicable)					
Taxes receivable, current				1,230,908	1,230,908
Other		1,417			1,417
<b>TOTAL ASSETS</b>	<u>\$ 1,946,054</u>	<u>\$ 1,639,123</u>	<u>\$ 1,006,266</u>	<u>\$ 1,236,919</u>	<u>\$ 5,828,362</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Current Liabilities</b>					
Accounts payable	41,709	-	975,690	-	1,017,399
Due to other funds	26,414	820,921		14,500	861,835
Accrued expenses	55,988		1,076		57,064
Deposits payable			29,500		29,500
Deferred property taxes	1,146,141				1,146,141
<b>Liabilities Payable from Restricted Assets</b>					
Deferred property taxes				1,230,908	1,230,908
Total Liabilities	<u>1,270,252</u>	<u>820,921</u>	<u>1,006,266</u>	<u>1,245,408</u>	<u>4,342,847</u>
<b>Fund Balances</b>					
Reserved	40,932				40,932
Unreserved					
Designated					
Reported in:					
Special Revenue Fund		818,202			818,202
Undesignated,					
Reported in:					
General Fund	634,870				634,870
Capital Projects Fund					-
Debt Service Fund (Deficit)				(8,489)	(8,489)
Total Fund Balances	<u>675,802</u>	<u>818,202</u>	<u>-</u>	<u>(8,489)</u>	<u>1,485,515</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 1,946,054</u>	<u>\$ 1,639,123</u>	<u>\$ 1,006,266</u>	<u>\$ 1,236,919</u>	<u>\$ 5,828,362</u>

See Notes to the Basic Financial Statements

**PAGOSA AREA WATER AND SANITATION DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
December 31, 2008**

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<b>Fund Balances - Total Governmental Funds</b>		<b>\$ 1,485,515</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:		
Governmental capital assets	795,431	
Less accumulated depreciation	<u>(254,618)</u>	540,813
Other assets used in governmental activities are not financial resources and therefore are not reported in fund balance in the governmental funds:		
Unamortized bond discounts	116,318	
Less current year amortization	(12,630)	
Prepaid insurance on bond issues	94,091	
Less current year expense	<u>(6,534)</u>	191,245
Long-term liabilities including bonds payable and accrued interest are not due and payable in the current period and therefore are not reported in the governmental funds:		
Bonds payable		(12,350,000)
Interest payable		(44,219)
Deferred revenue in governmental funds is susceptible to full accrual on the entity-wide statements:		
Deferred property taxes		<u>2,377,049</u>
<b>Net Assets of Governmental Activities</b>		<b><u><u>\$ (7,799,597)</u></u></b>

**PAGOSA AREA WATER AND SANITATION DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended December 31, 2008**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 1,099,067	\$ -	\$ -	\$ 1,167,941	\$ 2,267,008
Specific ownership taxes	196,998				196,998
Investment and interest income	16,173	155,955		8,882	181,010
Other	52,158				52,158
Total Revenues	<u>1,364,396</u>	<u>155,955</u>	<u>-</u>	<u>1,176,823</u>	<u>2,697,174</u>
<b>EXPENDITURES</b>					
General administration	547,139				547,139
Capital expenditures			3,614,449		3,614,449
Debt service					
Principal payments				645,000	645,000
Interest and other				543,395	543,395
Total Expenditures	<u>547,139</u>	<u>-</u>	<u>3,614,449</u>	<u>1,188,395</u>	<u>5,349,983</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>817,257</u>	<u>155,955</u>	<u>(3,614,449)</u>	<u>(11,572)</u>	<u>(2,652,809)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>					
Transfers in	64,500		3,614,449	64,500	3,743,449
Transfers out	(660,941)	(3,569,008)		(64,500)	(4,294,449)
Total Other Financing Sources and (Uses)	<u>(596,441)</u>	<u>(3,569,008)</u>	<u>3,614,449</u>	<u>-</u>	<u>(551,000)</u>
<b>Net Changes in Fund Balances</b>	220,816	(3,413,053)	-	(11,572)	(3,203,809)
<b>Fund Balances - Beginning</b>	454,986	4,231,255	-	3,083	4,689,324
<b>Fund Balances - Ending</b>	<u>\$ 675,802</u>	<u>\$ 818,202</u>	<u>\$ -</u>	<u>\$ (8,489)</u>	<u>\$ 1,485,515</u>

**PAGOSA AREA WATER AND SANITATION DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2008**

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**Net Change in Fund Balances - Total Governmental Funds** **\$(3,203,809)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives:

Expenditures for capital assets and construction projects	3,588,469	
Less current year depreciation	(19,878)	3,568,591

Governmental funds report interest income and expense on bonds as income and expenses respectively. However, in the Statement of Activities applicable interest is capitalized into construction work in process in the business-type activities:

Interest income		(155,954)
Interest expense		545,201

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Principal payments		645,000
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Some items reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in governmental funds:

Deferred property taxes 2008	2,377,049	
Deferred property taxes 2007	(2,317,611)	59,438

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Transfer of fixed assets to enterprise funds	(3,956,449)	
Bond insurance	(6,534)	
Amortization of current year bond costs	(12,630)	(3,975,613)

**Change in Net Assets of Governmental Activities** **\$(2,517,146)**

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**December 31, 2008**

	Business-Type Activities		
	Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current Assets			
Cash	\$ 16,389	\$ 66,551	\$ 82,940
Receivables (net of allowances for doubtful accounts, where applicable)			
Customer accounts	276,984	141,785	418,769
Other	6,031	6,229	12,260
Investments	651,158	88,408	739,566
Due from Wastewater Fund	205,715		205,715
Inventories	374,788	39,359	414,147
Total Current Assets	<u>1,531,065</u>	<u>342,332</u>	<u>1,873,397</u>
Non-Current Assets			
Restricted			
Cash	11,878,048	3,328,951	15,206,999
Investments	1,571,001	885,973	2,456,974
Customer accounts receivable (net of allowances for doubtful accounts)	392,747	475,527	868,274
Prepaid insurance	62,979	8,000	70,979
Unamortized bond discount and issue costs	266,643	60,782	327,425
Fixed assets - net	51,806,500	20,607,955	72,414,455
Construction work in process	7,254,444		7,254,444
Total Non-Current Assets	<u>73,232,362</u>	<u>25,367,188</u>	<u>98,599,550</u>
<b>Total Assets</b>	<u>74,763,427</u>	<u>25,709,520</u>	<u>100,472,947</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	295,956	115,882	411,838
Accrued expenses	177,066	52,808	229,874
Bond premium	7,609	17,325	24,934
Deposits	56,857		56,857
Deferred revenues	237,790	379,172	616,962
Due to Water Fund		205,715	205,715
Capital lease, current portion	13,631	39,699	53,330
Bonds payable, current portion	9,122,543	215,000	9,337,543
Total Current Liabilities	<u>9,911,452</u>	<u>1,025,601</u>	<u>10,937,053</u>
Non-Current Liabilities			
Capital lease, due after one year	48,409	95,405	143,814
Bonds payable, due after one year	14,306,361	1,280,000	15,586,361
Total Non-Current Liabilities	<u>14,354,770</u>	<u>1,375,405</u>	<u>15,730,175</u>
<b>Total Liabilities</b>	<u>24,266,222</u>	<u>2,401,006</u>	<u>26,667,228</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	35,829,034	19,038,633	54,867,667
Restricted for bond and interest payments	719,514	85,675	805,189
Unrestricted	13,948,657	4,184,206	18,132,863
<b>Total Net Assets</b>	<u>\$50,497,205</u>	<u>\$23,308,514</u>	<u>\$73,805,719</u>

See Notes to the Basic Financial Statements

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2008**

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>OPERATING REVENUES</b>			
Water and wastewater charges	\$ 2,696,461	\$ 1,092,319	\$ 3,788,780
Availability charges	469,179	275,229	744,408
Customer hookups	175,601	20,498	196,099
Late charges	44,994	36,392	81,386
Other operating revenues	159,969	17,533	177,502
Total Operating Revenues	<u>3,546,204</u>	<u>1,441,971</u>	<u>4,988,175</u>
<b>OPERATING EXPENSES</b>			
Source of supply	201,933		201,933
Treatment	842,103	563,259	1,405,362
Distribution and collection	1,278,692	616,814	1,895,506
Maintenance department	158,486	74,280	232,766
Lab department	53,979	62,654	116,633
Administrative and general	757,239	332,708	1,089,947
Total Operating Expenses	<u>3,292,432</u>	<u>1,649,715</u>	<u>4,942,147</u>
Operating Income (Loss)	<u>253,772</u>	<u>(207,744)</u>	<u>46,028</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
System investment fees	1,060,656	776,060	1,836,716
Interest income on delinquent taxes	15,100	3,277	18,377
Other interest and investment income	283,374	169,079	452,453
Administrative fees	(17,897)		(17,897)
Bond discount and issue costs	(22,722)		(22,722)
Interest expense	(342,873)		(342,873)
Total Non-Operating Revenues (Expenses)	<u>975,638</u>	<u>948,416</u>	<u>1,924,054</u>
<b>Income before Contributions and Transfers</b>	<u>1,229,410</u>	<u>740,672</u>	<u>1,970,082</u>
Capital contributions from other funds	3,767,018	189,431	3,956,449
Transfers In	396,000	155,000	551,000
Total Contributions and Transfers	<u>4,163,018</u>	<u>344,431</u>	<u>4,507,449</u>
<b>Change in Net Assets</b>	<u>5,392,428</u>	<u>1,085,103</u>	<u>6,477,531</u>
<b>Beginning Net Assets, as Previously Stated</b>	44,984,507	22,005,683	66,990,190
Prior Period Adjustment - capitalized interest	120,270	217,728	337,998
<b>Beginning Net Assets, as Restated</b>	<u>45,104,777</u>	<u>22,223,411</u>	<u>67,328,188</u>
<b>Ending Net Assets</b>	<u>\$50,497,205</u>	<u>\$23,308,514</u>	<u>\$73,805,719</u>

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2008**

Page 1 of 2

	Business-Type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 3,659,540	\$1,498,885	\$ 5,158,425
Cash paid to suppliers	(801,753)	(646,412)	(1,448,165)
Cash paid for personnel costs	(1,021,955)	(362,923)	(1,384,878)
Net Cash Flows From Operating Activities	<u>1,835,832</u>	<u>489,550</u>	<u>2,325,382</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	396,000	155,000	551,000
Transfers (to) from enterprise funds	(205,715)	205,715	
Interest from delinquent taxes	15,100	3,277	18,377
Net Cash Flows from Non-Capital Financing Activities	<u>205,385</u>	<u>363,992</u>	<u>569,377</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Decrease in system investment fees	(38,608)	(23,247)	(61,855)
Interest income from system investment fees	242,469	48,430	290,899
Proceeds from new revenue notes	983,129		983,129
Bond issue costs	(103,121)		(103,121)
Bond principal payments	(444,996)	(205,000)	(649,996)
Payment on bond interest	(785,680)	(50,943)	(836,623)
Administrative fees on bond issue	(17,897)		(17,897)
Capital assets acquired or constructed	(10,580,391)	(657,341)	(11,237,732)
Restricted cash for 2008 bond issue	6,175,741		6,175,741
Lease proceeds	76,440	150,655	227,095
Lease payments	(30,843)	(114,724)	(145,567)
Net Cash Flows from Capital and Related Financing Activities	<u>(4,523,757)</u>	<u>(852,170)</u>	<u>(5,375,927)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Transfers (to) from certificates of deposit	1,043,129	(154,950)	888,179
Transfers from bond fund investments	2,428,612	76,816	2,505,428
Investment income	46,730	120,649	167,379
Net Cash Flows from Investing Activities	<u>3,518,471</u>	<u>42,515</u>	<u>3,560,986</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,035,931	43,887	1,079,818
<b>CASH AND CASH EQUIVALENTS</b>			
BEGINNING OF YEAR	<u>3,162,645</u>	<u>803,692</u>	<u>3,966,337</u>
END OF YEAR	<u>\$ 4,198,576</u>	<u>\$ 847,579</u>	<u>\$ 5,046,155</u>

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended December 31, 2008**

Page 2 of 2

	Business-Type Activities Enterprise Funds		Total
	Water	Wastewater	
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Operating income (loss)	\$ 253,772	\$ (207,744)	\$ 46,028
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	964,028	539,763	1,503,791
Allowance for bad debts	(6,257)	7,057	800
Changes in Assets and Liabilities			
(Increase) decrease in			
Accounts receivable	(57,271)	(22,166)	(79,437)
Other receivables		6,202	6,202
Inventory	61,778	3,377	65,155
Increase (decrease) in			
Accounts payable	261,475	70,872	332,347
Accrued liabilities	11,708	20,364	32,072
Deferred revenues	346,599	71,825	418,424
Total Adjustments	<u>1,582,060</u>	<u>697,294</u>	<u>2,279,354</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 1,835,832</u>	<u>\$ 489,550</u>	<u>\$ 2,325,382</u>
<b>NON-CASH INVESTING, CAPITAL AND NON-CAPITAL FINANCING ACTIVITIES</b>			
Contributed capital from other funds	<u>\$ 3,767,018</u>	<u>\$ 189,431</u>	<u>\$ 3,956,449</u>

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

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**1. Definition of Reporting Entity**

A decree signed by the District Court for the Sixth Judicial District of Colorado on March 28, 1977, authorized the formation of a new special district, Pagosa Area Water and Sanitation District (the District), as a successor to the old district, Pagosa Water and Sanitation District. The organizational meeting of the new district was held on April 28, 1977. A Board of Directors meeting, held on January 12, 1978, accepted the conveyance of all properties and liabilities of the old district as required for dissolution.

The District's combined 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 District does not have any component units.

**2. Summary of Significant Accounting Policies**

This summary of the Pagosa Area Water and Sanitation District's significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

**Government-Wide and Fund Financial Statements:**

*Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the District's financial activities.

*Basic Financial Statements:*

Government-wide financial statements consist of a statement of net assets and a statement of activities as well as reconciliations for these statements. These statements report all of the non-fiduciary activities of the primary government; no fiduciary funds nor component funds that are fiduciary in nature are included. Governmental activities are reported separately from business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues whereas business-type activities are normally supported by fees and charges for services and are usually intended by management to be financially self-sustaining.

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

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(Note 2 continued)

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are clearly identifiable with a specific program or function. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Revenues that are not classified as program revenues, including all taxes and other items, are presented as general revenues.

The effect of interfund activity has been removed from the government-wide financial statements.

Fund financial statements consist of a series of statements focusing on information about the District's major governmental and enterprise funds. Separate financial statements are presented for the governmental and the proprietary funds.

**Measurement Focus, Basis of Accounting and Basis of Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Only current assets and liabilities are included on the balance sheet, and the fund balance includes only spendable resources. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both "measurable and available." Measurable means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except for property taxes which have been levied to be collected in a subsequent year. Expenditures are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures are reported only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

The District has the following governmental funds:

General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Fund - The Special Revenue Fund accounts for revenue sources that are legally restricted to expenditures for specific purposes.

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

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(Note 2 continued)

Debt Service Fund - The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary funds.

Capital Projects Fund - The Capital Projects Fund accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary funds.

Proprietary Funds reported by the District are as follows:

Enterprise Funds - Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, which are considered operating revenues. Non-operating revenues consist of charges to customers which are used to fund capital improvements. The District's two enterprise funds are the Wastewater Fund and the Water Fund.

The District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, in accounting and reporting for its proprietary operations.

**Cash and Cash Equivalents:**

The District's cash and cash equivalents include amounts that are readily convertible to known amounts of cash, are not subject to significant risk from changes in interest rates, and have a maturity of three months or less from the date of acquisition. For cash and cash equivalents, the market value approximates the carrying value. Cash and cash equivalents for purposes of the cash flow statement for the Proprietary Funds, include cash in operating accounts, money market funds, and unrestricted cash in COLOTRUST.

The District's investment policy, in accordance with Colorado law, authorizes investment in obligations of the U. S. Treasury, State of Colorado, Colorado county and school districts, repurchase agreements, financial institutions and local government investment pools. State statutes prohibit investments with a stated maturity date greater than five years, unless allowed by District Charter.

Deposits are stated at cost which approximates fair value.

Investments are stated at fair value. Any differences between the market value and cost of investments are reflected in investment income.

**Receivables and Payables:**

All outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2008**

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(Note 2 continued)

The District has substantial delinquent trade receivables. Options available to the District to collect delinquent accounts are disconnection, lien on property, foreclosure, and litigation. Special districts have an automatic lien that is perpetual. Also, Senate Bill 79 substantially adds to the powers of a special district, where delinquent fees can be certified to the county treasurer and collected with property taxes. In November of 2008, the District certified accounts for \$61,542 with the county treasurer for 2009 collection. The District was first allowed to certify accounts for collection in 1990. The total outstanding certified accounts due at December 31, 2008, were \$62,479. The District has also established a reserve for uncollectibles for any accounts not collectible under any of the above alternatives. The reserves at December 31, 2008, were \$39,895 for the Water Fund, and \$23,567 for the Wastewater Fund.

Receivables for tap fees are not expected to be collected within a year of billing. Payment schedules for these fees vary. Tap fees owed the District at December 31, 2008 are reported in the Proprietary Fund Types. Unbilled tap fees are recorded as receivables with an offset to deferred revenues.

Property tax billings are considered past due after June 16 of each year, at which time the applicable property is subject to lien, and penalties and interest are assessed. An allowance for uncollectible taxes has been estimated in the General Fund based on twenty percent of the total delinquent taxes as of December 31. The allowance at December 31, 2008 was \$22,178.

**Inventories:**

Inventories of supplies and materials are valued at the lower of cost or market, using the first in, first out method.

The costs of inventories in governmental fund types are recorded as expenditures when consumed rather than when purchased.

**Prepaid Items:**

Payments made for services that will benefit periods beyond the end of the current year are recorded as prepaid items.

**Restricted Assets:**

Certain assets are classified as restricted on the balance sheet because their use is limited.

Assets restricted for debt service are accumulated for the purpose of retiring bond principal and interest.

Assets restricted for construction are used to fund construction projects and purchase fixed assets.

Restricted resources are used to first to fund appropriations for which both restricted and unrestricted net assets are available.