

Pagosa Area Water and Sanitation District

Financial Statements

December 31, 2018

Pagosa Area Water and Sanitation District
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rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

Board of Directors
Pagosa Area Water and Sanitation District

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Pagosa Area Water and Sanitation District (the "District"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 District, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages ii-x and page 34, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

rfarmer, llc

June 6, 2019

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, 2018.

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, 2018. 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 positions total \$77,409,320; this is an increase of \$1,259,571 from the previous year.
2. Operating expenses of \$8,656,118 exceeded operating revenues of \$7,429,247 by \$1,226,871
3. General revenues total \$2,486,442.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic 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 Position* (see page 3) presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* (see page 4) presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 (beginning on page 5). 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 two governmental funds: the General Fund and Debt Service Fund. The District considers both 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 Position*, a *Statement of Revenues, Expenses and Changes in Fund Net Position*, and a *Statement of Cash Flows* (beginning on page 9).

The *Statement of Net Position* presents information on the assets and liabilities of the District's enterprise funds, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position* 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 position for the fiscal year. That change combined with the net position at the end of the previous year total to the net position 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 as Required Supplementary Information in the audited financial statements; budget comparisons for the 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 Basic 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 basic financial statements can be found on pages 13 to 33 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 2018, the District completed several construction projects and ended the year with work-in-progress carry over amounts in both of the enterprise funds. As planned, this had the effect of reducing reserves. The District expended \$304,385 in 2018 on water projects and \$160,155 on wastewater projects.

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 \$9,102,344 of which \$2,938,465 is designated for future construction projects and debt retirement.

Day-to-Day Operational Control of the District

For operational control, the District had 4 funds during 2018: the General 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 \$500,000 was transferred to other funds. The major sources of revenue are monies collected for property taxes and specific ownership taxes. In 2018, the General Fund collected \$1,074,659. There was a \$4,527 decrease in fund balance over the previous year. Transfers to the Water and Wastewater Enterprise Funds have been reduced or will remain

constant to preserve this fund balance in light of the District's election on a referred measure. On May 3, 2016 District voters passed a measure to subject the revenue, collection and spending limits under Article X, Section 20 of the Colorado Constitution (otherwise known as the Taxpayers Bill of Rights) by repealing the ballot issue approved by District voters on May 2, 2000. This action will impact the General Fund by limiting tax revenue while it is not anticipated that General Fund expenses, other than the amount available for transfer to other funds, can be reduced. The ending fund balance in the General Fund at December 31, 2018, was \$961,045 of this amount, \$33,028 is set aside as a reserve (see note 14 on page 30 of the financial statements). Non spendable prepaids and inventories are \$17,601 and the remaining balance of \$910,416 is undesignated.

The Debt Service Fund records the collection of property taxes for debt service payments on general obligation bonds. In 2018, property taxes collected for debt service were \$1,152,525; \$965,000 was paid in principal payments and \$149,204 was paid for interest. The 2018 fund balance for the Debt Service Fund increased by \$17,567 from 2017. The Debt Service Fund balance at the end of 2018 was \$39,015.

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 Net Position of \$364,054 for 2018. Of this amount, the operating loss was (\$114,829); non-operating revenues and expenses have a surplus of \$145,768; and \$336,115 was supplied from transfers and a loss on asset disposal. The transfers from the General Fund of \$340,000 are cash additions. At the end of 2018, the Water Fund had a net position of \$53,746,727. Of this amount, \$47,165,654 is invested in capital assets, net of related debt and is not available for future appropriations and \$6,581,073 is unrestricted.

The Wastewater Fund had a decrease in Net Position of \$81,788 for 2018. Of this amount, operating loss was (\$291,835); non-operating revenues and expenses contributed \$182,579; and \$27,468 was from transfers and a loss on asset disposal. The transfers from the General Fund of \$160,000 are cash additions. At the end of 2018, the Wastewater Fund has a net position of \$26,466,273. Of this amount \$20,935,983 is invested in capital assets, net of related debt and is not available for future appropriations and \$5,530,290 is unrestricted.

Capital projects, including infrastructure and equipment purchases, are funded from a variety of operating and non-operating revenues including bond proceeds and Capital Investment Fees. The District is consciously trying to building reserves sufficient to handle most of the infrastructure expenses that are anticipated in the next ten years.

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

Condensed Statement of Net Position

A Condensed Statement of Net Position for 2018 and 2017 is shown in Table A on page VI. The District's net position (the difference between assets and liabilities) is one way to measure the financial health of the District. Increases or decreases in the District's net positions 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.

Net positions have increased by \$1,259,571 as a result of operations. The table also shows total restricted assets of \$5,452,649 of this amount \$2,938,465 is designated for future water and wastewater treatment, distribution and collection related capital projects that are projected to total approximately \$20,673,300. It is estimated that another \$17,773,850 will be needed to address water and wastewater system needs over the next 10 years; however, that number may undergo substantial revision as a result of changing conditions or regulations in the industry. A revised Capital Improvements Plan was completed in 2018. As of December 31, 2018, governmental activities show a deficit in unrestricted net position of (\$2,803,668), which is an decrease in the deficit from 2017. The deficit is not an area of concern to the District, because this is a planned deficit 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. Net Positions in the business-type activities indicate that \$12,111,361 is unrestricted and available for future appropriations. This is an increase from the prior year. Net position invested in capital assets, net of related debt, of \$68,101,637 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 A: Condensed Statement of Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017
Current assets	1,846,324	1,838,012	5,716,376	5,107,156	7,562,700	6,945,168
Restricted assets	1,217,421	1,195,560	4,235,228	3,026,717	5,452,649	4,222,277
Capital assets	441,124	466,915	91,767,841	94,691,162	92,208,965	95,158,077
Total assets	3,504,869	3,500,487	101,719,445	102,825,035	105,224,314	106,325,522
Current liabilities	1,058,024	1,029,254	1,723,218	1,642,485	2,781,242	2,671,739
Long-term debt outstanding	3,239,831	4,253,538	19,783,229	21,251,817	23,023,060	25,505,355
Total liabilities	4,297,855	5,282,792	21,506,447	22,894,302	25,804,302	28,177,094
Deferred cash in-flows	2,010,682	-	-	-	2,010,682	-
Net position:						
Invested in capital assets net of related debt	441,124	466,915	68,101,637	69,505,461	68,542,761	69,972,376
Restricted	54,476	53,422	-	-	54,476	53,422
Unrestricted	(3,299,268)	(4,301,311)	12,111,361	10,425,272	8,812,093	6,123,961
Total net position	(2,803,668)	(3,780,974)	80,212,998	79,930,733	77,409,330	76,149,759

Condensed Statement of Revenues, Expenses and Changes in Net Position

A Condensed Statement of Revenues, Expenses and Changes in Net Position are shown in Table B detailing the revenues, expenses, and changes in net positions for 2018 and 2017. An examination of Table B for 2018 shows that the District's change in net positions in the business-type activities is \$282,265; this is an increase from the prior year. Net income before contributions and transfers increased by \$661,898; contributions and transfers decreased by \$48,000. The business-type activities show an operating loss of (\$435,092) for 2018. The business-type activities use transfers from the General Fund to partially meet their operating needs in the amount of \$500,000 in 2018. The operating loss has decreased \$731,022 from that of 2017 due to service rate revenues increasing under the extreme drought conditions in 2018 and a decrease in operating expenses.

The governmental funds use property taxes levied for general purposes to meet operating needs. Governmental activities show an increase in net positions of \$977,306.

Table B: Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2018	2017	2018	2017	2018	2017
Charges for services	-	-	7,429,247	7,126,030	7,429,247	7,126,030
Total operating expenses	791,779	722,025	7,864,339	8,292,144	8,656,118	9,014,169
Operating income (loss)	(791,779)	(722,025)	(435,092)	(1,166,114)	(1,226,871)	(1,888,139)
General revenues						
Property taxes & specific ownership taxes	2,227,184	2,214,958	-	-	2,227,184	2,214,958
Gain (loss) on asset disposal	-	-	(139,417)	5,317	(139,417)	5,317
Investment earnings and miscellaneous	41,901	42,245	356,774	281,164	398,675	323,409
General revenues	2,269,085	2,257,203	217,357	286,481	2,486,442	2,543,684
Net income before contributions & transfers	1,477,306	1,535,178	(217,735)	(879,633)	1,259,571	655,545
Capital contributions						
Donated Assets	-	-	-	-	-	-
Transfers:						
Construction projects	-	-	-	-	-	-
General Fund	(500,000)	(548,000)	500,000	548,000	-	-
Debt Service Fund	-	-	-	-	-	-
Special Revenue Fund	-	-	-	-	-	-
Change in net position	977,306	987,178	282,265	(331,633)	1,259,571	655,545
Beginning net position	(3,780,974)	(2,784,588)	79,930,733	80,262,364	76,149,759	77,477,776
Rounding and/or adjustment	-	(1,983,564)	-	2	-	(1,983,562)
Beginning net assets as corrected	(3,780,974)	(4,768,152)	79,930,733	80,262,366	76,149,759	75,494,214
Ending net position	(2,803,668)	(3,780,974)	80,212,998	79,930,733	77,409,330	76,149,759

BUDGETARY HIGHLIGHTS

Pagosa Area Water and Sanitation District did not amend its budget in 2018.

The schedules of revenues and expenses, actual compared to final budget, for the General Fund are included in the required supplementary information. As of the amended budget the General Fund budgeted to spend \$1,154,738 and actually spent \$1,107,147.

Budgets for the other governmental fund, the 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 2018, the District invested \$464,540 in capital projects. Capital projects that were substantially completed in 2018 were:

- Engineering for the ultra violet disinfection at the San Juan Water Treatment Plant
- Rerouting and Elimination of Lift Stations 17 & 18
- Installation of a roof over the ultra violet disinfection at the Vista Wastewater Treatment Plant
- SCADA system upgrade at Vista Wastewater Treatment Plant

The following projects were Capital projects still in process at the end of 2018:

- Excavation and outside work for installation of UV system at SJWTP
- Upgrades to the SCADA systems

At the conclusion of 2018, the District's outstanding debt was \$25,246,783 for various bond and loan issues. The District has drawn all authorized financings. These financings were incurred for the following construction 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

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 2019. Projected user fees, growth, and Capital Investment Fees are all evaluated and considered before a final budget is adopted. The 2019 budget also attempts to project new expenses associated with operating new treatment plant processes and systems. These expenses are reconciled to projected revenues. Initial estimates shows the following additional operating increases (decreases) are anticipated for the 2019 budget year.

The General Fund has budgeted \$1,117,436; this is an increase of \$10,289 over 2018 expenditures.

The Debt Service Fund has budgeted \$1,182,826; this is an increase of \$33,928 over the 2018 expenditures.

The Water Fund has budgeted \$5,922,874; this is an increase of \$1,506,077 from the 2018 expenditures. This increase is primarily due to the installation of a UV treatment system at the San Juan Water Treatment plant and an increased allowance for water line replacement in 2019.

The Wastewater Fund has budgeted \$2,434,229; this is an increase of \$230,255 from the 2018 expenditures. This increase is primarily due to increased allowances for wastewater line maintenance.

Capital projects which are scheduled for 2019 are as follows:

- Installation of UV disinfection system for the San Juan Water Treatment Plant
- Replacement of Log Park Water Storage Tank
- Lift Station 13 upgrade
- Transitioning the SCADA Radio System to Ethernet
- Asphalt for Mill Creek fill station
- Hatcher water tank stand-by power building and fencing
- Installation of master meters at Lakeside Estates and Pines 3 Condominiums

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 Justin Ramsey, Manager of the Pagosa Area Water and Sanitation District at 100 Lyn Avenue, Pagosa Springs, CO.

Basic Financial Statements

Pagosa Area Water and Sanitation District
Statement of Net Position
December 31, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 976,360	\$ 5,034,273	\$ 6,010,633
Receivables	994,964	557,103	1,552,067
Internal Balances	(125,000)	125,000	-
Inventories	-	630,409	630,409
Non-Current Assets:			
Cash	39,014	3,052,697	3,091,711
Customer accounts receivable, net	-	493,829	493,829
Taxes receivable, current	1,160,806	-	1,160,806
Prepaid Expenses	17,601	58,293	75,894
Capital assets, net of accumulated depreciation	441,124	79,589,628	80,030,752
Construction in progress	-	224,447	224,447
Due from other governments	-	2,579,418	2,579,418
Other assets	-	9,374,348	9,374,348
Total Non-Current Assets	<u>1,658,545</u>	<u>95,372,660</u>	<u>97,031,205</u>
Total Assets	<u>3,504,869</u>	<u>101,719,445</u>	<u>105,224,314</u>
LIABILITIES			
Accounts payable and accrued expenses	31,448	125,065	156,513
Personal Time Off and retirement	21,555	75,086	96,641
Unearned revenues	-	75,867	75,867
Long-term liabilities			
Due within one year:			
Bonds and loans payable	995,000	1,425,315	2,420,315
Accrued interest	10,021	21,885	31,906
Due in more than one year:			
Bonds and loans payable	3,165,000	19,661,474	22,826,474
Bond premium net of discount	74,831	121,755	196,586
Total liabilities	<u>4,297,855</u>	<u>21,506,447</u>	<u>25,804,302</u>
Deferred Cash In-Flows:			
Deferred Property Taxes	<u>2,010,682</u>	<u>-</u>	<u>2,010,682</u>
NET POSITION			
Net investment in capital assets	441,124	68,101,637	68,542,761
Restricted for:			
Debt Service	21,448	-	21,448
TABOR	33,028	-	33,028
Unrestricted	(3,299,268)	12,111,361	8,812,093
Total net position	<u>\$ (2,803,668)</u>	<u>\$ 80,212,998</u>	<u>\$ 77,409,330</u>

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

Pagosa Area Water and Sanitation District
Statement of Activities
For the Year Ended December 31, 2018

	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Primary Government				Primary Government		
<u>Functions/Programs</u>	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 661,282	\$ -	\$ -	\$ -	\$ (661,282)	\$ -	\$ (661,282)
Interest on Long-term debt	130,497	-	-	-	(130,497)	-	(130,497)
Total governmental activities	791,779	-	-	-	(791,779)	-	(791,779)
Business-type activities:							
Water	5,307,200	5,087,686	-	-	-	(219,514)	(219,514)
Wastewater	2,557,139	2,341,561	-	-	-	(215,578)	(215,578)
Total business-type activities	7,864,339	7,429,247	-	-	-	(435,092)	(435,092)
Total primary government	8,656,118	7,429,247	-	-	(791,779)	(435,092)	(1,226,871)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 842,003	\$ -	\$ 842,003
Property taxes, levied for debt service					1,152,525	-	1,152,525
Specific ownership taxes					232,656	-	232,656
Unrestricted investment earnings					34,964	227,993	262,957
Miscellaneous					6,937	128,781	135,718
Special item - gain (loss) on sale of assets					-	(139,417)	(139,417)
Transfers					(500,000)	500,000	-
Total general revenues, special items, and transfers					1,769,085	717,357	2,486,442
Change in net position					977,306	282,265	1,259,571
Net position - beginning					(3,780,974)	79,930,733	76,149,759
Net position - ending					\$ (2,803,668)	\$ 80,212,998	\$ 77,409,330

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

Pagosa Area Water and Sanitation District
Balance Sheet
Governmental Funds
December 31, 2018

	<u>General Fund</u>	<u>Debt Services Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 976,359	\$ -	\$ 976,359
Taxes receivable, net	849,876	-	849,876
Taxes receivable, delinquent	145,088	-	145,088
Prepaid Expenses	17,601	-	17,601
Restricted Assets:			
Cash	-	39,015	39,015
Receivables, net	-	1,160,806	1,160,806
Total assets	<u>1,988,924</u>	<u>1,199,821</u>	<u>3,188,745</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	31,448	-	31,448
Due to other funds	125,000	-	125,000
Accrued vacation and retirement	21,555	-	21,555
Total liabilities	<u>178,003</u>	<u>-</u>	<u>178,003</u>
Deferred Cash In-Flows:			
Deferred property taxes	<u>849,876</u>	<u>1,160,806</u>	<u>2,010,682</u>
Fund balances:			
Non spendable prepaid expense	17,601	-	17,601
Restricted - TABOR	33,028	-	33,028
Unassigned	910,416	-	910,416
Restricted	-	39,015	39,015
Total fund balances	<u>961,045</u>	<u>39,015</u>	<u>1,000,060</u>
Total liabilities and fund balances	<u>\$ 1,988,924</u>	<u>\$ 1,199,821</u>	<u>\$ 3,188,745</u>

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

Pagosa Area Water and Sanitation District
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2018

Total fund balance, governmental funds	\$	1,000,060
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.		441,124
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Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		(4,234,831)
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Accrued interest on GO Bonds		(10,021)
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Net Assets of Governmental Activities in the Statement of Net Position	\$	(2,803,668)
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The accompanying notes to financial statements
are an integral part of these statements.

Pagosa Area Water and Sanitation District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Debt Services Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ 842,003	\$ 1,152,525	\$ 1,994,528
SO Tax	232,656	-	232,656
Investment earnings	21,024	13,940	34,964
Miscellaneous	6,937	-	6,937
Total revenues	<u>1,102,620</u>	<u>1,166,465</u>	<u>2,269,085</u>
EXPENDITURES			
Current:			
Audit and compilation	24,276	-	24,276
Board expense	1,823	-	1,823
Dues and permits	15,288	-	15,288
Employee expense	4,141	-	4,141
Treasurers fees	26,010	34,694	60,704
Fringe benefits	62,618	-	62,618
Insurance general	9,080	-	9,080
Legal fees	2,682	-	2,682
Office expense	31,761	-	31,761
Office maintenance and landscape	19,252	-	19,252
Outside services	62,457	-	62,457
Payroll taxes, vacation and sick pay	25,138	-	25,138
Personnel	290,946	-	290,946
Publications and recording fees	1,322	-	1,322
Repairs and maintenance	3,344	-	3,344
Telephone and utilities	21,157	-	21,157
Travel and training	5,852	-	5,852
Debt Service:			
Principal	-	965,000	965,000
Interest expense	-	149,204	149,204
Total Expenditures	<u>607,147</u>	<u>1,148,898</u>	<u>1,756,045</u>
Excess (deficiency) of revenues over expenditures	<u>495,473</u>	<u>17,567</u>	<u>513,040</u>
OTHER FINANCING SOURCES			
Transfers out	(500,000)	-	(500,000)
Total other financing sources and uses	<u>(500,000)</u>	<u>-</u>	<u>(500,000)</u>
SPECIAL ITEM			
Net change in fund balances	(4,527)	17,567	13,040
Fund balances - beginning	965,572	21,448	987,020
Fund balances - ending	<u>\$ 961,045</u>	<u>\$ 39,015</u>	<u>\$ 1,000,060</u>

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

Pagosa Area Water and Sanitation District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2018

Net change in fund balances - total governmental funds:	\$	13,040
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Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlay of \$0 was less than depreciation of \$25,791 in the current period.		(25,791)
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Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceeded proceeds.		965,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Amortization of bond premium and change in accrued interest payable		25,057

Change in net position of governmental activities	\$	977,306
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The accompanying notes to financial statements
are an integral part of these statements.

Pagosa Area Water and Sanitation District
Statement of Net Position
Proprietary Funds
December 31, 2018

	Enterprise Funds		
	Water Fund	Wastewater Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,376,943	\$ 1,657,330	\$ 5,034,273
Accounts receivable, net	315,111	241,992	557,103
Due from other funds	85,000	40,000	125,000
Inventories	606,746	23,663	630,409
Total current assets	4,383,800	1,962,985	6,346,785
Non-current assets:			
Restricted for capital projects and debt service			
Cash	2,157,824	894,874	3,052,698
Customer accounts receivable, net	280,378	213,451	493,829
Prepaid expenses	58,293	-	58,293
Utility system, net of accumulated depreciation	53,929,644	25,659,986	79,589,630
Construction in progress	140,607	83,840	224,447
Due from other governments	-	2,579,418	2,579,418
Other assets	9,374,348	-	9,374,348
Total non-current assets	65,941,094	29,431,569	95,372,663
Total assets	70,324,894	31,394,554	101,719,448
LIABILITIES			
Current Liabilities:			
Accounts payable	52,264	72,801	125,065
Other accrued expenses	71,042	25,930	96,972
Unearned revenue	54,160	21,707	75,867
Bonds and loans payable, current portion	1,024,661	400,654	1,425,315
Total current liabilities	1,202,127	521,092	1,723,219
Non-current liabilities:			
Bond premiums net of discount	121,755	-	121,755
Bonds and loans payable	15,254,284	4,407,189	19,661,473
Total non-current liabilities	15,376,039	4,407,189	19,783,228
Total liabilities	16,578,166	4,928,281	21,506,447
NET POSITION			
Net investment in capital assets	47,165,654	20,935,983	68,101,637
Unrestricted	6,581,073	5,530,290	12,111,363
Total net position	\$ 53,746,727	\$ 26,466,273	\$ 80,213,000

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

Pagosa Area Water and Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended December 31, 2018

	Enterprise Fund		
	Water Fund	Wasterwater Fund	Total
REVENUES			
Charges for services	\$ 3,720,542	\$ 1,714,240	\$ 5,434,782
Availability charges	408,215	265,990	674,205
Customer hookups	207,580	29,180	236,760
Late charges	12,997	2,246	15,243
Other operating revenues	280,459	248,513	528,972
Total operating revenues	<u>4,629,793</u>	<u>2,260,169</u>	<u>6,889,962</u>
OPERATING EXPENSES			
Source of Supply	579,350	-	579,350
Treatment	1,950,476	1,006,198	2,956,674
Administrative and general	621,301	315,114	936,415
Maintenance department	124,179	58,964	183,143
Distribution and collection	1,469,316	1,171,728	2,641,044
Total Operating Expenses	<u>4,744,622</u>	<u>2,552,004</u>	<u>7,296,626</u>
Operating income (loss)	<u>(114,829)</u>	<u>(291,835)</u>	<u>(406,664)</u>
NON-OPERATING REVENUES (EXPENSES)			
System investment fees	547,880	81,393	629,273
Interest income on delinquent taxes	5,978	-	5,978
Other interest and investment income	102,696	106,321	209,017
Capital expenditures	(186,600)	(5,135)	(191,735)
Interest expense	(374,984)	-	(374,984)
Bond discount and issue costs, net of bond premium	50,798	-	50,798
Total non-operating revenue (expenses)	<u>145,768</u>	<u>182,579</u>	<u>328,347</u>
Income (loss) before contributions and transfers	30,939	(109,256)	(78,317)
Transfers in	340,000	160,000	500,000
Gain (loss) on asset disposal	(6,885)	(132,532)	(139,417)
Change in net position	364,054	(81,788)	282,266
Total net position - beginning	53,382,673	26,548,061	79,930,734
Total net position - ending	<u>\$ 53,746,727</u>	<u>\$ 26,466,273</u>	<u>\$ 80,213,000</u>

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

Pagosa Area Water and Sanitation District
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2018

	Enterprise Fund		
	Water Fund	Wasterwater Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 4,687,565	\$ 2,295,087	\$ 6,982,652
Cash paid to suppliers	(1,698,540)	(1,257,054)	(2,955,594)
Cash paid for personnel costs	(1,008,500)	(382,468)	(1,390,968)
Net cash flows from Operating Activities	<u>1,980,525</u>	<u>655,565</u>	<u>2,636,090</u>
Cash flows from non-capital financing activities			
Transfers from other funds	340,000	160,000	500,000
Interest on delinquent taxes	<u>5,978</u>	<u>-</u>	<u>5,978</u>
Net cash flows from non-capital financing activities	<u>345,978</u>	<u>160,000</u>	<u>505,978</u>
Cash flows from capital and related financing activities			
System investment fees	547,880	81,393	629,273
Bond principal (payments)	(1,002,929)	(400,654)	(1,403,583)
Payment on bond interest	(374,984)	-	(374,984)
Capital assets acquired or constructed	(304,385)	(160,155)	(464,540)
Capital expenditures	<u>(186,600)</u>	<u>(5,135)</u>	<u>(191,735)</u>
Net cash flows from capital and financing activities	<u>(1,321,018)</u>	<u>(484,551)</u>	<u>(1,805,569)</u>
Cash flows from investing activities			
Payments received on due from other governments	-	115,912	115,912
Interest income	<u>102,696</u>	<u>106,321</u>	<u>209,017</u>
Net cash flows from investing activities	<u>102,696</u>	<u>222,233</u>	<u>324,929</u>
Net increase (decrease) in cash and cash equivalents	1,108,181	553,247	1,661,428
Beginning of year	<u>4,426,586</u>	<u>1,998,956</u>	<u>6,425,542</u>
End of year	<u>\$ 5,534,767</u>	<u>\$ 2,552,203</u>	<u>\$ 8,086,970</u>

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

Pagosa Area Water and Sanitation District
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2018

	Enterprise Fund		
	Water Fund	Wasterwater Fund	Total
Reconciliation of operating income (loss) to net cash flows from operating activities			
Operating income (loss)	\$ (114,829)	\$ (291,835)	\$ (406,664)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	2,129,783	885,267	3,015,050
Changes in assets and liabilities			
(Increase) decrease in:			
Accounts receivable	46,363	16,549	62,912
Inventory	(130,922)	(2,230)	(133,152)
Prepaid expenses	38,937	-	38,937
Increase (decrease) in:			
Accounts payable	(2,462)	25,878	23,416
Accrued liabilities	2,246	3,567	5,813
Unearned revenues	11,409	18,369	29,778
Net cash flows from operating activities	<u>\$ 1,980,525</u>	<u>\$ 655,565</u>	<u>\$ 2,636,090</u>

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

Pagosa Area Water and Sanitation District
Notes to Financial Statements
December 31, 2018

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.

During 2013, the Board decided not to further develop the Dry Gulch project. As a result, the costs incurred through 2013 were reclassified as held for sale. Due to changes in the notes payable and the possibility of future development, the asset was reclassified as Other assets. No depreciation is being taken on Other assets.

The governmental activities net position, unrestricted is a deficit of \$2,803,753. The deficit is a result of prior Boards electing to record assets purchased with general obligation bonds as assets in the utility funds that will utilize those assets. As a result, the Water and Wastewater funds recorded the assets and a contributed capital amount. Those Water and Wastewater funds are also depreciating the applicable assets.

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 for the current year.

Basic Financial Statements:

Government-wide financial statements consist of a statement of net position 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; neither 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.

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 enterprise 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. The main source of revenues is from property taxes.

Debt Service Fund - The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary funds. The main source of revenues is from property taxes.

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, and interest and other investment income. The District's two enterprise funds are the Water Fund and the Wastewater Fund.

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 and balances in COLOTRUST.

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. As of year-end, any differences are considered immaterial.

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.

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. In addition, 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. The District was first allowed to certify accounts for collection in 1990. Beginning in 2012, the District began using Colorado Central Collection Services for delinquent accounts that had not been previously "certified" to the County Treasurer for collection with property taxes. Each year, additional fees were added to the accounts that had been previously "certified" with the County. In 2017, Archuleta County Treasurer refused to accept additional certifications to those accounts. The District now utilizes Colorado Central Collection Services exclusively to collect on delinquent accounts. 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, 2018, were \$323,346 for the Water Fund and \$378,130 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 year-end are reported in the Proprietary Fund Types. Receivables for tap fees are part of non-current assets, customer accounts receivable.

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 year-end was \$36,272.

Inventories:

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

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.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. water and wastewater lines), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Assets capitalized have an original cost of \$5,000 or more and are expected to last longer than three years. Such assets are stated at cost, except for donated assets, which are stated at their fair market value at the time of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed.

Depreciation of all exhaustible capital assets except infrastructure is charged as an expense against their operations or functions, whereas the infrastructure depreciation is unallocated. Property, plant, and equipment in the primary government is depreciated using the straight-line method over the estimated useful lives as follows:

	Estimated Useful Lives in Years
Source of supply	10 - 50
Water Treatment Plants	30 - 50
Sewage treatment plants	30 - 50
Collection, transmission and distribution system	30 - 50
Buildings	40 - 50
General equipment	5 - 10
Transportation equipment	5 - 10
Computer software	3 - 5

Personal Time Off and Retirement:

Personal Time Off (PTO) is earned and credited at the beginning of the first two pay periods of each month. Regular employees accrue PTO based on their length of continuous employment. During the first year of employment an employee earns 14 days annually with an accrual cap of 112 hours or 14 days. Upon completion of the first year of employment an employee earns 19 days annually with an accrual cap of 304 hours or 38 days. Upon completion of the fifth year of employment, an employee earns 24 days annually with an accrual cap of 384 hours or 48 days. Upon completion of tenth year of employment, an employee earns 29 days with an accrual cap of 464 hours or 59 days.

Employees who do not use their annual accrual of PTO time can carry it over from one year to the next until the employee reaches two (2) times the annual entitlement. Once the PTO balance reaches the accrual cap, accrual ceases until the balance has been reduced.

Instead of taking PTO, an employee can elect to be paid for up to 40 hours of PTO in any one year.

The amount of accrued PTO and retirement as of December 31, 2018 was \$96,641, with each fund recording their respective amount.

Long-Term Debt:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities fund. Long-term debt and other long-term liabilities are also reported as liabilities in the proprietary fund type statement of net position. Debt premiums or discounts are deferred and amortized over the life of the bonds using the bonds-outstanding method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures in the year the debt is issued.

Net Position/Fund Balances:

The difference between assets and liabilities is “Net Position” on the government-wide and proprietary fund financial statements and “Fund Balance” on the governmental fund financial statements. Net position is divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net positions are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

The District has implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” In the fund financial statements, the following classifications describe the relative strength of spending constraints.

Non-Spendable Fund Balance – The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory and prepaid amounts) or is legally or contractually required to be maintained intact.

Restricted Fund Balance – The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions, or enabling legislation.

Committed Fund Balance – The portion of fund balance constrained for specific purposes according to the limitations imposed by the District's highest level of decision-making authority, the Board of Directors, or other individuals authorized to assign funds to be used for a specific purpose. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

Assigned Fund Balance – The portion of fund balance set aside for planned or intended purposes but is neither restricted nor committed. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

Unassigned Fund Balance – The residual portion of fund balance that does not meet any of the above criteria. The District will only report a positive unassigned fund balance in the General Fund.

When both restricted and unrestricted fund balance are available for use, it is the District's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned and unassigned.

Property Taxes:

In the governmental fund financial statements property tax revenue is accounted for using the modified accrual basis of accounting. Property tax receivable is recognized on the levy or lien date. This receivable represents taxes certified by the county to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied in the governmental fund statements. In the government-wide financial statements, which are prepared using full accrual, the revenue is not deferred and is recognized in the current year financial statements.

The District's property taxes, levied by December 15, are due and payable in the subsequent calendar year. Assessed values are established by the county assessor. Property taxes attach as an enforceable lien on property as of January 1 of the year in which they are payable. The taxes are payable under two methods: 1) in full on or before April 30, or 2) one-half on or before February 28, and the remaining one-half on or before June 15. All unpaid taxes levied December 31, that are levied for collection in the subsequent calendar year, become delinquent June 16.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

3. **Deposits and Investments**

Deposits:

The Colorado Public Deposit Protection Act (PDPA) governs the District's cash deposits. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local government depositors as a group, with a market value at least equal to 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

The primary objective in priority order of investment activities shall be safety, liquidity, and yield.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District's policy requires all deposits to be held in PDPA approved financial institutions. At year-end, the District's deposits were not exposed to custodial credit risk. Deposits are collateralized with securities held by the financial institution, pledged in accordance with the PDPA.

Investments:

The District has invested in a local government investment pool, COLOTRUST. These investments are not subject to collateralization because they are not evidenced by physical securities.

At year-end, the District had the following investments:

	Fair Market Value
COLOTRUST	<u>\$ 8,766,404</u>

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. At year-end, the District's investments in COLOTRUST were rated AAAM by Standard & Poor's. They are regulated by the Colorado Division of Securities, and the District's position in the pool is the same as the value of the pool shares.

The District's investment policy is to apply the prudent person rule where investments are made as a prudent person would be expected to act. The District's investment policy limits investments in fixed income securities to U. S. Treasury Bills, Notes, and Bonds, certificates of deposit, commercial paper, money market funds and Colorado public investment pools. All investment must be made in accordance with Colorado Revised Statutes.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy is to manage this risk by investing in short term maturities.

4. Cash Flow Statement

For purposes of the cash flow statement in the proprietary fund types, cash and cash equivalents are shown below:

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Unrestricted Assets:			
Cash	\$ 3,376,943	\$ 1,657,329	\$ 5,034,272
Restricted Assets:			
Cash	2,157,824	894,874	3,052,698
Totals for Cash Flow Statement	<u>\$ 5,534,767</u>	<u>\$ 2,552,203</u>	<u>\$ 8,086,970</u>

5. Interfund Transactions

Transfers between funds represent the amounts used to offset allocations between assets and liabilities in any given year.

Operating transfers between funds during the year are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 500,000
Water Fund	340,000	-
Wastewater Fund	160,000	-
	<u>\$ 500,000</u>	<u>\$ 500,000</u>

All other transactions between funds represent “due to/from other funds” caused by cash from one fund paying for expenditures or expenses of another.

6. Commitments and Construction Work in Process

The District’s construction work in process, which is reported in the proprietary funds, consists primarily of work being done on water and wastewater lines. Construction costs that were added to construction work in process totaled \$283,187 during the year.

Each year the District has various on-going construction projects. The costs of these projects are recorded as current year expenditures in the appropriate enterprise fund. Interest revenues, interest expenses, and bond issuance expenses on these projects are recorded in the Debt Service Fund, the Water Fund, or the Wastewater Fund. At the end of the year, the expenses associated with each construction project are aggregated and recorded in the appropriate proprietary fund type. As the projects are completed, they are transferred into capital assets in either the Water Fund or the Wastewater Fund and depreciated over the asset’s estimated useful life.

The following is a summary of the construction work in process for each enterprise fund at year-end:

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Beginning balance	\$ 50,602	\$ 59,085	\$ 109,687
Additions	182,543	100,644	283,187
Less transfers to fixed assets	(92,538)	(75,889)	(168,427)
Ending balance	<u>\$ 140,607</u>	<u>\$ 83,840</u>	<u>\$ 224,447</u>

7. **Capital Assets**

Capital asset activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Land and improvements	\$ 113,056	\$ -	\$ -	\$ 113,056
Buildings	596,096	-	-	596,096
Capital equipment	217,651	-	-	217,651
Transportation equipment	76,287	-	-	76,287
Total	1,003,090	-	-	1,003,090
Less accumulated depreciation	(536,175)	(25,791)	-	(561,966)
Total Governmental Fixed Assets	<u>\$ 466,915</u>	<u>\$ (25,791)</u>	<u>\$ -</u>	<u>\$ 441,124</u>
	Beginning Balance	Additions	Deletions	Ending Balance
Business-Type Activities				
Water augmentation	\$ 217,639	\$ -	\$ -	\$ 217,639
Water rights	7,334,995	-	-	7,334,995
Source of supply	12,188,076	-	-	12,188,076
Land and improvements	460,640	-	-	460,640
Treatment plants	33,901,750	50,989	-	33,952,739
Collection, transmission and distribution systems	62,997,788	71,691	(267,180)	62,802,299
Buildings	518,820	-	-	518,820
Capital equipment	2,001,492	69,598	-	2,071,090
Transportation equipment	496,189	70,521	-	566,710
Total	120,117,389	262,799	(267,180)	120,113,008
Less accumulated depreciation	(37,605,592)	(3,015,050)	97,264	(40,523,378)
Total Business-Type Fixed Assets	<u>\$ 82,511,797</u>	<u>\$ (2,752,251)</u>	<u>\$ (169,916)</u>	<u>\$ 79,589,630</u>

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities	
Administrative services	<u>\$ 25,791</u>
Business-Type Activities	
Water	\$ 2,129,783
Wastewater	<u>885,267</u>
Total Depreciation Expense	<u>\$ 3,015,050</u>

8. **Accounts Payable, Accrued Liabilities and Unearned Revenues**

Accounts Payable as shown on the District's financial statements reflect amounts due to vendors for services rendered or goods purchased by year-end.

Accrued expenses consist of payroll tax liabilities, accrued personal time off, and other miscellaneous amounts due on behalf of employees.

Unearned revenues consist of capital investment fees and connection charges collected in advance for construction of residences or commercial buildings being completed.

9. **Long-Term Liabilities**

Governmental Activities:

The District issues general obligation bonds to provide for the acquisition, development, and construction of major water and wastewater projects. All general obligation bonds are collateralized by the full faith, credit and taxing power of the District and principal and interest requirements are appropriated by the Debt Service Fund when due. Long-term liabilities for the general obligation bonds are recorded as long-term debt in the government-wide statements.

During 2012, the District issued two refunding bonds, General Obligation Refunding Bonds, District Series 2012 and General Obligation Refunding Bonds, Sub-District Series 2012. Terms of repayments call for annual principle payments due December 1 and semi-annual interest payments due June 1 and December 1. The bonds are considered general obligation debt of the District payable from ad valorem taxes within the District or from other legally available moneys as set forth in the official statements dated March 27, 2012.

Repayments on General Obligation Refunding Bonds, District Series 2012 are as follows:

	Principle	Interest	Total
2019	\$ 665,000	\$ 78,960	\$ 743,960
2020	685,000	59,010	744,010
2021	700,000	41,200	741,200
2022	720,000	21,600	741,600
Total	\$ 2,770,000	\$ 200,770	\$ 2,970,770

Repayments on General Obligation Refunding Bonds, Sub-District Series 2012 are as follows:

	Principle	Interest	Total
2019	\$ 330,000	\$ 41,294	\$ 371,294
2020	345,000	31,394	376,394
2021	350,000	21,906	371,906
2022	365,000	11,406	376,406
Total	\$ 1,390,000	\$ 106,000	\$ 1,496,000

Business-Type Activities:

Revenue bonds are issued by the proprietary type funds to finance specific projects and are payable from availability of service charges revenues and other revenues derived from operations. Long-term liabilities are recorded in the appropriate enterprise fund.

Water Enterprise Revenue Refunding Bonds, Series 2015

The bonds are revenue obligations of the District, acting by and through its Water Activity Enterprise, payable out of Adjusted Net Revenue derived from the District's water and wastewater systems. The bonds constitute an irrevocable and first lien on Adjusted Net Revenue, but not an exclusive lien. The bonds do not constitute a debt or indebtedness within the meaning of any constitutional or statutory debt limitation or provision and are not payable in whole or in part from the proceeds of ad valorem property taxes.

The bonds are not subject to redemption prior to maturity.

Proceeds from the sale of the bonds, together with legally available moneys of the District, will be used to refund a portion of the District's outstanding revenue bonds and pay the costs of issuance of the bonds.

Interest is due on June 1 and December 1 of each year. Principle payments are due December 1 of each year.

Repayments on Water Enterprise Revenue Refunding Bonds, Series 2015 are as follows:

Calendar Year	Principal Maturities	Interest Rate	Interest Payments	Annual Debt Service Requirements
2019	\$ 450,000	3.00%	\$ 102,150	\$ 552,150
2020	475,000	3.00%	88,650	563,650
2021	480,000	3.00%	74,400	554,400
2022	490,000	4.00%	60,000	550,000
2023	515,000	4.00%	40,400	555,400
2024	495,000	4.00%	19,800	514,800
	<u>\$2,905,000</u>		<u>\$ 385,400</u>	<u>\$3,290,400</u>

Drinking Water Revenue Bond – Series 2008

On June 1, 2008, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (the Authority) for \$7,158,870 to finance the costs of drinking water facilities for the District. The Authority was created to initiate, acquire, construct, maintain, repair and operate or cause to be operated water management projects, which include water facilities, and to issue its bonds to pay the cost of such projects.

The bonds are special revenue obligations of the District, acting by and through its Water Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

The note is issued as a fully registered note without coupons. Interest, administrative fees, and principal are payable semiannually on each June 1 and December 1, commencing December 1, 2008.

The amount currently outstanding on this note is as follows:

Calendar Year	Principal Maturities	Interest Rate	Interest Payments	Servicing Fee	Debt Service Requirements
2019	\$ 380,612	4.00%	\$ 92,683	\$ 89,486	\$ 562,781
2020	372,216	4.00%	86,063	89,486	547,765
2021	389,008	4.25%	79,528	89,486	558,022
2022	400,202	4.00%	73,068	89,486	562,756
2023	400,203	4.00%	66,633	89,486	556,322
2024-2028	3,319,163	4.00%-4.25%	219,964	377,630	3,916,757
	<u>\$ 5,261,404</u>		<u>\$ 617,939</u>	<u>\$ 825,060</u>	<u>\$ 6,704,403</u>

Colorado Water Conservation Board – Dry Gulch Reservoir Project

On July 21, 2008, the District entered into a loan agreement with Colorado Water Conservation Board (CWCB) for \$11,217,000 to finance the costs of land acquisition for the Dry Gulch Reservoir Project. The CWCB is authorized to loan money for water projects from the CWCB Construction Fund for the benefit of the people of Colorado, provided that the borrower (Pagosa Area Water and Sanitation District) assures repayment of that money.

The note is a special revenue obligation of the District, acting by and through its Water Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

During 2015 the District and CWCB agreed to restructure the December 31, 2014 outstanding loan balance of \$8,855,935. The new agreement separates the \$8,855,930 into two separate loans. The original amount of Loan A was \$4,290,930, bears interest at 1.75% and is for 20 years with annual payments of \$256,130, which includes principle and interest. Loan B is in the amount of \$4,565,000, bears interest at 3.5% and is for 20 years with annual payments of \$321,198 with the first payment due October 1, 2035. The interest to be paid on Loan B will not begin accruing until October 1, 2034, when Loan A is paid in full.

The amount currently outstanding on Loan A is as follows:

Calendar Year	Principal Maturities	Interest Rate	Interest Payments	Annual Debt Service Requirements
2019	\$ 194,049	1.75%	\$ 62,081	\$ 256,130
2020	197,445	1.75%	58,685	256,130
2021	200,900	1.75%	55,230	256,130
2022	204,416	1.75%	51,714	256,130
2023	207,993	1.75%	48,137	256,130
2024-2028	1,095,853	1.75%	184,797	1,280,650
2029-2033	1,195,160	1.75%	85,495	1,280,655
2034	251,726	1.75%	4,405	256,131
	<u>\$ 3,547,542</u>		<u>\$ 550,544</u>	<u>\$ 4,098,086</u>

The District is also required to establish a debt service reserve account. The District is required to deposit one-tenth of an annual payment into its debt service reserve account on the due date of its first annual loan payment and annually thereafter for the first ten years of repayment of this loan.

The original agreement between the District and CWCB included a grant of \$1,000,000. As a result of restructuring the original loan as noted above, the grant will also be restructured. If the project, including any changes as approved by all parties, is not constructed within the 20-year term of Loan A, or an additional 1 to 20 years of Loan B, the \$1,000,000 grant will be restructured as a loan that will have to be repaid. Interest shall be at 3.5% with 20 annual payment of \$70,361, including principle and interest. It is the intent of the District to construct the project. As a result, the District will not record a note payable for the \$1,000,000.

2009 ARRA Loan Agreement

On September 4, 2009, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (CWRPDA) for \$6,111,224 to finance the costs of wastewater treatment projects. The CWRPDA is authorized to loan money from the Water Pollution Control Revolving Fund subject to certain terms and conditions.

The note is a special revenue obligation of the District, acting by and through its Water and Sewer Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

At the loan closing, CWRPDA agreed to forgive \$1,309,282 of the principal amount of the loan. This loan was amended on February 11, 2010. The principal amount was changed to \$8,345,823 with the forgiveness remaining at \$1,309,282. At December 31, 2012, the District had drawn down all available loan proceeds. In 2009, the District recognized \$669,963 as forgiveness of debt. The remaining balance of \$639,320 was recognized in 2010. At December 31, 2012, the amount due was \$7,211,762. Payment was scheduled to begin on May 1, 2012, based on the full loan principal balance. The amortization schedule provided below reflects the principal balance due on this loan, as well as the principal balance due on the 2009 Base Program Loan Agreement.

The annual interest rate is 0%.

2009 Base Program Loan Agreement

On September 4, 2009, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (CWRPDA) for \$3,211,129 to finance the costs of wastewater treatment projects. The CWRPDA is authorized to loan money from the Water Pollution Control Revolving Fund subject to certain terms and conditions.

The note is a special revenue obligation of the District, acting by and through its Water and Sewer Activity Enterprise, payable from availability of service charge revenues and other revenues derived from operations.

The note constitutes an irrevocable and first lien on adjusted net revenue (net operating revenues plus availability of service charge revenues) but is not an exclusive lien.

Payments were scheduled to begin on May 1, 2011, based on the full loan principal balance of \$976,530. The District, as of December 31, 2012, had drawn the maximum principle amount available. The amortization schedule provided below reflects the principal balance due on this loan, as well as the principal balance due on the 2009 ARRA Loan Agreement.

The annual interest rate is 0%.

Annual debt service on the 2009 ARRA Loan Agreement and the 2009 Base Program Loan agreement is as follows:

Calendar Year	2009 ARRA Loan Agreement Principal Maturities	2009 Base Program Loan Agreement Principal Maturities	Debt Service Requirements
2019	\$ 351,827	\$ 48,827	\$ 400,654
2020	351,827	48,827	400,654
2021	351,827	48,827	400,654
2022	351,827	48,827	400,654
2023	351,827	48,827	400,654
2024-2028	1,759,135	244,130	2,003,265
2029-2030	703,653	97,652	801,305
	<u>\$ 4,221,923</u>	<u>\$ 585,917</u>	<u>\$ 4,807,840</u>

Changes in Long-Term Debt:

	Beginning Balance	Payments	Additions (Deletions)	Ending Balance
Governmental Activities				
General Obligation Bonds				
Series 2012 dated March 27	\$ 1,710,000	\$ (320,000)	\$ -	\$ 1,390,000
Series 2012 dated March 27	3,415,000	(645,000)	-	2,770,000
Total	<u>5,125,000</u>	<u>(965,000)</u>	<u>-</u>	<u>4,160,000</u>
Business-Type Activities				
Revenue Bonds				
2015 Revenue and Refunding	3,345,000	(440,000)	-	2,905,000
2008 Revenue Bond	5,633,621	(372,216)	-	5,261,405
CWRPDA – ARRA & Base	5,208,490	(400,654)	-	4,807,836
CWCB Loan A	3,738,253	(190,711)	-	3,547,542
CWCB Loan B	4,565,000	-	-	4,565,000
Total	<u>22,490,364</u>	<u>(1,403,581)</u>	<u>-</u>	<u>21,086,783</u>
Total Long-Term Debt	<u>\$27,615,364</u>	<u>\$ (2,368,581)</u>	<u>\$ -</u>	25,246,783
Less Current Portion				
General Obligation Bonds				(995,000)
Revenue Bonds				(1,425,315)
Total				<u>\$ 22,826,468</u>

Annual Debt Requirements for all Bonds (Principal Only):

	Bonds
2019	\$ 2,420,315
2020	2,475,315
2021	2,520,562
2022	2,580,270
2023	1,523,849
2024-2028	6,913,281
2029-2033	1,996,465
2034-2038	251,726
2039-2054	4,565,000
Total	<u>\$ 25,246,783</u>

Annual debt requirements are based on maximum annual payments due.

10. Risk Management

The District is exposed to various risks of loss related to torts; thefts of, damages to or destruction of assets; errors or omissions; injuries to employees; or acts of God. Commercial insurance is purchased by the District to cover losses or claims arising from such matters. It is not possible to estimate any losses, which would not be covered by the commercial insurance; however, settled claims have not exceeded this commercial coverage in any of the three preceding years.

11. Pension Plans

The District contributes to the Colorado County Officials and Employees Retirement Plan, a defined contribution pension plan administered by the Colorado County Officials and Employees Retirement Association. The Colorado County Officials and Employees Retirement Association (the "Association") was established in 1968 under 24-54-101 et. seq. Colorado Revised Statutes as amended, to serve as trustee and provide continuing administration of a trust fund for retirement benefits of eligible county and municipal officers and county, municipal, and special district employees. The Board can make changes to the plan as needed.

In the defined contribution pension plan, contributions of the employers are combined with employee contributions and invested in income earning instruments for the benefit of plan participants. Any county, municipality, or special district of the State of Colorado may, with the consent of the Association, become a member of the Association and participate in the plan by adopting it for its officers and employees. Employees and officers of association members are required to participate in the plan after the completion of one year of service, but participation is optional for all elected officials. Pagosa Area Water and Sanitation District requires employee participation upon employment; elected officials do not participate in their plan.

This retirement benefit is available to all employees and is funded by a 6% contribution from the District. The District reports their contribution on behalf of the employee subject to FICA and Medicare taxes; the balance is not subject to FICA and Medicare taxes.

Net earnings or losses are allocated quarterly to plan participants. The allocation is based on each participant's balance as of the beginning of that quarter. Participants receiving benefit payments upon retirement or termination are allocated earnings through the date of the distribution.

Benefit payments are made as of the effective date of each participant's retirement or termination. At retirement, each participant has the option of receiving his or her vested balance in cash or having the Association place the funds in a bank account maintained under the joint control of the Association and the retiring individual. Any employer contribution forfeited by a participant due to termination of employment before becoming fully vested is returned to the member county, municipality, or special district.

For the current year, the District's total salaries were \$1,596,541 and contributions were \$87,922 for both the employer and the employees, based on eligible wages of \$1,465,376. The dollar amount of forfeitures during 2018 was \$-0-. The District did not have any unpaid pension contributions as of year-end.

In addition to participating in the plan, each participant may elect to contribute to a deferred compensation plan established pursuant to IRC Section 457. Through the deferred compensation plan, a member employer defers payment of a portion of an employee's current salary and deposits the deferred payment with the Association. Upon a participant's retirement or termination of employment, the Association may begin payment of this deferred amount. The District's participating employee's contributions amounted to \$38,959 for the current year.

All plan administrative expenses are borne by the participants.

12. Operating Leases

The District is committed to the following operating lease:

Copy machine with Xerox – On March 6, 2015, the District received a new copy machine and signed a new lease with Xerox. This lease has a base monthly charge of \$285 plus a \$.0085 charge for each black and white print and a charge of \$.0584 for each color print. During the year, the amount paid to Xerox was approximately \$4,100. At the end of the lease term, the District will have paid \$17,096 for the base lease.

At year-end, the remaining base lease charges are as follows:

2019	\$ 3,420
2020	3,420
2021	855
Total	<u><u>\$ 7,695</u></u>

13. Leasehold Agreements

On January 3, 2008, Pagosa Area Water and Sanitation District along with San Juan Water Conservancy District (collectively called the Landlord) entered into the following lease agreements as a result of their joint purchase of the property (Sale Land) owned by Running Iron Ranch, LLC, a Colorado limited liability company (the Tenant). The property was purchased to develop a water diversion and reservoir project (the Project). The Sale land and the improvements thereon and the water yielded from the Water Shares are currently being used to raise cattle and for other agricultural purposes and is subject to an existing lease for mining of sand, gravel and rock. Agricultural and mining activities are currently conducted on the Sale Land by Kathryn L. Weber and Donald L. Weber. The Sale Land and the improvements thereon are also used as a principal residence for Kathryn L. Weber, who is manager of the Tenant and who is one of the indirect owners of the Tenant, and her husband Donald L. Weber.

Occupancy and Agriculture Lease

Pursuant to the purchase of the property owned by the Tenant, the Landlord agreed to permit the Tenant to continue to use and occupy the Sale Land from January 3, 2008 until the date that the commencement of Landlord's physical development of the project substantially interferes with tenant's use of the sale land. The Tenant must be given advance notice of development plans at least a year in advance and then 90 days prior to the actual commencement of development. The lease terminates after 15 years unless the Landlord and Tenant agree to extend the term by mutual written consent.

The lease agreement requires the Tenant to pay \$1 a year for the use of the Sale Property. Tenant has paid \$15 for the complete lease term. Tenant is also responsible for any property or other business taxes due along with all utilities and insurance, which shall be purchased with liability limits of not less than \$1,000,000 with Landlord, named as additional insured.

If termination of this lease occurs due to foreclosure or deed in lieu of foreclosure and successor owner of the property terminates this lease, as a condition of the termination of this lease, Tenant shall be paid \$80,000.

Sand and Gravel Lease

Landlord has agreed to purchase the Sand and Gravel Lease Contract between Donald Weber, Kathryn Weber, and Andy Weber (collectively doing business as Weber Sand and Gravel). The Sand and Gravel Lease Contract provides that, pursuant to a lease to be executed at the closing of the purchase of the Sale Land and the Sand, Gravel and Mining Lease, Tenant shall have the right to mine sand, gravel and other related materials from the ranch properties pursuant to a new lease between Landlord and Tenant.

This lease shall continue from January 3, 2008 until the date that the commencement of landlord's physical development of the project substantially interferes with tenant's use of the Sale Land. The Tenant must be given advance notice of development plans at least a year in advance and then 90 days prior to the actual commencement of development. The lease terminates after 15 years unless the Landlord and Tenant agree to extend the term by mutual written consent.

The lease agreement requires the Tenant to pay \$1 a year for the Sand and Gravel Lease. Tenant has paid \$15 for the complete lease term. Tenant is also responsible for any property or other business taxes due along with all utilities and insurance, which shall be purchased with liability limits of not less than \$1,000,000 with Landlord, named as additional insureds.

14. Reserves, Restrictions, and Designations of Fund Balances and Net Position

As of year-end, the District had set aside the following reserves and restrictions:

	General Fund
Emergency Reserve - TABOR	<u>\$ 33,028</u>

15. Taxpayer's Bill of Rights (TABOR)

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

The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

The amendment excludes "Enterprises" from its provisions. Enterprises, defined as government-owned business authorized to issue revenue bonds and receiving less than 10 percent of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the amendment. The District is of the opinion that the water and wastewater operations qualify for this exclusion.

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

Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts. Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves.

The amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax or implementing tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, the amendment specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or irrevocably pledging present cash reserves for all future payments.

The amendment requires that emergency reserves be established. These reserves must be at least three percent of Fiscal Year Spending (excluding bonded debt service) in years after 1994.

Emergency reserves as of year-end totaling \$33,028 have been presented as a reservation of fund balance in the General Fund. This emergency reserve was calculated in the District's General Fund and is not a required reserve in any other funds. Under TABOR, the District is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The amendment is complex and is subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, certain interpretations in the amendment's language have been made in order to determine its compliance.

In May of 2000, Pagosa Area Water and Sanitation District asked its voters to allow the District to collect, retain, and spend all revenues and other funds collected from any source not excluded from fiscal year spending, effective January 1, 2000, and continuing thereafter. A permanent waiver of the 5.5% limitation was also requested. The requests were approved by the District's voters.

It is anticipated that transfers to the Water and Wastewater Enterprise Funds will be reduced at some point to preserve the General Fund's fund equity in light of the District's election on a referred measure. On May 3, 2016, the District's voters passed a measure to subject the revenue, collection, and spending limits under Article X, Section 20 of the Colorado Constitution (otherwise known as the Taxpayers Bill of Rights (TABOR)) by repealing the ballot measure previously approved by the District on May of 2000. The action may impact the General Fund by limiting tax revenues. It is not anticipated that General Fund expenses, other than transfers, can be reduced.

16. Joint Venture

The District is a participant in the Colorado Special Districts Property and Liability Pool (The Pool). The Pool is a joint venture between the Special District Association of Colorado and various special districts in Colorado. The Pool provides property and general liability, automobile physical damage and liability, public officials' liability, inland marine, money and security, and boiler and machinery coverages to its members. Pagosa Area Water and Sanitation District has not had losses of a material amount in any of the preceding three years. The District does not know its percentage share of the joint venture.

The Pool has contracted with other third parties to operate, administer, and manage the Pool. The Pool is responsible for its own budgets. In the event aggregated losses incurred by the Pool exceed amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from the Pool members. The joint venture summary audited financial information as of December 31, 2017, is as follows:

Admitted Assets	<u>\$ 56,602,888</u>
Liabilities	\$ 30,815,521
Surplus	<u>25,787,367</u>
Total Liabilities and Surplus	<u>\$ 56,602,888</u>
Revenues	\$ 20,082,198
Expenses	<u>(18,721,378)</u>
Net Income (Loss)	<u>\$ 1,360,820</u>
Investment Income	<u>\$ 631,496</u>
Change in Non-Admitted Assets	<u>\$ (93,503)</u>

Audited Financial Statements for the Colorado Special Districts Property and Liabilities Pool can be obtained by contacting the Pool.

17. Related Party Transactions

Pagosa Area Water and Sanitation District has agreed to share the costs on specified water projects with San Juan Water Conservancy District.

Pagosa Area Water and Sanitation District has entered into three intergovernmental agreements with San Juan Water Conservancy District.

1. Cost Sharing Agreement – The two districts have agreed to share some costs associated with the enlargement of Stevens Reservoir. As of the end of the current year, Pagosa Area Water and Sanitation District has expended \$7,020,177 to date for this enlargement and that project is complete. An agreement was reached during September 2018 to terminate this agreement.
2. Memorandum of Understanding and Confidentiality Agreement – This agreement is for the acquisition, planning, permitting, design, and construction of a water resources development known as the Dry Gulch Project. As of the end of the current year, Pagosa Area Water and Sanitation District has expended funds for \$9,817,939, for this project, which includes land acquisition. Because this project depends upon the growth of the community, future water demands, and public support for the project, it is not possible to estimate future costs. There were no additional costs capitalized during the current year. This asset has been reclassified as other assets.
3. Intergovernmental Agreement concerning Colorado Water Conservation Board Loan Financing for land acquisition and development of the Dry Gulch Project – This agreement is to facilitate the financing arrangements for the Dry Gulch Project. Pagosa Area Water and Sanitation District was awarded a loan of \$11,217,000 from the Colorado Water Conservation Board (CWCB) for land acquisition. In December 2011, an interest payment for \$322,678 was made. Pagosa Area Water and Sanitation District requested that San Juan Water Conservancy District pay a portion on the interest due in return for an increased percentage of ownership in the land. San Juan Water Conservancy agreed and paid \$20,110. This increased their equity ownership from 11.21% to 11.43% and decreased Pagosa Area Water and Sanitation District's ownership from 88.79% to 88.57%. Any future payments by San Juan Water Conservancy District will further increase their ownership and decrease Pagosa Area Water and Sanitation District's ownership.

18. Construction Commitments

The District is committed to providing the highest quality water and wastewater services and to comply with the various legal requirements. While the district does not have any immediate plans for new construction, changes in the use, in regulations, and in maintenance could require new construction in the future. As a result, there is a small amount of construction in progress at the end of 2018.

19. Intergovernmental Agreement with Pagosa Springs Sanitation General Improvement District

During January, 2012, Pagosa Area Water and Sanitation District (PAWSD) and Pagosa Springs Sanitation General Improvement District (PSSGID) entered into an agreement to do a feasibility analysis and preliminary design, design development and final design, and construction phase of two segments of pipeline and two lift stations, Segment A and Segment B, and thereafter the ongoing operation and maintenance of both segments to provide for the conveyance and treatment of PSSGID raw sewage. The project has evolved from the conceptual phase in late 2012 to one actually under construction during 2014. The intergovernmental agreement that was executed in 2012 no longer reflects the full understanding of the parties and is in the process of being amended. The initial bids received for the construction of the pipeline and lift stations exceeded the engineer's estimated and were rejected. Hammerlund Construction was selected as a contractor for this project following a formal re-bid process. Minutes of the PAWSD and PSSGID Boards reflect the revised understanding that PAWSD's financing of the portion of Segment B will not exceed \$2,835,745. It was determined that a more accurate designation of that financing would be as a long-term receivable to PAWSD and a long-term payable by PSSGID, which the audited financial statements reflect. The original terms of the intergovernmental agreement were modified by the respective Boards during 2016. Changes included interest to be charged on loan advances and final terms of repayment.

This project was completed during 2016. PAWSD is charging service fees based on usage and PSSGID is paying those fees.

The note receivable balance as of December 31, 2018, was \$2,579,418. The note bears interest at 2.19% interest with principle and interest payments of \$174,940 due November 1 of each year until paid, with the final payment due November 2036. The note was current as of December 31, 2018.

Required Supplementary Information

Pagosa Area Water and Sanitation District
Budget and Actual
General Fund
For the year ended December 31, 2018

	<u>Budgeted Amounts</u> <u>Original</u>	<u>Budgeted Amounts</u> <u>Final</u>	<u>Actual Amounts</u> <u>Budgetary Basis</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
REVENUES				
Property taxes	\$ 843,415	\$ 843,415	\$ 842,003	\$ (1,412)
SO taxes	195,000	195,000	232,656	37,656
Investment earnings	13,000	13,000	21,024	8,024
Miscellaneous	8,000	8,000	6,937	(1,063)
Total revenues	<u>1,059,415</u>	<u>1,059,415</u>	<u>1,102,620</u>	<u>43,205</u>
EXPENDITURES				
Current:				
Emergency fund	19,625	19,625	-	19,625
Audit	24,280	24,280	24,276	4
Board expense	21,000	21,000	1,823	19,177
Dues and permits	15,500	15,500	15,288	212
Employee expense	3,000	3,000	4,141	(1,141)
Fees	26,768	26,768	26,010	758
Fringe benefit	72,205	72,205	62,618	9,587
Insurance general	9,485	9,485	9,080	405
Legal fees	4,000	4,000	2,682	1,318
Office expense	31,000	31,000	31,761	(761)
Office maintenance and landscape	17,750	17,750	19,252	(1,502)
Outside services	64,115	64,115	62,457	1,658
Payroll taxes, vacation and sick pay	21,860	21,860	25,138	(3,278)
Personnel	290,910	290,910	290,946	(36)
Publications and recording fees	2,800	2,800	1,322	1,478
Repairs and maintenance	1,725	1,725	3,344	(1,619)
Telephone and utilities	23,700	23,700	21,157	2,543
Travel and training	5,015	5,015	5,852	(837)
Total Expenditures	<u>654,738</u>	<u>654,738</u>	<u>607,147</u>	<u>47,591</u>
Excess (deficiency) of revenues over expenditures	<u>404,677</u>	<u>404,677</u>	<u>495,473</u>	<u>90,796</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Total other financing sources and uses	<u>(500,000)</u>	<u>(500,000)</u>	<u>(500,000)</u>	<u>-</u>
Net change in fund balances	(95,323)	(95,323)	(4,527)	90,796
Adjustment to GAAP fund balance	-	-	-	1,403
Fund balances - beginning	<u>927,221</u>	<u>927,221</u>	<u>965,572</u>	<u>(38,351)</u>
Fund balances - ending	<u>\$ 831,898</u>	<u>\$ 831,898</u>	<u>\$ 961,045</u>	<u>\$ 115,290</u>

Pagosa Area Water and Sanitation District
Notes to Required Supplementary Information
December 31, 2018

Budgets and Budgetary Accounting:

The Board of Directors adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, and the Water and Wastewater Enterprise Funds. The budgets for the General Fund and the Debt Service Fund are prepared on the modified accrual basis. The budgets for the two enterprise funds are prepared on the modified accrual basis and include debt principal retirements and capital outlays as expenses. Additionally, the enterprise funds do not include depreciation as a budgetary expense. The statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items, which are reported in the District's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the departmental level. The District Manager has the authorization to make transfers of budgeted amounts within and among departments; however, any revisions that alter total expenditures for any of the funds must be approved by the Board of Directors.

The Budgetary Comparison Schedules included in the required supplementary information present a comparison of budgetary data to actual results of operations for the General Fund and Debt Service Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exception:

The General Fund recognizes an expenditure for the increase in the Emergency Reserve in its budget basis expenditures. Generally accepted accounting principles treat this as a reserve of fund balance.

Annual budgets are established for all funds of the District as required by Colorado law. Budgets reported in the accompanying financial statements are on the same basis of accounting as described above.

Expenditures may not legally exceed appropriations at the fund level. Budget amounts included in the financial statements are based on the final amended budget. After budget approval, the District's Board of Directors may approve supplemental appropriations if an occurrence, condition, or need exists which was not known at the time the budget was adopted. There was a supplemental appropriation made during the year.

The following is a summary of the 2018 budget appropriations and expenditures by fund:

	Original Budget	Final Budget	Expenditures (Budgetary) Basis	Variance Favorable (Unfavorable)
General Fund	\$ 1,154,738	\$ 1,154,738	\$ 1,107,147	\$ 47,591
Debt Service Fund	1,150,100	1,150,100	1,148,898	1,202
Water Fund	4,683,620	4,683,620	4,416,797	266,823
Wastewater Fund	2,371,735	2,371,735	2,203,974	167,761
Totals	<u>\$ 9,360,193</u>	<u>\$ 9,360,193</u>	<u>\$ 8,876,816</u>	<u>\$ 483,377</u>

On or before October 15th of each year, the District's budget officer must prepare and submit a proposed budget to the Board for the next fiscal year. Thereupon, notice must be published stating, among other things, that the budget is open to inspection by the public and that interested electors may file or register any objection to the budget. Subject to certain exceptions and exclusions discussed hereafter, the District must submit a request for property tax increases in excess of the statutory limitation to the Division of Local Government (if within TABOR limits) or submit the question of an increased levy directly to the electors of the District at a general or special election. State law requires that the District adopt a budget prior to the certification of its mill levy to the county and file a certified copy of its budget with the Division of Local Government within 30 days of such adoption. Failure to do so can result in the County Treasurer withholding future property tax revenues pending compliance by the District. The District filed the certified copy of its budget timely for the current year.

Budget appropriations lapse at the end of each year. The encumbrance method is not used.

Other Supplementary Information

**Pagosa Area Water and Sanitation District
Budget and Actual
Debt Services Fund
For the year ended December 31, 2018**

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
REVENUES				
Property Taxes	\$ 1,157,754	\$ 1,157,754	\$ 1,152,525	\$ (5,229)
Investment earnings	7,000	7,000	13,940	6,940
Total revenues	<u>1,164,754</u>	<u>1,164,754</u>	<u>1,166,465</u>	<u>1,711</u>
EXPENDITURES				
Current:				
Administration	35,890	35,890	34,694	1,196
Debt Service:				
Principal	965,000	965,000	965,000	-
Interest and other charges	<u>149,210</u>	<u>149,210</u>	<u>149,204</u>	<u>6</u>
Total Expenditures	<u>1,150,100</u>	<u>1,150,100</u>	<u>1,148,898</u>	<u>1,202</u>
Excess (deficiency) of revenues over expenditures	<u>14,654</u>	<u>14,654</u>	<u>17,567</u>	<u>2,913</u>
SPECIAL ITEM				
Net change in fund balances	14,654	14,654	17,567	2,913
Fund balances - beginning	<u>28,529</u>	<u>28,529</u>	<u>21,448</u>	<u>7,081</u>
Fund balances - ending	<u>\$ 43,183</u>	<u>\$ 43,183</u>	<u>\$ 39,015</u>	<u>\$ 9,994</u>

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Availability charges	\$ 400,000	\$ 400,000	\$ 408,215	\$ 8,215
Other Water Sales	110,000	110,000	130,401	20,401
Capital investment fee	290,000	290,000	309,994	19,994
Service fees	3,580,000	3,580,000	3,720,541	140,541
Customer hookups	187,000	187,000	207,580	20,580
Inclusion Fee	6,600	6,600	12,868	6,268
Irrigation	50,000	50,000	60,200	10,200
Raw water acquisition fee	220,000	220,000	234,676	14,676
Late charges and interest	14,000	14,000	12,997	(1,003)
Current tax interest	4,000	4,000	3,892	(108)
Interest income - RWAF	7,200	7,200	19,578	12,378
Interest income - CIF	4,000	4,000	14,226	10,226
Interest on certified accounts	10,500	10,500	1,670	(8,830)
Interest on delinquent taxes	250	250	415	165
Other interest	35,000	35,000	68,891	33,891
Transfer from general fund	340,000	340,000	340,000	-
Gain or Loss on Asset Disposal	-	-	19,206	19,206
Other revenues	50,000	50,000	80,203	30,203
Total revenues	<u>5,308,550</u>	<u>5,308,550</u>	<u>5,645,553</u>	<u>337,003</u>

Expenses

Sources of Supply

Ditches	1,000	1,000	801	199
Reservoirs	55,000	55,000	59,371	(4,371)
Raw water line - Jackson Mt	-	-	10	(10)
Raw water line - San Juan	-	-	10,791	(10,791)
Power Trujillo booster	-	-	53,059	(53,059)
Power SJ River booster	-	-	30,721	(30,721)
Power Lake Forest	6,000	6,000	7,380	(1,380)
Power Dutton Ditch	600	600	526	74
	<u>62,600</u>	<u>62,600</u>	<u>162,659</u>	<u>(100,059)</u>

Water Treatment Plant

Hatcher WTR plant chemicals/lab	102,000	102,000	84,734	17,266
Snowball WTP chemicals/lab	55,000	55,000	41,242	13,758
San Juan WTP chemicals/lab	129,000	129,000	192,731	(63,731)
Health insurance	32,250	32,250	33,137	(887)
Retirement	8,335	8,335	8,343	(8)
Hatcher WTP fuel & power	145,000	145,000	111,053	33,947

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Snowball WTP fuel & power	19,000	19,000	17,878	1,122
San Juan WTP fuel & power	30,000	30,000	44,276	(14,276)
Insurance	8,025	8,025	8,596	(571)
Payroll taxes	13,445	13,445	12,758	687
Personnel	174,130	174,130	168,476	5,654
Vehicle maintenance	2,815	2,815	2,815	-
Hatcher WTP maintenance	96,000	96,000	118,144	(22,144)
Snowball WTP maintenance	85,000	85,000	79,633	5,367
San Juan maintenance	80,800	80,800	83,741	(2,941)
Training	3,000	3,000	2,063	937
	<u>983,800</u>	<u>983,800</u>	<u>1,009,620</u>	<u>(25,820)</u>
Distribution Systems				
Health insurance	69,350	69,350	66,833	2,517
Retirement	17,675	17,675	17,830	(155)
Fire hydrant maintenance	10,000	10,000	2,678	7,322
Fuel & power mission booster	700	700	556	144
Fuel & power pump stations	32,000	32,000	28,497	3,503
Town fill station - fuel & power	1,600	1,600	941	659
Trails fill station - fuel & power	1,600	1,600	874	726
Insurance	17,020	17,020	17,355	(335)
Payroll taxes	24,815	24,815	24,944	(129)
Personnel	320,585	320,585	323,577	(2,992)
Town fill station - maintenance	700	700	3,151	(2,451)
Trails fill station - maintenance	500	500	3,080	(2,580)
Water tank maintenance	170,000	170,000	61,258	108,742
Vehicle maintenance	9,935	9,935	15,360	(5,425)
Training	4,600	4,600	3,517	1,083
Uniforms	10,540	10,540	10,072	468
Water line maintenance	367,000	367,000	116,557	250,443
	<u>1,058,620</u>	<u>1,058,620</u>	<u>697,080</u>	<u>361,540</u>
Maintenance Department				
Building maintenance	2,000	2,000	2,047	(47)
Health insurance	6,120	6,120	5,565	555
Retirement	2,010	2,010	2,062	(52)
Vehicle maintenance	715	715	25	690
Equipment maintenance	15,040	15,040	14,102	938
Gas, diesel and oil	45,000	45,000	37,356	7,644
Insurance	1,940	1,940	1,886	54

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Operating supplies	15,000	15,000	13,565	1,435
Payroll taxes	2,665	2,665	2,815	(150)
Personnel	33,500	33,500	34,382	(882)
Tools and small equipment	7,310	7,310	6,446	864
Utilities	4,100	4,100	3,927	173
	<u>135,400</u>	<u>135,400</u>	<u>124,178</u>	<u>11,222</u>
Billing				
Bad debts	50,000	50,000	50,305	(305)
Data processing	35,000	35,000	33,759	1,241
Health insurance	35,225	35,225	30,199	5,026
Retirement	5,440	5,440	5,274	166
Insurance	245	245	176	69
Payroll taxes	6,645	6,645	6,046	599
Personnel	95,190	95,190	89,393	5,797
Postage	17,000	17,000	18,277	(1,277)
Training	2,325	2,325	-	2,325
	<u>247,070</u>	<u>247,070</u>	<u>233,429</u>	<u>13,641</u>
Administration				
Audit	2,860	2,860	2,856	4
Dues and permits	7,500	7,500	6,764	736
Employee miscellaneous	2,700	2,700	2,776	(76)
Health insurance	28,050	28,050	22,858	5,192
Retirement	8,360	8,360	8,636	(276)
Vehicle maintenance	700	700	373	327
Insurance - general	80,350	80,350	79,290	1,060
Legal fees	2,720	2,720	2,203	517
Office expense	21,000	21,000	21,358	(358)
Maintenance of office building	9,700	9,700	12,090	(2,390)
Landscaping	2,380	2,380	1,715	665
Payroll taxes	10,475	10,475	11,279	(804)
Publications	1,900	1,900	896	1,004
Vacation pay	-	-	4,590	(4,590)
Personnel	140,475	140,475	147,325	(6,850)
Telephone	12,670	12,670	11,966	704
Outside services	8,500	8,500	8,466	34
Utilities	3,300	3,300	2,088	1,212
Trash removal	2,100	2,100	1,599	501
Training	3,305	3,305	2,429	876

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Inclusion expense	680	680	1,154	(474)
Computer support & upgrades	32,580	32,580	31,683	897
	<u>382,305</u>	<u>382,305</u>	<u>384,394</u>	<u>(2,089)</u>
Inspection Services				
Health insurance	10,655	10,655	8,703	1,952
Retirement	2,635	2,635	2,685	(50)
Insurance	2,550	2,550	2,795	(245)
Payroll taxes	4,025	4,025	4,102	(77)
Construction Inspector Salary	54,015	54,015	54,770	(755)
Vehicle maintenance	715	715	294	421
	<u>74,595</u>	<u>74,595</u>	<u>73,349</u>	<u>1,246</u>
Capital Expenditures				
Connections	158,950	158,950	171,290	(12,340)
Water rights	15,000	15,000	15,310	(310)
CIF Water SCADA System	21,975	21,975	17,665	4,310
CIF WTP upgrades	5,500	5,500	9,254	(3,754)
CIF Distribution system upgrades	20,000	20,000	8,670	11,330
Water model	-	-	9,782	(9,782)
Water SCADA system	21,975	21,975	17,665	4,310
Water treatment plant upgrades	25,500	25,500	39,754	(14,254)
Transportation Equipment	47,600	47,600	47,955	(355)
Distribution system upgrades	49,995	49,995	22,012	27,983
	<u>366,495</u>	<u>366,495</u>	<u>359,357</u>	<u>7,138</u>
Debt Service				
Principle - 2015 refunding	440,000	440,000	440,000	-
Interest - 2015 refunding	115,350	115,350	115,350	-
Principal, CWPDA loan	372,217	372,217	372,216	1
Interest, CWPDA loan	99,550	99,550	99,549	1
Administrative fee - CWPDA Loan	89,486	89,486	89,486	-
Principal - CWCB loan	190,712	190,712	190,711	1
Interest, CWCB loan	65,420	65,420	65,419	1
Total debt retirement & transfers	<u>1,372,735</u>	<u>1,372,735</u>	<u>1,372,731</u>	<u>4</u>
Total expenditures	<u>4,683,620</u>	<u>4,683,620</u>	<u>4,416,797</u>	<u>266,823</u>
Excess of revenues over (under) expenses	<u>624,930</u>	<u>624,930</u>	<u>1,228,756</u>	<u>\$ 603,826</u>

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Water Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Other Financing Sources (Uses)				
Unappropriated surplus	3,454,366	3,454,366	4,596,641	
Total Other Financing Sources (Uses)	<u>3,454,366</u>	<u>3,454,366</u>	<u>4,596,641</u>	
Change in Net Position (Budgetary Basis)	<u>4,079,296</u>	<u>\$ 4,079,296</u>	<u>5,825,397</u>	
Reconciliation of Budgetary Basis to GAAP				
Basis Financial Statements				
Increase (Decrease) in Revenues and				
Other Financing Sources				
Unappropriated surplus			(4,596,641)	
Net (Decrease) in Revenues and				
Other Financing Sources			(4,596,641)	
(Increase) Decrease in Revenues and				
Other Financing Uses (Sources)				
Construction project expenditures			211,354	
Principal payments on 2015 refunding bonds			440,000	
Principal payments on CWDPA loan			372,217	
Principal payments on CWCB loan			190,712	
Bond issue costs amortized			(993)	
Amortization of bond premium			51,791	
Depreciation			(2,129,783)	
Net (Decrease) in Revenues and				
Other Financing Sources to GAAP Basis			(864,702)	
Change in Net Position GAAP Basis			<u>\$ 364,054</u>	

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Availability charges	\$ 270,000	\$ 270,000	\$ 265,994	\$ (4,006)
Customer hookups	32,000	32,000	29,180	(2,820)
Capital Investment fees	88,000	88,000	81,392	(6,608)
Service fees	1,692,800	1,692,800	1,714,239	21,439
Municipal wastewater treatment	212,000	212,000	168,557	(43,443)
Interest PSSGID	29,515	29,515	29,514	(1)
Interest PSSGID CIF	29,515	29,515	29,514	(1)
Inclusion fee	4,400	4,400	5,154	754
Waste hauling	63,500	63,500	66,961	3,461
Interest income - CIF	8,500	8,500	17,096	8,596
Interest on delinquent taxes	500	500	190	(310)
Penalty & interest delinquent accounts	2,800	2,800	2,247	(553)
Current tax interest	1,000	1,000	1,090	90
Other interest	11,500	11,500	28,916	17,416
Other operating revenues	7,500	7,500	7,839	339
Gain or Loss on Asset Disposal	-	-	11,297	11,297
Transfer from general fund	160,000	160,000	160,000	-
Total Revenues	2,613,530	2,613,530	2,619,180	5,650
Expenses				
Wastewater - CIF Projects				
CIF - Wastewater SCADA Systems	21,975	21,975	17,665	4,310
CIF - WW Treatment Plants	17,500	17,500	14,463	3,037
	39,475	39,475	32,128	7,347
Wastewater Collection				
Health insurance	40,335	40,335	37,601	2,734
Retirement	10,400	10,400	10,471	(71)
Uniforms	4,960	4,960	4,825	135
Fuel and power lift stations	67,000	67,000	40,358	26,642
Insurance	9,820	9,820	6,563	3,257
Payroll taxes	14,635	14,635	14,605	30
General and pumps lift stations	15,000	15,000	17,400	(2,400)
Personnel	189,760	189,760	190,146	(386)
Wastewater line maintenance/repair	285,000	285,000	242,446	42,554
Vehicle maintenance	5,420	5,420	8,701	(3,281)
Training	2,650	2,650	2,899	(249)
	644,980	644,980	576,015	68,965

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Wastewater Treatment				
Health insurance	30,840	30,840	30,274	566
Retirement	7,470	7,470	7,505	(35)
Fuel, power & water Vista WWTP	242,000	242,000	214,485	27,515
Insurance	7,050	7,050	4,957	2,093
Payroll taxes	11,805	11,805	11,220	585
Personnel	155,230	155,230	150,906	4,324
Maintenance Vista WWTP	219,000	219,000	216,372	2,628
Lab supply & testing	28,360	28,360	17,037	11,323
Vehicle maintenance	2,450	2,450	1,700	750
Sludge removal	57,600	57,600	61,013	(3,413)
Training	1,420	1,420	1,176	244
	<u>763,225</u>	<u>763,225</u>	<u>716,645</u>	<u>46,580</u>
Maintenance Department				
Building maintenance	1,500	1,500	978	522
Vehicle maintenance	335	335	12	323
Equipment maintenance	7,960	7,960	6,981	979
Health insurance	2,880	2,880	2,620	260
Retirement	950	950	971	(21)
Gas, diesel and oil	20,000	20,000	16,811	3,189
Insurance	900	900	570	330
Operating supplies	7,200	7,200	6,376	824
Payroll taxes	1,255	1,255	1,325	(70)
Personnel	15,765	15,765	16,180	(415)
Tools and small equipment	3,440	3,440	3,217	223
Utilities	3,000	3,000	2,923	77
	<u>65,185</u>	<u>65,185</u>	<u>58,964</u>	<u>6,221</u>
Billing				
Bad debts	50,000	50,000	49,155	845
Data processing	9,000	9,000	7,664	1,336
Health insurance	16,580	16,580	14,216	2,364
Retirement	2,560	2,560	2,481	79
Insurance	115	115	83	32
Payroll taxes	3,125	3,125	2,860	265
Personnel	44,800	44,800	42,068	2,732
Postage	8,000	8,000	9,101	(1,101)
Training	1,100	1,100	-	1,100
	<u>135,280</u>	<u>135,280</u>	<u>127,628</u>	<u>7,652</u>

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Inspection Services				
Health insurance	5,020	5,020	4,096	924
Retirement	1,240	1,240	1,263	(23)
Insurance	1,170	1,170	845	325
Personnel	25,420	25,420	25,774	(354)
Payroll taxes	1,895	1,895	1,930	(35)
Vehicle maintenance	335	335	178	157
	<u>35,080</u>	<u>35,080</u>	<u>34,086</u>	<u>994</u>
 Administration				
Audit	1,430	1,430	1,428	2
Inclusion expense	1,320	1,320	418	902
Employee expense	1,300	1,300	1,307	(7)
Health insurance	13,200	13,200	10,753	2,447
Retirement	3,935	3,935	4,067	(132)
Dues and permits	7,800	7,800	8,741	(941)
Insurance - general	36,420	36,420	35,618	802
Legal fees	1,280	1,280	95	1,185
Office expense	10,000	10,000	10,076	(76)
Maintenance of office building	4,550	4,550	5,703	(1,153)
Landscaping	1,120	1,120	807	313
Outside services	4,000	4,000	3,984	16
Payroll taxes	4,930	4,930	5,295	(365)
Personnel	66,110	66,110	69,376	(3,266)
Vacation pay	-	-	3,566	(3,566)
Publications	890	890	426	464
Vehicle maintenance	330	330	206	124
Telephone	7,030	7,030	6,870	160
Utilities	1,400	1,400	768	632
Trash removal	950	950	810	140
Training	1,530	1,530	1,461	69
Computer support & upgrades	15,350	15,350	15,710	(360)
	<u>184,875</u>	<u>184,875</u>	<u>187,485</u>	<u>(2,610)</u>
 Capital Expenditures				
Connections	6,400	6,400	5,135	1,265
Transportation Equipment	22,400	22,400	22,567	(167)
Wastewater treatment plant	17,500	17,500	14,463	3,037
Wastewater SCADA system	21,975	21,975	17,665	4,310
Collection system upgrades	34,705	34,705	10,539	24,166
	<u>102,980</u>	<u>102,980</u>	<u>70,369</u>	<u>32,611</u>

Pagosa Area Water and Sanitation District
Schedule of Revenues, Expenses and Changes in Net Position
Budget and Actual
(Budgetary Basis)
Enterprise Fund - Wastewater Fund
For the Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Debt Service				
Principal - 09 base loan	48,827	48,827	48,827	-
Principal - 09 ARRA loan	351,828	351,828	351,827	1
	<u>400,655</u>	<u>400,655</u>	<u>400,654</u>	<u>1</u>
Total Expenses	<u>2,371,735</u>	<u>2,371,735</u>	<u>2,203,974</u>	<u>167,761</u>
Excess of revenues over (under) expenses	<u>241,795</u>	<u>241,795</u>	<u>415,206</u>	<u>173,411</u>
Other Financing Sources (Uses)				
Unappropriated surplus	2,125,302	2,125,302	1,986,973	
Total Other Financing Sources (Uses)	<u>2,125,302</u>	<u>2,125,302</u>	<u>1,986,973</u>	
Change in Net Position (Budgetary Basis)	<u>\$ 2,367,097</u>	<u>\$ 2,367,097</u>	<u>2,402,179</u>	
Reconciliation of Budgetary Basis to GAAP Basis Financial Statements				
Increase (Decrease) in Revenues and Other Financing Sources				
Unappropriated surplus			(1,986,973)	
Net (Decrease) in Revenues and Other Financing Sources			<u>(1,986,973)</u>	
(Increase) Decrease in Revenues and Other Financing Uses				
Change in assets			(28,186)	
Gain (loss) on asset disposal			(132,532)	
Capital outlay costs			148,337	
Principal payments on revenue bonds and loans			400,654	
Depreciation			<u>(885,267)</u>	
Net (Decrease) in revenues and Other Financing Sources to GAAP basis			<u>(496,994)</u>	
Change in Net Position GAAP Basis			<u>\$ (81,788)</u>	