

**BACA GRANDE WATER AND SANITATION  
DISTRICT**

**FINANCIAL STATEMENTS**

**December 31, 2005**



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

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**TABLE OF CONTENTS**  
**December 31, 2005**

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	2
Business-Type Fund Financial Statements:	
Statement of Revenues, Expenses and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to the Basic Financial Statements	5
Supplementary Information:	
Schedule of Revenues, Expenditures, and Changes in Net Assets – Budget and Actual	15

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the business-type activities of the Baca Grande Water and Sanitation District (the District), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Baca Grande Water and Sanitation District, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary schedule on pages 15-16 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

June 27, 2006

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**STATEMENT OF NET ASSETS**  
**December 31, 2005**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$	100,323
Restricted Cash		500,624
Accounts Receivable, Net of Allowance for Doubtful Accounts \$86,793		20,176
Due from Other Governments		3,190
Note Receivable - Land		4,429
Property Taxes Receivable		348,058

**Total Current Assets**

976,800

**Capital Assets**

Land		51,423
Land Improvements		87,524
Sewage Plant		4,127,177
Water Plant		4,382,587
Machinery and Equipment		516,887
As Built Drawings		7,000
Construction in Progress		198,957
Less Accumulated Depreciation		(4,355,191)

**Total Capital Assets**

5,016,364

**TOTAL ASSETS**

5,993,164

**LIABILITIES**

**Current Liabilities**

Accounts Payable		7,113
Accrued Interest Payable		743
Tap Fees Payable		15,000
Long-Term Debt - Current Portion		171,985
Deferred Revenue - Availability of Service		171,373
Deferred Revenue - Property Taxes		348,058

**Total Current Liabilities**

714,272

**Long-term Liabilities**

Lease Payable		602,215
Notes Payable		775,978

**Total Long-term Liabilities**

1,378,193

**TOTAL LIABILITIES**

2,092,465

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt		3,466,186
Restricted for:		
TABOR		30,051
Capital Assets		500,624
Unrestricted		(96,162)

**TOTAL NET ASSETS**

\$ 3,900,699

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2005**

<b>OPERATING REVENUES</b>	
Water and Sewer Service Charge	\$ 342,339
Fire Hydrant Revenue	18,143
Availability of Service Fees	134,156
Miscellaneous Revenue	12,463
Hook Up Fees	<u>53,600</u>
<b>Total Operating Revenues</b>	<u>560,701</u>
<b>OPERATING EXPENSES</b>	
Salaries and Benefits	234,508
Directors Fees	6,000
Legal and Accounting Fees	16,274
Repair and Maintenance	67,949
Utilities	69,611
Insurance and Bonds	18,990
Office Expense	23,753
Other Supplies	22,009
Vehicle Operations	28,687
Water Costs	36,904
Testing	14,104
Other	24,991
Bad Debt Expense	11,272
Interest on Debt	36,446
Depreciation	<u>195,093</u>
<b>Total Operating Expenses</b>	<u>806,591</u>
<b>Operating Income</b>	<u>(245,890)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Property Taxes and Specific Ownership Tax, Net	416,540
Interest on Investments	3,076
Penalties for Certification	23,418
In Lieu of Taxes	2,089
Saguache County Settlement	<u>49,970</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>495,093</u>
Income Before Other Revenue	<u>249,203</u>
<b>Capital Contributions (Water and Sewer Taps)</b>	<u>27,600</u>
<b>Change in Net Assets</b>	276,803
<b>Net Assets, Beginning of Year</b>	<u>3,623,896</u>
<b>Net Assets, End of Year</b>	<u>\$ 3,900,699</u>

See Notes to the Basic Financial Statements

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2005**

	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from Customers	\$ 635,690
Cash payments to Employees	(234,449)
Cash paid for Directors Fees	(6,000)
Cash payments for Goods and Services	(328,711)
	<u>66,530</u>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>66,530</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Property Taxes	416,540
Penalties for Certification	23,418
In Lieu of Taxes	2,089
Saguache County Settlement	49,970
	<u>492,017</u>
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>492,017</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Land Sales	-
Principal and Interest on Debt	(192,131)
Additions to Plant and Equipment	(351,100)
Debt Proceeds	500,000
	<u>(43,231)</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(43,231)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	3,076
	<u>3,076</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>3,076</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	518,392
<b>Cash and Cash Equivalents, Beginning of Year</b>	82,555
<b>Cash and Cash Equivalents, End of Year</b>	\$ 600,947
<b>Interest Paid on Notes Payable and Leases Payable</b>	\$ 36,446
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (218,290)
Adjustments to reconcile operating income to net cash flows provided by operating activities:	
Depreciation	195,093
Interest on Debt	36,446
(Increase) Decrease in:	
Accounts Receivable, Net	4,895
Due from County Treasurer	924
Due from Zen Center	10,571
Intergovernmental Agreement	-
Tap Fees	-
Increase (Decrease) in:	
Accounts Payable	(5,439)
Deferred Revenue - A of S	42,271
Payroll Taxes Payable	59
	<u>66,530</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 66,530

See Notes to the Basic Financial Statements

**BACA GRANDE WATER AND SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the District reflected in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments are those promulgated by the Governmental Accounting Standards Board (GASB) in *Governmental Accounting and Financial Reporting Standards*.

**REPORTING ENTITY**

***Primary Government***

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

***Component Units***

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

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

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

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

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

**BACA GRANDE WATER AND SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2005**

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

**ASSETS, LIABILITIES AND NET ASSETS OR EQUITY**

***Cash***

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

***Inventory***

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

***Property Taxes***

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

The 2005 property tax levy due January 1, 2006 has been recorded in the financial statements as a receivable and in a corresponding deferred revenue account.

***Capital Assets***

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

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

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

***Compensated Absences***

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



**BACA GRANDE WATER AND SANITATION DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
December 31, 2005**

***Interest***

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

***Encumbrances***

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

***Use of Estimates***

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

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Budgets and Budgetary Accounting***

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

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

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

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

The total expenditures for the proprietary fund cannot exceed the budgeted amount unless a supplemental appropriation is adopted.

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

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 3 CASH AND DEPOSITS**

**CASH AND DEPOSITS**

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

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories, determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA. PDPA allows the institution to create a single collateral pool for all public funds to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

***Custodial Credit Risk – Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At December 31, 2005, \$400,947 was exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institutions through PDPA.

***Credit Risk***

The District's investment policy calls for investment diversification within the portfolio to avoid unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Cash on Hand and in Banks	<u>\$ 600,947</u>
Total cash, deposits, and Investments on the Statement of Net Assets	<u><u>\$ 600,947</u></u>

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005, was as follows:

	<u>BALANCE</u> <u>12/31/2004</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>12/31/2005</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets not being depreciated				
Land	\$ 51,423	\$ -	\$ -	\$ 51,423
Construction in Progress	18,560	180,397	-	198,957
Total capital assets not being depreciated	<u>69,983</u>	<u>180,397</u>	<u>-</u>	<u>250,380</u>
Capital assets being depreciated				
Land Improvements	87,524	-	-	87,524
Sewage Plant	4,094,244	32,933	-	4,127,177
Water Plant	4,244,817	137,770	-	4,382,587
Machinery, Buildings and Equipment	516,887	-	-	516,887
As Built Drawings	7,000	-	-	7,000
Total capital assets being depreciated	<u>8,950,472</u>	<u>170,703</u>	<u>-</u>	<u>9,121,175</u>
Less accumulated depreciation for:				
Land Improvements	13,691	3,546	-	17,237
Sewage Plant	1,621,474	71,930	-	1,693,404
Water Plant	2,118,978	87,179	-	2,206,157
Machinery, Buildings and Equipment	398,955	32,438	-	431,393
As Built Drawings	7,000	-	-	7,000
Total accumulated depreciation	<u>4,160,098</u>	<u>195,093</u>	<u>-</u>	<u>4,355,191</u>
Total Capital Assets being depreciated, net	<u>4,790,374</u>	<u>(24,390)</u>	<u>-</u>	<u>4,765,984</u>
<b>BUSINESS-TYPE ACTIVITIES</b>				
CAPITAL ASSETS, NET	<u>\$ 4,860,357</u>	<u>\$ 156,007</u>	<u>\$ -</u>	<u>\$ 5,016,364</u>

Depreciation expense is as follows:

Business-type activities:	
Depreciation Expense	<u>\$ 195,093</u>
Total depreciation expense – business-type activities	<u>\$ 195,093</u>

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 5 LONG-TERM DEBT**

***Changes in Long-term Debt***

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005	Due Within One Year
Business-type activities:					
Revenue Bonds - 2003	\$ 160,866	\$ -	\$ -	\$ 160,866	\$ 40,919
Revenue Bonds	778,775	-	92,056	686,719	30,688
Capital Lease	266,222	500,000	63,629	702,593	100,378
Business-type activities long-term debt	<u>\$ 1,205,863</u>	<u>\$ 500,000</u>	<u>\$ 155,685</u>	<u>\$ 1,550,178</u>	<u>\$ 171,985</u>

***Revenue Bonds Payable***

Revenue Bonds payable to Colorado Water Resources and Power Development Authority. Maximum principal amount \$800,000, interest rate 4.0%, payments are made quarterly over a twenty year period. Final payment due 2022. \$ 686,719

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

Total Revenue Bonds Payable \$ 847,585

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

Revenue Bonds - \$800,000

YEAR	PRINCIPAL	INTEREST	TOTALS
2006	\$ 30,688	\$ 27,612	\$ 58,300
2007	31,934	26,366	58,300
2008	33,230	25,070	58,300
2009	34,580	23,720	58,300
2010	35,984	22,316	58,300
2011-2022	520,303	151,087	671,390
	<u>\$ 686,719</u>	<u>\$ 276,171</u>	<u>\$ 962,890</u>

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

Revenue Bonds - \$200,000

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2006	\$ 40,919	\$ 13,881	\$ 54,800
2007	21,882	5,518	27,400
2008	22,888	4,512	27,400
2009	23,942	3,458	27,400
2010	25,043	2,357	27,400
2011	26,192	1,206	27,398
	<u>\$ 160,866</u>	<u>\$ 30,932</u>	<u>\$ 191,798</u>

*Capital Leases Payable*

Lease payable to a finance company, payable in annual installments of \$47,121.81, including interest at 2.95%. Final payment due in 2008, collateralized by equipment. \$119,912

Lease payable to a finance company, payable in annual installments of \$22,376.41, including interest at 3.25%. Final payment due in 2009, collateralized by equipment. 82,681

Lease payable to a finance company, payable in quarterly installments of \$14,535.28, including interest at 4.25%. Final payment due in 2016, collateralized by equipment and water meters. 500,000

Total Capital Lease Payable \$702,593

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

Capital Lease – Interest rate 2.95%

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2006	\$ 43,584	\$ 3,538	\$ 47,122
2007	44,870	2,252	47,122
2008	31,458	927	32,385
	<u>\$ 119,912</u>	<u>\$ 6,717</u>	<u>\$ 126,629</u>

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

Capital Lease – Interest rate 3.25%

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2006	\$ 19,689	\$ 2,687	\$ 22,376
2007	20,329	2,047	22,376
2008	20,990	1,386	22,376
2009	21,673	703	22,376
	<u>\$ 82,681</u>	<u>\$ 6,823</u>	<u>\$ 89,504</u>

Capital Lease – Interest rate 4.25%

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTALS</u>
2006	\$ 37,105	\$ 21,036	\$ 58,141
2007	38,708	19,433	58,141
2008	40,379	17,762	58,141
2009	42,123	16,018	58,141
2010	43,942	14,199	58,141
2011-2016	297,743	42,354	340,097
	<u>\$ 500,000</u>	<u>\$ 130,802</u>	<u>\$ 630,802</u>

**NOTE 6 DEFERRED REVENUE – AVAILABILITY OF SERVICE**

The District is allowed to collect availability of service revenue in the amount equal to their debt service on their CWPA loans. The difference of \$171,373 has been deferred.

**NOTE 7 SEGMENT INFORMATION**

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

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

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Service Charges and Hook Up Fees	\$ 313,343	\$ 82,596	\$ 395,939
Depreciation Expense	\$ 106,944	\$ 88,149	\$ 195,093
Operating Income (Loss)	\$ (5,710)	\$ (212,580)	\$ (218,290)
Property, Plant and Equipment:			
Additions	\$ 137,770	\$ 213,330	\$ 351,100

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

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 8 PENSION PLAN**

***Plan Description***

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

***Basis of Accounting***

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

***Funding Policy***

The District employees contribute 8.0 percent of their wages to an individual account in the plan. During 2005, the District contributed 10.0 percent of the employees' wages, which was allocated to three separate programs by PERA according to statutory formula as follows:

- 1.02 percent was allocated to the Health Care Trust Fund.
- The amount needed to meet the match requirement set by the PERA board was allocated to individual member's eligible voluntary tax-deferred retirement program. For the calendar year 2005, the matching amount was set at 100 percent of the first 3 percent of employee salary. Two percent of the gross salary plus fifty percent of any reduction in the overall contribution rate due to over-funding of the pension plan was available for the match.
- The balance remaining after allocations to the Matchmaker Program and the Healthcare Trust Fund was allocated to the defined benefit plan.

The District's total contributions to PERA for the calendar years ending December 31, 2005, 2004, and 2003, were \$24,900, \$21,271, and \$18,427, respectively. These contributions met the contribution requirements for each year.

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**December 31, 2005**

**NOTE 9 RISK MANAGEMENT**

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

**NOTE 10 TABOR EMERGENCY RESERVE**

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

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

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

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



**BACA GRANDE WATER AND SANITATION DISTRICT**  
**OTHER SCHEDULES AND REPORTS**

**BACA GRANDE WATER AND SANITATION DISTRICT  
BUSINESS-TYPE ACTIVITIES  
WATER AND SEWER FUND  
SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN  
NET ASSETS - BUDGET AND ACTUAL  
For the Year Ended December 31, 2005**

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		POSITIVE (NEGATIVE)
<b>OPERATING REVENUES</b>				
Water and Sewer Service Charge	\$ 300,000	\$ 300,000	\$ 342,339	\$ 42,339
Availability of Service Fees	150,034	150,034	134,156	(15,878)
Tap Fees	20,000	20,000	27,600	7,600
Fire Hydrant Revenue	15,000	15,000	18,143	3,143
Miscellaneous Revenue	1,000	1,000	12,463	11,463
Hook Up Fees	21,600	21,600	53,600	32,000
<b>Total operating revenues</b>	<b>507,634</b>	<b>507,634</b>	<b>588,301</b>	<b>80,667</b>
<b>OPERATING EXPENSES</b>				
Salaries and Benefits	323,404	323,404	234,508	88,896
Directors Fees	6,000	6,000	6,000	-
Legal and Accounting Fees	24,600	24,600	16,274	8,326
Repair and Maintenance	40,200	72,200	67,949	4,251
Utilities	50,211	75,211	69,611	5,600
Insurance and Bonds	20,000	20,000	18,990	1,010
Office Expense	26,265	26,265	23,753	2,512
Other Supplies	10,500	23,500	22,009	1,491
Vehicle Operations	20,000	35,000	28,687	6,313
Water Costs	29,133	39,133	36,904	2,229
Water Tap Assembly	40,000	75,000	-	75,000
Testing	12,000	15,000	14,104	896
Bad Debt Expense	-	12,000	11,272	728
Interest on Debt	43,847	43,847	36,446	7,401
Principal Payments on Debt	175,685	175,685	155,685	20,000
Capital Improvements/Equipment	60,000	165,000	282,686	(117,686)
Other	7,000	27,000	24,991	2,009
<b>Total operating expenses</b>	<b>888,845</b>	<b>1,158,845</b>	<b>1,049,869</b>	<b>108,976</b>
Operating income (loss)	(381,211)	(651,211)	(461,568)	189,643
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Property Taxes and Specific Ownership Tax	336,000	336,000	416,540	80,540
Interest on Investments	2,400	2,400	3,076	676
Penalties for Certification	-	-	23,418	23,418
Saguache County Settlement	15,000	15,000	49,970	34,970
Debt Proceeds	500,000	500,000	500,000	-
In Lieu of Taxes	2,000	2,000	2,089	89
<b>Total nonoperating revenues (expenses)</b>	<b>855,400</b>	<b>855,400</b>	<b>995,093</b>	<b>139,693</b>

**BACA GRANDE WATER AND SANITATION DISTRICT**  
**BUSINESS-TYPE ACTIVITIES**  
**WATER AND SEWER FUND**  
**SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN**  
**NET ASSETS - BUDGET AND ACTUAL**  
**For the Year Ended December 31, 2005**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>Net Income (Loss) - Budget Basis</b>	474,189	204,189	533,525	329,336
Add: Items not considered expenses on Statement of Operations:				
Principal Payments on Debt			155,685	
Capital Improvements/Equipment			282,686	
Less: Items not considered revenues on Statement of Operations				
Debt Proceeds			(500,000)	
Less: Items considered expenses on Statement of Operations:				
Depreciation			(195,093)	
<b>Net Income (Loss)</b>			276,803	
<b>Net Assets at beginning of year</b>	82,802	82,802	3,623,896	3,541,094
<b>Net Assets at end of year</b>	<u>\$ 556,991</u>	<u>\$ 286,991</u>	<u>\$ 3,900,699</u>	<u>\$ 3,613,708</u>

**BACA GRANDE WATER & SANITATION DISTRICT  
REPORTABLE CONDITIONS LETTER  
DECEMBER 31, 2005**

June 27, 2006

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

In planning and performing our audit of the financial statements of the Baca Grande Water and Sanitation District for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the district's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions that we believe to be material weaknesses.

**Unlocated Cash Receipts**

During our audit we attempted to perform a test on 2005 cash receipts. However, management was unable to locate all of the District's receipt books for 2005. These receipt books contain duplicate receipts for all cash payments received by the District. Many of the books were not located and some of the pages appeared to have been removed from the receipt books that could be located.

Due to the above circumstances, we tested two days of receipts for 2006. On one of the days tested, we re-ran a report from the District's metering and accounts receivable system (Caselle) for the day selected. This report showed \$849.22 of additional customer accounts that were not on the original report kept on file. Upon further testing, we were able to trace the additional customer payments to the receipt books which indicated receipt of cash, however we were unable to trace these customer receipts to deposit into the District's bank account.

On the second day we selected for testing, we discovered one customer's account which showed an amount of \$153.00 being received in cash per the cash receipt book. Upon review of the customer's account in Caselle, the account was credited for only \$110.16. Per review of the actual deposit the \$110.16 was not made with the cash received but was two refund checks from a vendor. We were unable to find the refund recorded in the general ledger. We later discovered that the customer's account had been credited for the additional \$42.84 on a different day. We ran a report in Caselle that reflected the credit of \$42.84 and also several other cash payments to customer accounts, which were traced to payments in the cash receipt book, however we were unable to trace any of these additional payments to deposit in the bank.

Based on the above findings, we attempted to trace cash receipts from January 1, 2006 through June 30, 2006 and we were unable to trace any of these payments to deposit in the District's bank accounts. The office manager was unable to explain the missing funds or the missing receipt books.

The District does not have adequate procedures or controls in place to reconcile cash received with the amounts posted in Caselle and the amount deposited to the bank. In addition, the cash is kept in a place that is not secure.

We recommend that the District further investigate the missing funds and receipt books. We also recommend that the District implement controls and procedures to ensure that the receipts are reconciled to the posting in Caselle and the bank deposit. The District should take measures to keep cash in a secure area and limit the access to cash. Cash should be deposited into the bank account as soon as possible.

#### **Classification of Revenues and Expenses**

During our audit, we found revenues and expenses along with accounts receivable recorded in an account called "Fix Accounts" in the amount of \$183,052, even though there was sufficient documentation to classify the items in the proper accounts. It is important to properly classify all transactions. This helps the Board to have a better understanding of where their resources are coming from and going to. We recommend that the "Fix Accounts" account be eliminated and all transactions be recorded in the appropriate accounts.

We also noted the following reportable conditions that are not believed to be material weaknesses.

#### **Postage Expense**

During the audit we noted excessive amounts of postage expense being charged to the District. We recommend that the District investigate all charges to ensure they are valid District expenses.

#### **Missing Invoices or Other Supporting Documentation**

During the audit we noted that several invoices or other supporting documentation could not be provided to substantiate expenditures. We recommend the District maintain all documentation to support their expenditures.

### **Excessive Journal Entries**

Approximately twenty-five (25) journal entries were necessary during the course of the 2005 audit to correct the District's general ledger. Accounting records are a useful tool for management to utilize in making day to day decisions regarding fiscal matters. Accounting records contained numerous material errors that were not detected and corrected in a timely manner, resulting in management decisions being made during 2005 and to the present date based upon incorrect data. We recommend that every effort be extended by District personnel to detect and correct accounting errors in a timely manner.

### **Financial Reporting**

Currently the District is not utilizing Quickbooks capabilities for generating financial reports. Using reports generated by Quickbooks helps to ensure the completeness and accuracy of the financial reports management uses for their basis of financial decisions.

### **Records Retention**

To prevent the loss of accounting records, we recommend the District review their records retention process. The following recordkeeping considerations should be investigated during such a review:

- Federal and state legal retention requirements for each type of record and document
- Internal retention requirements of certain records and documents not covered by legal dictate (such as government contract records and other customer contract records).
- The type of paper to be used to record data, considering the length of the retention period and the type of storage facilities.
- Availability of storage facilities
- Cost of scanning records versus the cost of storing the original document
- Frequency of referral to documents
- Indexing documents for destruction after expiration of retention period

The process should be adhered to by all employees because the reconstruction of these records would be costly and time consuming.

### **Personnel Records**

During our audit we observed that personnel files are not being kept current and in most instances were incomplete. Comprehensive personnel files compile data for all employees in one area. A complete file should be prepared for all new employees. We recommend that the following items be in an employee's personnel file and be maintained by an individual who does not have payroll preparation responsibilities.

- Signed and dated application of employment
- Form I-9 Employment Eligibility Verification
- Date of hire

- Approved pay rate (updated as changes occur)
- Signed W-4 form
- Insurance and other benefits election forms
- Beneficiary designation form
- Employee's current address and phone number
- Employee evaluations
- Benefit election forms for terminated or retired employees

The preceding comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organizations and should not be used by anyone other than these specified parties.

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

WALL, SMITH, BATEMAN AND ASSOCIATES, INC.  
Certified Public Accountants