

Pagosa Area Water and Sanitation District

Financial Statements

December 31, 2017

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Office of the State Auditor

June 26, 2018

Pagosa Area Water and Sanitation District
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Independent Auditor's Report

The 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, 2017, 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 the District, as of December 31, 2017, 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 budgetary comparison information on pages ii-x and page 34 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 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, Uc

June 12, 2018

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, 2017.

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, 2017. 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 \$76,149,759; this is a decrease of \$1,328,017 from the previous year however, \$1,983,562 of the decrease is a result of the restatement of beginning net position from 2016. Otherwise, the figure would be a net increase of \$655,545.
2. Operating expenses of \$9,014,169 exceeded operating revenues of \$7,126,030 by \$1,888,139
3. General revenues total \$2,543,684.

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 2017, 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 \$397,270 in 2017 on water projects and \$189,264 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 \$7,299,552 of which \$2,284,402 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 2017: 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 \$548,000 was transferred to other funds. The major sources of revenue are

monies collected for property taxes and specific ownership taxes. In 2017, the General Fund collected \$1,049,484. There was a \$30,095 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, 2017, was \$965,572 of this amount, \$31,975 is set aside as a reserve (see note 14 on page 30 of the financial statements). Non spendable prepaids and inventories are \$16,358 and the remaining balance of \$917,239 is undesignated.

The Debt Service Fund records the collection of property taxes for debt service payments on general obligation bonds. In 2017, property taxes collected for debt service were \$1,165,474; \$945,000 was paid in principal payments and \$173,616 was paid for interest. The 2017 fund balance for the Debt Service Fund increased by \$18,763 from 2016. The Debt Service Fund balance at the end of 2017 was \$21,447.

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 a decrease in Net Position of \$319,776 for 2017. Of this amount, the operating loss was (\$766,485); non-operating revenues and expenses have a surplus of \$80,646; and \$366,063 was supplied from transfers and a gain on asset disposal. The transfers from the General Fund of \$365,000 are cash additions. At the end of 2017, the Water Fund had a net position of \$53,382,673. Of this amount, \$48,072,488 is invested in capital assets, net of related debt and is not available for future appropriations and \$5,310,185 is unrestricted.

The Wastewater Fund had a decrease in Net Position of \$11,587 for 2017. Of this amount, operating loss was (\$365,982); non-operating revenues and expenses contributed \$166,872; and \$187,253 was from transfers and a gain on asset disposal. The transfers from the General Fund of \$183,000 are cash additions. At the end of 2017, the Wastewater Fund has a net position of \$26,548,060. Of this amount \$21,432,973 is invested in capital assets, net of related debt and is not available for future appropriations and \$5,115,087 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 2017 and 2016 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 decreased by \$1,328,017 as a result of the restatement described in the highlight section of page ii. The table also shows total restricted assets of \$4,222,277 of this amount \$2,284,402 is designated for future water and wastewater treatment, distribution and collection related capital projects that are projected to total approximately \$20,823,300. It is estimated that another \$16,601,023 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 has been completed in 2018. As of December 31, 2017, governmental activities show a deficit in unrestricted net position of (\$3,780,974), which is an increase in the deficit from 2016 that is also related to the restatement in beginning net position. 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 \$10,425,272 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 \$69,505,461 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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current assets	\$1,838,012	\$1,838,306	\$5,107,156	\$4,875,674	\$6,945,168	\$6,713,980
Restricted assets	1,195,560	1,183,379	3,026,717	2,333,375	4,222,277	3,516,754
Capital assets	466,915	432,112	94,691,162	97,395,279	95,158,077	97,827,391
Total assets	\$3,500,487	3,453,797	102,825,035	104,604,328	106,325,522	108,058,125
Current liabilities	1,029,254	1,001,140	1,642,485	1,638,740	2,671,739	2,639,880
Long-term debt outstanding	4,253,538	5,237,245	21,251,817	22,703,224	25,505,355	27,940,469
Total liabilities	5,282,792	6,238,385	22,894,302	24,341,964	28,177,094	30,580,349
Net position:						
Invested in capital assets, net						
of related debt	466,915	432,112	69,505,461	70,716,446	69,972,376	71,148,558
Restricted	53,422	32,614			53,422	32,614
Unrestricted	(4,301,311)	(3,249,314)	10,425,272	9,545,918	6,123,961	6,296,604
Total net position	(3,780,974)	(\$2,784,588)	\$79,930,733	\$80,262,364	\$76,149,759	\$77,477,776

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 2017 and 2016. An examination of Table B for 2017 shows that the District's change in net positions in the business-type activities is (\$331,633); this is a decrease from the prior year. Net income before contributions and transfers decreased by (\$921,340); contributions and transfers decreased by \$93,225. The business-type activities show an operating loss of (\$1,166,114) for 2017. The business-type activities use transfers from the General Fund to partially meet their operating needs in the amount of \$548,000 in 2017. The operating loss has increased \$958,151 from that of 2016 due to fixed service rate revenues not keeping pace with on-going increases in expenses. The District embarked upon a Water and Wastewater Rate Study early in 2018.

The governmental funds use property taxes levied for general purposes to meet operating needs. Governmental activities show a decrease in net positions of \$996,386. The decrease of \$178,636 from the prior year is due to the restatement of beginning net position described in the Financial Highlights section on page ii.

TABLES B: CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Charges for services	0	0	\$7,126,030	\$6,795,687	\$7,126,030	\$6,795,687
Total operating exp	722,025	828,633	8,292,144	7,003,650	9,014,169	7,832,283
Operating income (loss)	(\$722,025)	(\$828,633)	(\$1,166,114)	(\$207,963)	(\$1,888,139)	(\$1,036,596)
General Revenues						
Property taxes and specific ownership taxes	2,214,958	2,160,049	0	0	2,214,958	2,160,049
Gain (Loss) on asset di	0	0	5,317	(9,000)	5,317	(9,000)
Investment earnings & l	42,245	40,231	281,164	258,670	323,409	298,901
General revenues	2,257,203	2,200,280	286,481	249,670	2,543,684	2,449,950
Net income before contributions and transfers	1,535,178	1,371,647	(879,633)	41,707	655,545	1,413,354
Capital contributions						
Donated assets	0	0	0	93,225	0	93,225
Transfers:						
Construction projects						
General Fund	(548,000)	(548,000)	548,000	548,000	0	0
Debt Service Fund						
Special Revenue Fund						
Change in net position	987,178	823,647	(331,633)	682,932	655,545	1,506,579
Beginning net position	(\$2,784,588)	(3,608,235)	\$80,262,364	79,579,433	\$77,477,776	75,971,198
Rounding / Adjustment	(\$1,983,564)		2	(1)	-1,983,562	(1)
Beginning net position, as corrected	(\$4,768,152)	(3,608,235)	\$80,262,366	79,579,432	\$75,494,214	75,971,197
Ending net position	\$ (3,780,974)	(2,784,588)	79,930,733	80,262,364	\$76,149,759	77,477,776

BUDGETARY HIGHLIGHTS

Pagosa Area Water and Sanitation District did amend its budget in 2017.

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 \$1,165,080 and actually spent \$1,095,928.

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 2017, the District invested \$586,534 in capital projects. Capital projects that were substantially completed in 2017 were:

- Installation of two MIEX drying beds at the San Juan Water Treatment Plant
- Relocation and installation of a new potable water fill station at Mill Creek Road
- Installation of an air cooling system for compressors at Hatcher Water Treatment Plant
- Installation of a cat walk over the A basin at the Vista Wastewater Treatment Plant

The following projects were Capital projects still in process at the end of 2017:

- Engineering for the ultra violet disinfection at the San Juan Water Treatment Plant
- Upgrades to the SCADA systems
- Installation of a roof over the ultra violet disinfection at the Vista Wastewater Treatment Plant

At the conclusion of 2017, the District's outstanding debt was \$27,615,364 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 2018. Projected user fees, growth, and Capital Investment Fees are all evaluated and considered before a final budget is adopted. The 2018 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 2018 budget year.

The General Fund has budgeted \$1,154,738; this is an increase of \$58,810 over 2017 expenditures.

The Debt Service Fund has budgeted \$1,150,100; this is an decrease of \$3,718 over the 2017 expenditures.

The Water Fund has budgeted \$4,683,620; this is an decrease of \$89,556 from the 2017 expenditures. This decrease is primarily due to a reduction in anticipated water line replacement in 2018.

The Wastewater Fund has budgeted \$2,371,735; this is an increase of \$73,193 from the 2017 expenditures. This increase is primarily due to increased allowances for wastewater line maintenance.

Capital projects which are scheduled for 2018 are as follows:

- Installation of a roof structure over the Ultra Violet Disinfection area at the Vista Wastewater Treatment Plant
- The elimination of two lift stations through diversion to the PS2 lift station in Timber Ridge
- Installation of a third drying bed at the San Juan Water Treatment Plant
- Transitioning the SCADA Radio System to Ethernet

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, Colorado.

Basic Financial Statements

Pagosa Area Water and Sanitation District
Statement of Net Position
December 31, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 852,573	\$ 4,060,283	\$ 4,912,856
Receivables	985,439	549,615	1,535,054
Internal Balances	6	(6)	-
Inventories	-	497,257	497,257
Non-Current Assets:			
Cash	21,442	2,365,258	2,386,700
Customer accounts receivable, net	-	564,230	564,230
Taxes receivable	1,157,754	-	1,157,754
Prepaid Expenses	16,358	97,230	113,588
Capital assets, net of accumulated depreciation	466,915	82,511,796	82,978,711
Construction in progress	-	109,688	109,688
Due from other governments	-	2,695,330	2,695,330
Other assets	-	9,374,348	9,374,348
Total Non-Current Assets	<u>1,662,469</u>	<u>97,717,880</u>	<u>99,380,349</u>
Total Assets	<u>3,500,487</u>	<u>102,825,029</u>	<u>106,325,516</u>
LIABILITIES			
Accounts payable and accrued expenses	28,982	101,649	130,631
Accrued vacation and retirement	18,901	66,930	85,831
Unearned revenues	-	46,089	46,089
Long-term liabilities			
Due within one year:			
Bonds and loans payable	965,000	1,403,582	2,368,582
Accrued interest	16,371	24,229	40,600
Due in more than one year:			
Bonds and loans payable	4,160,000	21,086,789	25,246,789
Bond premium net of discount	93,538	165,028	258,566
Total liabilities	<u>5,282,792</u>	<u>22,894,296</u>	<u>28,177,088</u>
Deferred Cash In-Flows			
Deferred property taxes	<u>1,998,669</u>	<u>-</u>	<u>1,998,669</u>
NET POSITION			
Net investment in capital assets	466,915	69,505,461	69,972,376
Restricted for:			
Debt Service	21,447	-	21,447
TABOR	31,975	-	31,975
Unrestricted	(4,301,311)	10,425,272	6,123,961
Total net position	<u>\$ (3,780,974)</u>	<u>\$ 79,930,733</u>	<u>\$ 76,149,759</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, 2017**

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government						
Governmental Activities						
General Government	\$ 548,409	\$ -	\$ -	\$ (548,409)	\$ -	\$ (548,409)
Interest on Long-term debt	173,616	-	-	(173,616)	-	(173,616)
Total governmental activities	722,025	-	-	(722,025)	-	(722,025)
Business-type activities:						
Water	5,704,215	4,830,269	-	-	(873,946)	(873,946)
Wastewater	2,587,929	2,295,761	-	-	(292,168)	(292,168)
Total business-type activities	8,292,144	7,126,030	-	-	(1,166,114)	(1,166,114)
Total primary government	9,014,169	7,126,030	-	(722,025)	(1,166,114)	(1,888,139)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				\$ 816,827	\$ -	\$ 816,827
Property taxes, levied for debt service				1,165,474	-	1,165,474
Specific ownership taxes				232,657	-	232,657
Unrestricted investment earnings				18,224	158,045	176,269
Miscellaneous				24,021	123,119	147,140
Special item - gain (loss) on sale of assets				-	5,317	5,317
Transfers				(548,000)	548,000	-
Total general revenues, special items, and transfers				1,709,203	834,481	2,543,684
Change in net position				987,178	(331,633)	655,545
Net position - beginning - restated				(4,768,152)	80,262,366	75,494,214
Net position - ending				(3,780,974)	79,930,733	76,149,759

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, 2017

	General Fund	Debt Services Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 852,572	\$ -	\$ 852,572
Taxes receivable, net	840,915	-	840,915
Taxes receivable, delinquent	143,407		143,407
Due from other funds	-	6	6
Other receivables	1,118	-	1,118
Prepaid Expenses	16,358	-	16,358
Restricted Assets:			
Cash	-	21,441	21,441
Receivables, net	-	1,157,754	1,157,754
Total assets	1,854,370	1,179,201	3,033,571
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	28,982	-	28,982
Accrued vacation and retirement	18,901	-	18,901
Total liabilities	47,883	-	47,883
Deferred Cash In-Flows:			
Deferred property taxes	840,915	1,157,754	1,998,669
Fund balances:			
Non spendable prepaid expense	16,358	-	16,358
Restricted - TABOR	31,975	-	31,975
Unassigned	917,239	-	917,239
Restricted	-	21,447	21,447
Total fund balances	965,572	21,447	987,019
Total liabilities and fund balances	\$ 1,854,370	\$ 1,179,201	\$ 3,033,571

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, 2017

Total fund balance, governmental funds	\$	987,019
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.		466,915
Certain other liabilities are reflected on this statement but are not shown as liabilities on the Statement of Net Position-Unearned Revenue Property Taxes		1,998,669
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.		(5,218,538)
Accrued interest on GO Bonds		(16,371)
Restatement of beginning Net Position		(1,998,668)
Net Assets of Governmental Activities in the Statement of Net Position	\$	<u><u>(3,780,974)</u></u>

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, 2017

	<u>General Fund</u>	<u>Debt Services Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Property Taxes	\$ 816,827	\$ 1,165,474	\$ 1,982,301
SO Tax	232,657	-	232,657
Investment earnings	11,117	7,107	18,224
Miscellaneous	5,232	-	5,232
Total revenues	<u>1,065,833</u>	<u>1,172,581</u>	<u>2,238,414</u>
EXPENDITURES			
Current:			
Audit and compilation	24,276	-	24,276
Board expense	82	-	82
Dues and permits	13,084	-	13,084
Employee expense	3,001	-	3,001
Treasurers fees	25,207	35,202	60,409
Fringe benefits	57,892	-	57,892
Insurance general	9,796	-	9,796
Legal fees	1,297	-	1,297
Office expense	30,886	-	30,886
Office maintenance and landscape	7,716	-	7,716
Outside services	43,722	-	43,722
Payroll taxes, vacation and sick pay	18,376	-	18,376
Personnel	228,812	-	228,812
Publications and recording fees	1,358	-	1,358
Repairs and maintenance	1,675	-	1,675
Telephone and utilities	18,059	-	18,059
Travel and training	3,472	-	3,472
Debt Service:			
Principal	-	945,000	945,000
Interest expense	-	173,616	173,616
Capital Outlay	59,217	-	59,217
Total Expenditures	<u>547,928</u>	<u>1,153,818</u>	<u>1,701,746</u>
Excess (deficiency) of revenues over expenditures	<u>517,905</u>	<u>18,763</u>	<u>536,668</u>
OTHER FINANCING SOURCES			
Transfers out	(548,000)	-	(548,000)
Total other financing sources and uses	<u>(548,000)</u>	<u>-</u>	<u>(548,000)</u>
SPECIAL ITEM			
Net change in fund balances	(30,095)	18,763	(11,332)
Fund balances - beginning	995,667	2,684	998,351
Fund balances - ending	<u>\$ 965,572</u>	<u>\$ 21,447</u>	<u>\$ 987,019</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, 2017

Net change in fund balances - total governmental funds: \$ (11,332)

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 \$59,217 was more than depreciation of \$24,496 in the current period. 34,721

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 17,008

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. 945,000

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	16,804
Adjustment	82
Adjustment due to restatement of beginning Net Position	(15,105)
Change in net position of governmental activities	<u>\$ 987,178</u>

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, 2017

	Enterprise Funds		
	Water Fund	Wasterwater Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,859,402	\$ 1,200,882	\$ 4,060,284
Accounts receivable, net	326,538	223,077	549,615
Inventories	475,824	21,433	497,257
Total current assets	3,661,764	1,445,392	5,107,156
Non-current assets:			
Restricted for capital projects and debt service			
Cash	1,567,184	798,074	2,365,258
Customer accounts receivable, net	315,314	248,915	564,229
Prepaid expenses	97,230	-	97,230
Utility system, net of accumulated depreciation	55,929,412	26,582,384	82,511,796
Construction in progress	50,602	59,086	109,688
Due from other governments	-	2,695,330	2,695,330
Other assets	9,374,348	-	9,374,348
Total non-current assets	67,334,090	30,383,789	97,717,879
Total assets	70,995,854	31,829,181	102,825,035
LIABILITIES			
Current Liabilities:			
Accounts payable	54,726	46,923	101,649
Due to other funds	6	-	6
Other accrued expenses	68,796	22,363	91,159
Unearned revenue	42,751	3,338	46,089
Bonds and loans payable, current portion	1,002,928	400,654	1,403,582
Total current liabilities	1,169,207	473,278	1,642,485
Non-current liabilities:			
Bond premiums net of discount	165,028	-	165,028
Bonds and loans payable	16,278,946	4,807,843	21,086,789
Total non-current liabilities	16,443,974	4,807,843	21,251,817
Total liabilities	17,613,181	5,281,121	22,894,302
NET POSITION			
Net investment in capital assets	48,072,488	21,432,973	69,505,461
Unrestricted	5,310,185	5,115,087	10,425,272
Total net position	\$ 53,382,673	\$ 26,548,060	\$ 79,930,733

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, 2017

	Enterprise Fund		
	Water Fund	Wasterwater Fund	Total
REVENUES			
Charges for services	\$ 3,507,848	\$ 1,673,871	\$ 5,181,719
Availability charges	427,452	280,092	707,544
Customer hookups	197,728	29,720	227,448
Late charges	13,186	2,565	15,751
Other operating revenues	207,018	230,539	437,557
Total operating revenues	<u>4,353,232</u>	<u>2,216,787</u>	<u>6,570,019</u>
OPERATING EXPENSES			
Source of Supply	498,288	-	498,288
Treatment	1,861,758	1,145,881	3,007,639
Administrative and general	556,060	259,944	816,004
Maintenance department	119,009	57,808	176,817
Distribution and collection	2,084,602	1,119,136	3,203,738
Total Operating Expenses	<u>5,119,717</u>	<u>2,582,769</u>	<u>7,702,486</u>
Operating income (loss)	<u>(766,485)</u>	<u>(365,982)</u>	<u>(1,132,467)</u>
NON-OPERATING REVENUES (EXPENSES)			
System investment fees	547,329	90,037	637,366
Interest income on delinquent taxes	14,227	-	14,227
Other interest and investment income	46,072	81,995	128,067
Capital expenditures	(183,697)	(5,160)	(188,857)
Interest expense	(398,635)	-	(398,635)
Bond discount and issue costs, net of bond premium	55,350	-	55,350
Total non-operating revenue (expenses)	<u>80,646</u>	<u>166,872</u>	<u>247,518</u>
Income (loss) before contributions and transfers	<u>(685,839)</u>	<u>(199,110)</u>	<u>(884,949)</u>
Transfers in	365,000	183,000	548,000
Gain (loss) on asset disposal	1,063	4,253	5,316
Change in net position	<u>(319,776)</u>	<u>(11,857)</u>	<u>(331,633)</u>
Total net position - beginning	53,702,449	26,559,917	80,262,366
Total net position - ending	<u>\$ 53,382,673</u>	<u>\$ 26,548,060</u>	<u>\$ 79,930,733</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, 2017

	<u>Enterprise Fund</u>		
	<u>Water Fund</u>	<u>Wasterwater Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 4,337,507	\$ 2,222,776	\$ 6,560,283
Cash paid to suppliers	(1,859,562)	(1,373,198)	(3,232,760)
Cash paid for personnel costs	(960,352)	(350,704)	(1,311,056)
Net cash flows from Operating Activities	<u>1,517,593</u>	<u>498,874</u>	<u>2,016,467</u>
Cash flows from non-capital financing activities			
Transfers from other funds	365,000	183,000	548,000
Interest on delinquent taxes	14,227	-	14,227
Net cash flows from non-capital financing activities	<u>379,227</u>	<u>183,000</u>	<u>562,227</u>
Cash flows from capital and related financing activities			
System investment fees	547,329	90,037	637,366
Proceeds from sale of equipment	1,063	4,253	5,316
Bond principal (payments)	(979,051)	(400,653)	(1,379,704)
Payment on bond interest	(398,635)	-	(398,635)
Capital assets acquired or constructed	(397,270)	(189,264)	(586,534)
Capital expenditures	(183,697)	(5,160)	(188,857)
Net cash flows from capital and financing activities	<u>(1,410,261)</u>	<u>(500,787)</u>	<u>(1,911,048)</u>
Cash flows from investing activities			
Payments received on due from other governments	-	113,428	113,428
Interest income	46,072	81,995	128,067
Net cash flows from investing activities	<u>46,072</u>	<u>195,423</u>	<u>241,495</u>
Net increase (decrease) in cash and cash equivalents	532,631	376,510	909,141
Beginning of year	3,893,955	1,622,446	5,516,401
End of year	<u>\$ 4,426,586</u>	<u>\$ 1,998,956</u>	<u>\$ 6,425,542</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, 2017

	<u>Enterprise Fund</u>		
	<u>Water Fund</u>	<u>Wasterwater Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash flows from operating activities			
Operating income (loss)	\$ (766,485)	\$ (365,982)	\$ (1,132,467)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
Depreciation	2,305,450	879,305	3,184,755
Changes in assets and liabilities			
(Increase) decrease in:			
Accounts receivable	(24,146)	2,651	(21,495)
Inventory	74,333	945	75,278
Prepaid expenses	(69,466)	-	(69,466)
Increase (decrease) in:			
Accounts payable	(20,107)	(25,987)	(46,094)
Accrued liabilities	9,593	4,604	14,197
Unearned revenues	8,421	3,338	11,759
Net cash flows from operating activities	<u>\$ 1,517,593</u>	<u>\$ 498,874</u>	<u>\$ 2,016,467</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, 2017

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 \$4,301,311. 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 two funds are also depreciating those 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.

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.

Proprietary Funds reported by the District are as follows:

Enterprise Funds - Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, which are considered operating revenues. Non-operating revenues consist of charges to customers, which are used to fund capital improvements. The District's two enterprise funds are the 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, 2017, were \$282,346 for the Water Fund and \$336,130 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 \$35,851.

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:

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 as of December 31, 2017 was \$82,885, 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. Long-term debt and other long-term liabilities are also reported as liabilities in the proprietary fund type statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds-outstanding method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 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>\$ 6,973,374</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	\$ 2,859,402	\$ 1,200,882	\$ 4,060,284
Restricted Assets:			
Cash	1,567,184	798,074	2,365,258
Totals for Cash Flow Statement	<u>\$ 4,426,586</u>	<u>\$ 1,998,956</u>	<u>\$ 6,425,542</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	\$ -	\$ 548,000
Water Fund	365,000	-
Wastewater Fund	183,000	-
	<u>\$ 548,000</u>	<u>\$ 548,000</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 \$109,687 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	\$ -	\$ -	\$ -
Additions	242,796	119,686	362,482
Less transfers to fixed assets	(192,194)	(60,601)	(252,795)
Ending balance	<u>\$ 50,602</u>	<u>\$ 59,085</u>	<u>\$ 109,687</u>

7. Capital Assets

Capital asset activity for the year ended December 31, 2016, 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	170,467	47,189	5	217,651
Transportation equipment	64,259	12,028	-	76,287
Total	943,878	59,217	-	1,003,090
Less accumulated depreciation	(511,766)	(24,496)	87	(536,175)
Total Governmental Fixed Assets	<u>\$ 432,112</u>	<u>\$ 34,721</u>	<u>\$ -</u>	<u>\$ 466,915</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	33,719,298	182,452	-	33,901,750
Collection, transmission and distribution systems	62,914,820	82,968	-	62,997,788
Buildings	518,820	-	-	518,820
Capital equipment	1,933,743	169,257	(101,508)	2,001,492
Transportation equipment	512,414	49,702	(65,927)	496,189
Total	119,800,445	484,379	(167,435)	120,117,389
Less accumulated depreciation	(34,588,272)	(3,184,755)	167,435	(37,605,592)
Total Business-Type Fixed Assets	<u>\$ 85,212,173</u>	<u>\$(2,700,376)</u>	<u>\$ -</u>	<u>\$ 82,511,797</u>

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

Governmental Activities	
Administrative services	<u>\$ 24,496</u>
Business-Type Activities	
Water	\$ 2,305,450
Wastewater	<u>879,305</u>
Total Depreciation Expense	<u>\$ 3,184,755</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
2018	\$ 645,000	\$ 98,310	\$ 743,310
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	\$ 3,415,000	\$ 299,080	\$ 3,714,080

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

	Principle	Interest	Total
2018	\$ 320,000	\$ 50,894	\$ 370,894
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	\$ 1,710,000	\$ 156,894	\$ 1,866,894

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
2018	\$ 440,000	3.00%	\$ 115,350	\$ 555,350
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
2023-2024	1,010,000	4.00%	60,200	1,070,200
	<u>\$3,345,000</u>		<u>\$ 500,750</u>	<u>\$3,845,750</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
2018	\$ 372,216	4.00%	\$ 99,549	\$ 89,486	\$ 561,251
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
2023-2027	2,664,286	4.00%-4.25%	265,151	427,743	3,357,180
2028	1,055,080	4.25%	21,446	39,373	1,115,899
	<u>\$ 5,633,620</u>		<u>\$ 717,488</u>	<u>\$ 914,546</u>	<u>\$ 7,265,654</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
2018	\$ 190,711	1.75%	\$ 65,419	\$ 256,130
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
2023-2027	1,077,006	1.75%	203,644	1,280,650
2028-2032	1,174,603	1.75%	106,051	1,280,654
2033-2034	499,123	1.75%	13,139	512,262
	<u>\$ 3,738,253</u>		<u>\$ 615,963</u>	<u>\$ 4,354,216</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
2018	\$ 351,827	\$ 48,827	\$ 400,654
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
2023-2027	1,759,135	244,130	2,003,265
2028-2030	1,055,480	146,478	1,201,958
	<u>\$ 4,573,750</u>	<u>\$ 634,743</u>	<u>\$ 5,208,493</u>

Changes in Long-Term Debt:

	Beginning Balance	Payments	Additions (Deletions)	Ending Balance
Governmental Activities				
General Obligation Bonds				
Series 2012 dated March 27	\$ 2,025,000	\$ (315,000)	\$ -	\$ 1,710,000
Series 2012 dated March 27	4,045,000	(630,000)	-	3,415,000
Total	<u>6,070,000</u>	<u>(945,000)</u>	<u>-</u>	<u>5,125,000</u>
Business-Type Activities				
Revenue Bonds				
2015 Revenue and Refunding	3,770,000	(425,000)	-	3,345,000
2008 Revenue Bond	6,000,240	(366,619)	-	5,633,621
CWRPDA – ARRA & Base	5,609,144	(400,654)	-	5,208,490
CWCB Loan A	3,925,684	(187,431)	-	3,738,253
CWCB Loan B	4,565,000	-	-	4,565,000
Total	<u>23,870,068</u>	<u>(1,379,704)</u>	<u>-</u>	<u>22,490,364</u>
Total Long-Term Debt	<u>\$29,940,068</u>	<u>\$ (2,324,704)</u>	<u>\$ -</u>	<u>27,615,364</u>
Less Current Portion				
General Obligation Bonds				(965,000)
Revenue Bonds				(1,403,581)
Total				<u>\$ 25,246,783</u>

Annual Debt Requirements for all Bonds (Principal Only):

	<u>Bonds</u>
2018	\$ 2,368,581
2019	2,420,315
2020	2,475,315
2021	2,520,562
2022	2,580,272
2023-2027	6,754,557
2028-2032	3,431,641
2033-2037	499,123
2038-2054	4,564,998
Total	<u>\$ 27,615,364</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 salaries were \$1,475,460 and contributions were \$39,866 for both the employer and the employees, based on eligible wages of \$1,328,867. The dollar amount of forfeitures during 2017 was \$701.

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 \$43,391 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:

2018	\$3,420
2019	3,420
2020	3,420
2021	855
Total	<u>\$11,115</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, Tennant 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>\$ 31,975</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 \$31,975 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, 2016, is as follows:

Admitted Assets	<u>\$ 52,645,796</u>
Liabilities	\$ 28,757,242
Surplus	<u>23,888,554</u>
Total Liabilities and Surplus	<u>\$ 52,645,796</u>
Revenues	\$ 18,932,979
Expenses	<u>(14,100,230)</u>
Net Income (Loss)	<u>\$ 4,832,749</u>
Investment Income	<u>\$ 405,790</u>
Change in Non-Admitted Assets	<u>\$ (664,948)</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. There is no expiration date for 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 2017.

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, 2017, was \$2,695,330. 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, 2017.

20. Restatement of Beginning Net Position

During 2018, management decided to adjust the Statement of Net Position to reflect the Deferred Cash In-Flows effective December 31, 2017. By restating the Statement of Net Position, the Deferred Cash In-Flows will be reflected the same in the Statement of Net Position as the Balance Sheet Governmental Funds.

Total Net Position before the Restatement	\$	(2,784,588)
Restatement to reflect Deferred Cash In-Flows		(1,998,669)
Change in current year property taxes		15,105
Restated Beginning Net Position	\$	<u>(4,768,152)</u>

Required Supplementary Information

**Pagosa Area Water and Sanitation District
Budget and Actual
General Fund
For the year ended December 31, 2017**

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Property taxes	\$ 810,816	\$ 810,816	\$ 816,827	\$ 6,011
SO taxes	170,000	170,000	232,657	62,657
Investment earnings	6,800	6,800	11,117	4,317
Miscellaneous	5,000	5,000	3,829	(1,171)
Total revenues	<u>992,616</u>	<u>992,616</u>	<u>1,064,430</u>	<u>71,814</u>
EXPENDITURES				
Current:				
Emergency fund	18,554	18,554	-	18,554
Audit	24,280	24,280	24,276	4
Board expense	2,500	2,500	82	2,418
Dues and permits	17,000	17,000	13,084	3,916
Employee expense	3,000	3,000	3,001	(1)
Fees	25,656	25,656	25,207	449
Fringe benefit	67,370	67,370	57,892	9,478
Insurance general	7,850	7,850	9,796	(1,946)
Legal fees	5,000	5,000	1,297	3,703
Office expense	25,000	25,000	30,886	(5,886)
Office maintenance and landscape	11,750	11,750	7,716	4,034
Outside services	45,725	45,725	43,722	2,003
Payroll taxes, vacation and sick pay	19,740	19,740	18,376	1,364
Personnel	273,400	273,400	228,812	44,588
Publications and recording fees	2,500	2,500	1,358	1,142
Repairs and maintenance	1,225	1,225	1,675	(450)
Telephone and utilities	19,600	19,600	18,059	1,541
Travel and training	3,430	3,430	3,472	(42)
Capital outlay	43,500	43,500	59,217	(15,717)
Total Expenditures	<u>617,080</u>	<u>617,080</u>	<u>547,928</u>	<u>69,152</u>
Excess (deficiency) of revenues over expenditures	<u>375,536</u>	<u>375,536</u>	<u>516,502</u>	<u>140,966</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(548,000)	(548,000)	(548,000)	-
Total other financing sources and uses	<u>(548,000)</u>	<u>(548,000)</u>	<u>(548,000)</u>	<u>-</u>
Net change in fund balances	(172,464)	(172,464)	(31,498)	140,966
Adjustment to GAAP fund balance	-	-	1,403	1,403
Fund balances - beginning	964,946	964,946	995,667	(30,721)
Fund balances - ending	<u>\$ 792,482</u>	<u>\$ 792,482</u>	<u>\$ 965,572</u>	<u>\$ 173,090</u>

**Pagosa Area Water and Sanitation District
Notes to Required Supplementary Information
December 31, 2017**

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 2017 budget appropriations and expenditures by fund:

	Original Budget	Final Budget	Expenditures (Budgetary) Basis	Variance Favorable (Unfavorable)
General Fund	\$ 1,165,080	\$ 1,165,080	\$ 1,095,928	\$ 69,152
Debt Service Fund	1,155,003	1,155,003	1,153,818	1,185
Water Fund	4,506,730	4,793,486	4,769,876	23,610
Wastewater Fund	2,372,450	2,372,450	2,298,542	73,908
Totals	<u>\$ 9,199,263</u>	<u>\$ 9,486,019</u>	<u>\$ 9,316,028</u>	<u>\$ 167,855</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, 2017**

	<u>Budgeted Amounts Original</u>	<u>Budgeted Amounts Final</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Property Taxes	\$ 1,173,748	\$ 1,173,748	\$ 1,165,474	\$ (8,274)
Investment earnings	3,720	3,720	7,107	3,387
Total revenues	<u>1,177,468</u>	<u>1,177,468</u>	<u>1,172,581</u>	<u>(4,887)</u>
EXPENDITURES				
Current:				
Administration	36,386	36,386	35,202	1,184
Debt Service:				
Principal	945,000	945,000	945,000	-
Interest and other charges	173,617	173,617	173,616	1
Total Expenditures	<u>1,155,003</u>	<u>1,155,003</u>	<u>1,153,818</u>	<u>1,185</u>
Excess (deficiency) of revenues over expenditures	<u>22,465</u>	<u>22,465</u>	<u>18,763</u>	<u>(3,702)</u>
SPECIAL ITEM				
Net change in fund balances	22,465	22,465	18,763	(3,702)
Fund balances - beginning	(4,027)	(4,027)	2,684	(6,711)
Fund balances - ending	<u>\$ 18,438</u>	<u>\$ 18,438</u>	<u>\$ 21,447</u>	<u>\$ (10,413)</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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Revenues				
Availability charges	\$ 427,500	\$ 427,500	\$ 427,452	\$ (48)
Other Water Sales	93,000	93,000	92,337	(663)
Capital investment fee	313,000	313,000	312,653	(347)
Service fees	3,508,000	3,508,000	3,507,847	(153)
Customer hookups	198,000	198,000	197,728	(272)
Inclusion Fee	7,100	7,100	7,074	(26)
Irrigation	50,550	50,550	50,501	(49)
Raw water acquisition fee	235,000	235,000	234,677	(323)
Late charges and interest	13,500	13,500	13,186	(314)
Current tax interest	4,300	4,300	4,262	(38)
Interest income - RWAF	7,300	7,300	7,271	(29)
Interest income - CIF	4,000	4,000	3,984	(16)
Interest on certified accounts	8,700	8,700	8,632	(68)
Interest on delinquent taxes	1,400	1,400	1,333	(67)
Other interest	35,000	35,000	34,818	(182)
Transfer from general fund	365,000	365,000	365,000	-
Gain or Loss on Asset Disposal	1,100	1,100	1,063	(37)
Other revenues	58,000	58,000	57,105	(895)
Total revenues	5,330,450	5,330,450	5,326,923	(3,527)
Expenses				
Sources of Supply				
Ditches	800	800	792	8
Reservoirs	72,000	72,000	71,927	73
Raw water line - Jackson Mt	3,600	3,600	3,572	28
Power Lake Forest	5,000	5,000	4,809	191
Power Dutton Ditch	600	600	564	36
	82,000	82,000	81,664	336
Water Treatment Plant				
Hatcher WTR plant chemicals/lab	186,000	186,000	185,923	77
Snowball WTP chemicals/lab	40,000	40,000	39,934	66
San Juan WTP chemicals/lab	146,000	146,000	145,394	606
Health insurance	29,000	29,000	28,816	184
Retirement	8,000	8,000	7,913	87
Hatcher WTP fuel & power	142,500	142,500	142,057	443
Snowball WTP fuel & power	20,000	20,000	18,221	1,779
San Juan WTP fuel & power	27,000	27,000	26,638	362

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Insurance	8,000	8,000	7,805	195
Payroll taxes	13,100	13,100	12,708	392
Personnel	168,500	168,500	167,046	1,454
Vehicle maintenance	4,000	4,000	3,948	52
Hatcher WTP maintenance	63,500	63,500	63,088	412
Snowball WTP maintenance	40,000	40,000	39,968	32
San Juan maintenance	25,000	25,000	24,031	969
Training	5,000	5,000	4,457	543
	<u>925,600</u>	<u>925,600</u>	<u>917,947</u>	<u>7,653</u>
Distribution Systems				
Health insurance	60,500	60,500	60,459	41
Retirement	16,500	16,500	16,018	482
Fire hydrant maintenance	10,000	10,000	9,426	574
Fuel & power mission booster	700	700	608	92
Fuel & power pump stations	30,000	30,000	29,429	571
Town fill station - fuel & power	1,400	1,400	1,354	46
Trails fill station - fuel & power	1,200	1,200	1,132	68
Insurance	16,000	16,000	15,522	478
Payroll taxes	23,100	23,100	23,079	21
Personnel	297,000	297,000	296,724	276
Town fill station - maintenance	300	300	256	44
Trails fill station - maintenance	700	700	617	83
Water tank maintenance	130,000	130,000	129,768	232
Vehicle maintenance	8,600	8,600	8,429	171
Training	2,500	2,500	4,457	(1,957)
Uniforms	10,500	10,500	10,444	56
Water line maintenance	535,000	535,000	534,003	997
	<u>1,144,000</u>	<u>1,144,000</u>	<u>1,141,725</u>	<u>2,275</u>
Maintenance Department				
Building maintenance	2,700	2,700	2,623	77
Health insurance	5,850	5,850	5,848	2
Retirement	2,000	2,000	1,977	23
Vehicle maintenance	715	715	715	-
Equipment maintenance	15,000	15,000	14,747	253
Gas, diesel and oil	32,000	32,000	31,719	281
Insurance	1,700	1,700	1,640	60
Operating supplies	15,000	15,000	14,870	130
Payroll taxes	2,700	2,700	2,699	1

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Personnel	33,000	33,000	32,960	40
Tools and small equipment	4,600	4,600	4,544	56
Utilities	4,700	4,700	4,668	32
	<u>119,965</u>	<u>119,965</u>	<u>119,010</u>	<u>955</u>
Billing				
Bad debts	14,000	14,000	13,869	131
Data processing	32,000	32,000	31,770	230
Health insurance	31,500	31,500	31,416	84
Retirement	4,600	4,600	4,420	180
Insurance	200	200	182	18
Payroll taxes	5,700	5,700	5,644	56
Personnel	84,000	84,000	83,742	258
Postage	17,000	17,000	16,846	154
	<u>189,000</u>	<u>189,000</u>	<u>187,889</u>	<u>1,111</u>
Administration				
Audit	2,860	2,860	2,856	4
Dues and permits	6,000	6,000	5,996	4
Employee miscellaneous	2,700	2,700	2,700	-
Health insurance	28,000	28,000	27,464	536
Retirement	9,000	9,000	8,692	308
Vehicle maintenance	900	900	832	68
Insurance - general	78,000	78,000	77,767	233
Legal fees	800	800	773	27
Office expense	20,485	20,485	20,151	334
Maintenance of office building	3,700	3,700	3,671	29
Landscaping	1,700	1,700	1,618	82
Payroll taxes	11,000	11,000	10,986	14
Publications	900	900	895	5
Vacation pay	12,000	12,000	11,170	830
Personnel	147,000	147,000	146,184	816
Telephone	10,000	10,000	9,628	372
Utilities	2,000	2,000	1,807	193
Trash removal	1,700	1,700	1,684	16
Training	2,380	2,380	2,264	116
Inclusion expense	1,100	1,100	1,020	80
Computer support & upgrades	27,000	27,000	26,546	454
	<u>369,225</u>	<u>369,225</u>	<u>364,704</u>	<u>4,521</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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Inspection Services				
Health insurance	9,275	9,275	9,275	-
Retirement	2,650	2,650	2,604	46
Insurance	2,600	2,600	2,540	60
Payroll taxes	4,200	4,200	4,111	89
Construction Inspector Salary	55,000	55,000	54,929	71
Vehicle maintenance	730	730	725	5
	<u>74,455</u>	<u>74,455</u>	<u>74,184</u>	<u>271</u>
Capital Expenditures				
Connections	168,500	168,500	168,015	485
Water rights	16,000	16,000	15,682	318
CIF Water SCADA System	10,800	10,800	10,767	33
CIF WTP upgrades	6,900	6,900	6,804	96
CIF Distribution system upgrades	29,000	29,000	28,527	473
Water SCADA system	10,800	10,800	10,767	33
Water treatment plant upgrades	83,000	83,000	82,657	343
Capital equipment	135,000	135,000	134,924	76
Transportation Equipment	27,500	27,500	27,081	419
Distribution system upgrades	30,000	30,000	29,091	909
	<u>517,500</u>	<u>517,500</u>	<u>514,315</u>	<u>3,185</u>
Debt Service				
Principle - 2015 refunding	425,000	425,000	425,000	-
Interest - 2015 refunding	128,100	128,100	128,100	-
Principal, CWPDA loan	366,620	366,620	366,619	1
Interest, CWPDA loan	106,403	106,403	106,403	-
Administrative fee - CWPDA Loan	89,486	89,486	89,486	-
Principal - CWCB loan	187,432	187,432	187,431	1
Interest, CWCB loan	68,700	68,700	68,699	1
Total debt retirement & transfers	<u>1,371,741</u>	<u>1,371,741</u>	<u>1,371,738</u>	<u>3</u>
Total expenditures	<u>4,793,486</u>	<u>4,793,486</u>	<u>4,773,176</u>	<u>20,310</u>
Excess of revenues over (under) expenses	<u>536,964</u>	<u>536,964</u>	<u>553,747</u>	<u>\$ 16,783</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, 2017

	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)	3,454,366	3,454,366	4,596,641	
Change in Net Position (Budgetary Basis)	3,991,330	\$ 3,991,330	5,150,388	

**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)				
Miscellaneous			258	
Capital outlay costs			397,270	
Principal payments on 2015 refunding bonds			425,000	
Principal payments on CWDPA loan			366,619	
Principal payments on CWCB loan			187,431	
Bond issue costs amortized			(2,166)	
Amortization of bond premium			57,515	
Depreciation			(2,305,450)	
Net (Decrease) in Revenues and Other Financing Sources to GAAP Basis			(873,523)	
Change in Net Position GAAP Basis			\$ (319,776)	

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Revenues				
Availability charges	\$ 253,000	\$ 253,000	\$ 280,092	\$ 27,092
Customer hookups	25,200	25,200	29,720	4,520
Capital Investment fees	61,000	61,000	90,037	29,037
Service fees	1,666,000	1,666,000	1,673,871	7,871
Municipal wastewater treatment	150,000	150,000	147,964	(2,036)
Interest PSSGID	30,756	30,756	30,756	-
Interest PSSGID CIF	30,756	30,756	30,756	-
Inclusion fee	5,500	5,500	5,726	226
Waste hauling	55,000	55,000	68,351	13,351
Interest income - CIF	4,460	4,460	8,066	3,606
Interest on delinquent taxes	50	50	627	577
Penalty & interest delinquent accounts	3,500	3,500	2,565	(935)
Current tax interest	1,000	1,000	1,232	232
Other interest	4,760	4,760	10,558	5,798
Other operating revenues	8,500	8,500	8,498	(2)
Gain or Loss on Asset Disposal	-	-	4,253	4,253
Transfer from general fund	183,000	183,000	183,000	-
Total Revenues	2,482,482	2,482,482	2,576,072	93,590
Wastewater Collection				
Health insurance	36,900	36,900	33,810	3,090
Retirement	9,450	9,450	9,188	262
Uniforms	4,500	4,500	4,915	(415)
Fuel and power lift stations	55,000	55,000	62,977	(7,977)
Insurance	9,220	9,220	8,638	582
Payroll taxes	12,590	12,590	13,312	(722)
General and pumps lift stations	15,000	15,000	14,320	680
Personnel	167,300	167,300	172,105	(4,805)
Wastewater line maintenance/repair	240,000	240,000	200,607	39,393
Vehicle maintenance	3,980	3,980	4,686	(706)
Training	2,300	2,300	1,228	1,072
	556,240	556,240	525,786	30,454
Wastewater Treatment				
Health insurance	27,700	27,700	28,709	(1,009)
Retirement	7,200	7,200	7,169	31
Fuel, power & water Vista WWTP	220,000	220,000	238,033	(18,033)
Insurance	6,455	6,455	6,860	(405)

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, 2017

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Payroll taxes	10,700	10,700	11,259	(559)
Personnel	141,640	141,640	149,615	(7,975)
Maintenance Vista WWTP	143,205	143,205	340,098	(196,893)
Lab supply & testing	19,000	19,000	17,819	1,181
Vehicle maintenance	2,450	2,450	2,319	131
Sludge removal	48,000	48,000	55,723	(7,723)
Training	1,100	1,100	2,322	(1,222)
	<u>627,450</u>	<u>627,450</u>	<u>859,926</u>	<u>(232,476)</u>
Maintenance Department				
Building maintenance	500	500	1,578	(1,078)
Vehicle maintenance	335	335	271	64
Equipment maintenance	5,640	5,640	7,393	(1,753)
Health insurance	2,750	2,750	2,751	(1)
Retirement	950	950	930	20
Gas, diesel and oil	24,000	24,000	15,225	8,775
Insurance	1,040	1,040	756	284
Operating supplies	6,000	6,000	7,013	(1,013)
Payroll taxes	1,250	1,250	1,270	(20)
Personnel	15,550	15,550	15,510	40
Tools and small equipment	3,360	3,360	2,138	1,222
Utilities	2,300	2,300	2,972	(672)
	<u>63,675</u>	<u>63,675</u>	<u>57,807</u>	<u>5,868</u>
Billing				
Bad debts	15,000	15,000	14,052	948
Data processing	10,000	10,000	7,518	2,482
Health insurance	14,000	14,000	14,781	(781)
Retirement	2,450	2,450	2,072	378
Insurance	135	135	86	49
Payroll taxes	3,300	3,300	2,657	643
Personnel	43,100	43,100	39,081	4,019
Postage	9,000	9,000	7,927	1,073
Training	900	900	-	900
	<u>97,885</u>	<u>97,885</u>	<u>88,174</u>	<u>9,711</u>
Inspection Services				
Health insurance	4,360	4,360	4,365	(5)
Retirement	1,230	1,230	1,226	4

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, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts Budgetary Basis	Final Budget Favorable (Unfavorable)
Insurance	1,135	1,135	1,171	(36)
Personnel	24,100	24,100	25,849	(1,749)
Payroll taxes	1,750	1,750	1,935	(185)
Vehicle maintenance	335	335	401	(66)
	<u>32,910</u>	<u>32,910</u>	<u>34,947</u>	<u>(2,037)</u>
Administration				
Audit	1,430	1,430	1,428	2
Inclusion expense	1,000	1,000	888	112
Employee expense	1,300	1,300	1,281	19
Health insurance	14,800	14,800	12,430	2,370
Retirement	4,650	4,650	3,845	805
Dues and permits	9,000	9,000	7,160	1,840
Insurance - general	29,110	29,110	35,067	(5,957)
Legal fees	1,600	1,600	524	1,076
Office expense	8,000	8,000	9,464	(1,464)
Maintenance of office building	3,160	3,160	1,801	1,359
Landscaping	1,120	1,120	761	359
Payroll taxes	5,600	5,600	4,853	747
Personnel	78,100	78,100	65,034	13,066
Vacation pay	-	-	4,604	(4,604)
Publications	1,000	1,000	401	599
Vehicle maintenance	170	170	576	(406)
Telephone	5,400	5,400	5,714	(314)
Utilities	2,000	2,000	850	1,150
Trash removal	950	950	790	160
Training	1,000	1,000	1,075	(75)
Computer support & upgrades	13,125	13,125	13,223	(98)
	<u>182,515</u>	<u>182,515</u>	<u>171,769</u>	<u>10,746</u>
Capital Expenditures				
Connections	4,000	4,000	5,160	(1,160)
Capital equipment	61,280	61,280	56,835	4,445
Transportation Equipment	16,160	16,160	12,744	3,416
Wastewater treatment plant	122,150	122,150	31,603	90,547
Wastewater SCADA system	26,250	26,250	10,767	15,483
Collection system upgrades	32,880	32,880	-	32,880
CIF - Wastewater scada systems	26,250	26,250	10,767	15,483
CIF - WW treatment plants	122,150	122,150	31,603	90,547
	<u>411,120</u>	<u>411,120</u>	<u>159,479</u>	<u>251,641</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, 2017

	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>2,372,450</u>	<u>2,372,450</u>	<u>2,298,542</u>	<u>73,908</u>
Excess of revenues over (under) expenses	<u>110,032</u>	<u>110,032</u>	<u>277,530</u>	<u>\$ 167,498</u>
Other Financing Sources (Uses)				
Unappropriated surplus	-	-	1,986,973	
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>1,986,973</u>	
Change in Net Position (Budgetary Basis)	<u>\$ 110,032</u>	<u>\$ 110,032</u>	<u>2,264,503</u>	

**Reconciliation of Budgetary Basis to GAAP
Basis Financial Statements**

Increase (Decrease) in Revenues and Other Financing Sources	
Unappropriated surplus	<u>(1,986,973)</u>
Net (Decrease) in Revenues and Other Financing Sources	<u>(1,986,973)</u>
(Increase) Decrease in Revenues and Other Financing Uses	
Capital outlay costs	75,836
Principal payments on ARRA bonds	400,654
Repayments from PSSGID	113,428
Depreciation	<u>(879,305)</u>
Net (Decrease) in revenues and Other Financing Sources to GAAP basis	<u>(289,387)</u>
Change in Net Position GAAP Basis	<u>\$ (11,857)</u>