

**SAN JUAN WATER
CONSERVANCY DISTRICT**

FINANCIAL STATEMENTS

Year Ended December 31, 2009

**SAN JUAN WATER CONSERVANCY DISTRICT
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CLARK, WHITE, & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS

Karla K. Clark, CPA

INDEPENDENT AUDITOR'S REPORT

Frankie White, CPA

Board of Directors
San Juan Water Conservancy District
Pagosa Springs, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund of San Juan Water Conservancy District, as of and for the year ended December 31, 2009, which comprise San Juan Water Conservancy District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of San Juan Water Conservancy District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of San Juan Water Conservancy District, as of December 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying required supplementary information consisting of management's discussion and analysis presented on pages ii to vi, the budgetary comparison schedule for the General Fund, and the notes to required supplementary information presented on pages 11 to 12 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clark White & Associates, Inc.

Clark, White & Associates, Inc.
Certified Public Accountants

July 6, 2010

Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the San Juan Water Conservancy District's (the District) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

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, 2009. The financial statements are an integral part of this analysis and should be read in conjunction with this document.

Financial Highlights

1. The District spent \$86,773 in engineering and legal fees for the Dry Gulch Water Reservoir in 2009.
2. The District continued its assistance with the Lower Blanco River restoration and spent \$20,000 on that project in 2009.

Report Layout

Besides this Management's Discussion and Analysis (MD&A), the report consists of combined governmental fund and government-wide financial statements, notes to the financial statements, and required supplementary information including a budget comparison schedule for the General Fund and notes to required supplementary information. San Juan Water Conservancy District is a single fund entity whose primary function is to facilitate the construction of water projects. Revenues and expenses relate to the core function of operating the District and its facilities. The basic financial statements of San Juan Water Conservancy District contain two primary statements: Governmental Fund Balance Sheet/Statement of Net Assets and the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities.

The Governmental Fund Balance Sheet/Statement of Net Assets reflects the cumulative financial condition of the District at December 31, 2009, and the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities show the change in financial condition from operations and other activities for the year then ended. These statements use two different financial measurements. The column labeled Governmental Fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. The columns labeled Statement of Net Assets and Statement of Activities are reported using the economic resources measurement focus and the accrual basis of accounting.

The MD&A is used to explain the significant changes in financial position and differences in operation between the current and prior years.

Financial Statements

Governmental Fund Balance Sheet/Statement of Net Assets

This financial statement reports the assets, liabilities and fund balances for the General Fund at December 31, 2009, and after adjustments (as explained in Note 10) the net assets for the District at December 31, 2009.

At December 31, 2009, the General Fund reports assets and liabilities as follows:

Current assets: \$356,246. This is a decrease of \$46,061 from the previous year, which is due primarily to a decrease in cash.

The District had liabilities in the General Fund of \$114,308 at December 31, 2009.

Fund balance for the General Fund at December 31, 2009 was \$241,938. Of this amount, \$5,730 is reserved for emergencies; \$56,202 is designated for subsequent year's expenditures, and \$180,006 is undesignated.

Table A (shown on page v) is a condensed format of the Statement of Net Assets. The major increases in net assets and liabilities are discussed above. The difference between the assets shown on the Statement of Net Assets and the General Fund is the addition of capital assets for \$1,342,664. Capital assets are not included in governmental funds but are a GASB 34 adjustment and are included in the government-wide statements. Capital assets increased \$86,773 over the prior year.

The difference between the liabilities shown on the Statement of Net Assets and the General Fund is the removal of deferred property taxes of \$102,648 from the General Fund. This is also a GASB 34 adjustment as explained in Note 10 on page 10.

Total net assets as shown in Table A increased by \$70,461. This increase is described below in Table B.

Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

This financial statement reports the revenues, expenditures and changes in fund balance for the General Fund for the year ended December 31, 2009, and after adjustments (as explained in Note 10) the statement of activities for the District for the year ended December 31, 2009.

For the year ended December 31, 2009, the General Fund's total revenues were \$104,526. The District's main source of revenues is general property taxes and specific ownership taxes. The decrease from 2008 to 2009 in total revenues was \$68,586. This decrease was primarily due to a grant of \$60,000 from The Southwestern Water Conservation District received in 2008.

The General Fund's expenses for the year were \$168,938. This was a decrease of \$957,882 over 2008. The main reason for the decrease in expenditures was due to the purchase of land for the Dry Gulch Reservoir in 2008 of \$1,000,366.

The deficiency of revenues over expenditures as shown in the General Fund for the year ended December 31, 2009, was \$64,412. The deficiency was covered by fund balances from prior years.

Table B (shown on page v) is a condensed format of the Statement of Activities. The difference between the revenues shown on the Statement of Activities and the General Fund is an increase in revenues on the Statement of Activities of \$48,100. This increase is due to recording property tax accruals of \$12,053 and deferred grant revenues of \$36,047. The difference between the expenses shown on the Statement of Activities and the General Fund is a decrease in expenses of \$86,773. Capital expenditures are removed from the Statement of Activities and reclassified into fixed assets.

On the Statement of Activities the change in net assets for the year ended December 31, 2009, is \$70,461. This is a decrease of \$1,119 from the previous year.

Tables A & B indicate the District's finances are stable.

TABLE A
Condensed Statement of Net Assets

	Governmental Activities	
	2009	2008
Current assets	\$356,246	\$402,307
Restricted assets		
Capital assets	<u>1,342,664</u>	<u>1,255,891</u>
Total assets	<u>1,698,910</u>	<u>1,658,198</u>
Accounts payable	11,660	5,362
Deferred revenues		<u>36,047</u>
Total liabilities	<u>11,660</u>	<u>41,409</u>
Net assets:		
Invested in capital assets, net of related debt	1,342,664	1,255,891
Restricted	5,730	5,730
Unrestricted	<u>338,856</u>	<u>355,168</u>
Total net assets	<u><u>\$1,687,250</u></u>	<u><u>\$1,616,789</u></u>

TABLE B
Condensed Statement of Activities

	Governmental Activities	
	2009	2008
Grants and other income	\$38,520	\$32,722
Total operating expenses	<u>82,165</u>	<u>66,261</u>
Operating income (loss)	<u>(43,645)</u>	<u>(33,539)</u>
General Revenues		
Property taxes and specific ownership taxes	110,572	96,416
Interest income	<u>3,534</u>	<u>8,703</u>
General revenues	<u>114,106</u>	<u>105,119</u>
Change in net assets	70,461	71,580
Beginning net assets	<u>1,616,789</u>	<u>1,545,209</u>
Ending net assets	<u><u>\$1,687,250</u></u>	<u><u>\$1,616,789</u></u>

Capital Assets

San Juan Water Conservancy District is working on projects to satisfy future water storage needs. After years of study and review, the District has determined that the Dry Gulch reservoir site offered the best economic solution to the area's raw water storage needs.

The District is currently involved in negotiations with several land owners to purchase land for the reservoir site.

At December 31, 2009, the District had \$1,342,664 invested in the Dry Gulch construction project for land, environmental and legal fees.

Because the Dry Gulch Project depends on growth of the community, future water demands and public support for the project, it is not possible to estimate future costs. Funding for this project will come from grants, loans, impact fees, property tax revenues, and Pagosa Area Water and Sanitation District. The most recent estimate for San Juan Water Conservancy District's contribution to the Dry Gulch Project was announced early in 2009 as \$10,027,000 in environmental accommodation expenditures.

Budgetary Highlights

For 2009, San Juan Water Conservancy District continued with its efforts toward the development of Dry Gulch Reservoir. The District budgeted to receive \$154,095 and actually received \$104,526. Grant revenues anticipated of \$50,000 were not received. Expenditures were budgeted for \$224,771 and only \$168,938 was spent. Expenditures for Dry Gulch were reduced to reflect a decrease in anticipated grant revenues. The budget was not amended in 2009.

Economic Factors and Next Year's Budget

The General Fund has budgeted \$225,550 for 2010; this is only a slight increase over the 2009 Budget.

Capital expenditures planned include additional environmental studies necessary for the Dry Gulch Reservoir, as well as participation with the Pagosa Area Water and Sanitation District towards remaining land acquisition, possibly through a conservation easement.

Future Plans

The District plans to continue to support, within its ability, working towards increasing raw water storage capabilities for the future.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact Carrie Weiss at 100 Lyn Avenue, Pagosa Springs, Colorado.

BASIC FINANCIAL STATEMENTS

SAN JUAN WATER CONSERVANCY DISTRICT
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
December 31, 2009

	<u>Governmental Fund General Fund</u>	<u>Adjustments (Note 10)</u>	<u>Statement of Net Assets</u>
ASSETS			
Current Assets			
Cash and cash equivalents	\$251,168	\$0	\$251,168
Investments	1,893		1,893
Receivables			
Property taxes	102,648		102,648
Intergovernmental	537		537
Total Current Assets	<u>356,246</u>	<u>0</u>	<u>356,246</u>
Capital Assets			
Dry Gulch Project Development		342,298	342,298
Land		1,000,366	1,000,366
Total Assets	<u><u>\$356,246</u></u>	<u><u>1,342,664</u></u>	<u><u>1,698,910</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$11,660		11,660
Deferred property taxes	102,648	(102,648)	
Total Liabilities	<u>114,308</u>	<u>(102,648)</u>	<u>11,660</u>
Fund Balances			
Reserved for emergencies	5,730	(5,730)	
Unreserved:			
Undesignated	180,006	(180,006)	
Designated for subsequent year's expenditures	56,202	(56,202)	
Total Fund Balances	<u>241,938</u>	<u>(241,938)</u>	
Total Liabilities and Fund Balances	<u><u>\$356,246</u></u>		
Net Assets			
Invested in capital assets		1,342,664	1,342,664
Restricted		5,730	5,730
Unrestricted		338,856	338,856
Total Net Assets		<u><u>\$1,687,250</u></u>	<u><u>\$1,687,250</u></u>

The accompanying notes are an integral part of this statement.

SAN JUAN WATER CONSERVANCY DISTRICT
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
Year Ended December 31, 2009

	<u>Governmental Fund General Fund</u>	<u>Adjustments (Note 10)</u>	<u>Statement of Activities</u>
REVENUES			
General property taxes	\$91,070	\$12,053	\$103,123
Specific ownership taxes	7,449		7,449
Interest and penalties on taxes	824		824
Other interest income	2,710		2,710
Grant revenue		36,047	36,047
Impact fees	2,473		2,473
Total Revenues	<u>104,526</u>	<u>48,100</u>	<u>152,626</u>
EXPENDITURES/EXPENSES			
General government			
Dry Gulch	61,218	(61,218)	
Dry Gulch - water rights	25,555	(25,555)	
Ditches and streams	77		77
Cloud seeding	2,400		2,400
Sno-Tel site contribution	2,500		2,500
Insurance	2,058		2,058
Legal	18,819		18,819
Publications	10,508		10,508
Lower Blanco River restoration	20,000		20,000
Water information program	1,500		1,500
Administration			
Administration fees	4,958		4,958
Audit fees	8,210		8,210
Board expense	3,434		3,434
Outside services	1,413		1,413
Miscellaneous	1,827		1,827
County treasurers' fees	2,744		2,744
Office expense	1,717		1,717
Total Expenditures/Expenses	<u>168,938</u>	<u>(86,773)</u>	<u>82,165</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES/EXPENSES	<u>(64,412)</u>	<u>64,412</u>	
CHANGE IN NET ASSETS		70,461	70,461
FUND BALANCE/NET ASSETS			
Beginning of Year	<u>306,350</u>	<u>1,310,439</u>	<u>1,616,789</u>
End of Year	<u>\$241,938</u>	<u>\$1,445,312</u>	<u>\$1,687,250</u>

The accompanying notes are an integral part of this statement.

**SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

1. DEFINITION OF REPORTING ENTITY

San Juan Water Conservancy District operates under statutes governing special districts of the State of Colorado. San Juan Water Conservancy District (the District) was created on October 28, 1987, for the construction of water projects in Archuleta County. The District is governed by a Board of Directors appointed by the District Court of Archuleta County, Colorado.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, the District's ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

San Juan Water Conservancy District is not financially accountable for any other organization; the District is not a component unit of any other primary governmental entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of San Juan Water Conservancy 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.

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. 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. The government-wide financial statements do not include fiduciary funds nor component units that are fiduciary in nature.

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. Expenditures are recorded when a liability is incurred as under accrual accounting. Capital asset acquisitions are reported as expenditures in governmental funds.

SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

(Note 2 continued)

The District has one governmental fund:

General Fund - The general fund is the District's primary operating fund. It accounts for all financial resources of the general government.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

Cash and Cash Equivalents

The District considers all highly liquid investments (including restricted assets) purchased with a maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and a useful life expectancy of more than three years. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

The District uses the straight line depreciation method calculated over the useful life of applicable assets.

Deposits and Investments

Colorado law authorizes the District to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House Bill 1056 expanded the list of investments that are legal for local governments.

Allowance for Uncollectibles

No allowance for uncollectibles has been provided because the District's receivables are property taxes, and the County Treasurer is empowered to file liens on properties where delinquencies exist. Accordingly, the District believes any delinquencies will eventually be paid.

SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

(Note 2 continued)

Restricted Assets

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

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

Net Assets/Fund Balances

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

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent amounts that are not available for appropriation. Designations of fund balance represent tentative management plans for future use of financial resources that are subject to change.

Revenue Recognition - 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 basis of accounting, the revenue is not deferred and is recognized in the current year financial statements.

The District's property taxes, levied by December 15, on assessed valuation as of the preceding January 1, 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 payable. The taxes are payable under two methods: 1) in full on or before April 30, 2) one-half on or before February 28, and the remaining one-half on or before June 15. All unpaid taxes levied for the preceding year become delinquent June 16.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

3. CAPITAL ASSETS

A summary of changes in capital assets follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
Dry Gulch Development	\$255,525	\$86,773	\$0	\$342,298
Land, ownership share of Weber property, 10.73%	1,000,366			1,000,366
	<u>\$1,255,891</u>	<u>\$86,773</u>	<u>\$0</u>	<u>\$1,342,664</u>

No depreciation was recorded for 2009.

4. DEPOSITS AND INVESTMENTS

A. Deposits

The District's deposit policies are governed by Colorado statute. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; state regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds. The pool is to be maintained by another financial institution or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least 102% of the uninsured deposits.

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 December 31, 2009, none of the District's deposits were exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institution through PDPA.

B. Investments

The District is subject to Colorado statutes which define eligible investments for local governments. Eligible investments include bonds and other interest-bearing obligations of or guaranteed by the United States government or its agencies; bonds which are direct obligations of the State of Colorado or any of its political subdivisions; repurchase agreements; commercial paper; guaranteed investment contracts and local government investment pools.

The District's investments as of December 31, 2009, consisted of investments with the Colorado Local Government Liquid Asset Trust (COLOTRUST) in the amount of \$1,893.

COLOTUST is an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is routinely monitored by the Colorado Division of Securities with regard to its operations and investments, which are also

SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

(Note 4 continued)

subject to provisions of C.R.S. Title 24, Article 75, Section 6. The fair value of the investments in COLOTRUST is the same as the value of the pool shares. None of these types of investments are categorized because they are not evidenced by securities that exist in physical or book entry form. COLOTRUST is rated AAAM from Standard and Poor's. 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.

5. 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.

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 December 31, 2009, totaling \$5,730 have been presented as a reservation of fund balance in the General Fund. Under TABOR, the District is not allowed to

**SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

(Note 5 continued)

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 November of 2006, San Juan Water Conservancy 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, 2006, and continuing thereafter. A permanent waiver of the 5.5% limitation was also requested. The requests were approved by the District's voters.

6. RELATED PARTY TRANSACTIONS

San Juan Water Conservancy District has agreed to share the costs on specified water projects with Pagosa Area Water and Sanitation District. In addition Pagosa Area Water and Sanitation District provides administrative support and other services for San Juan Water Conservancy District.

The two districts have three board members in common, Windsor Chacey, Karen Wessels and Harold Slavinski. In addition, the manager of Pagosa Area Water and Sanitation District, Carrie Weiss, is also a board member of San Juan Water Conservancy District.

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

1. Administrative Services Agreement – San Juan Water Conservancy District has agreed to pay Pagosa Area Water and Sanitation District for administrative services. In 2009, San Juan Water Conservancy District expended \$4,958 for these services and \$1,500 for office supplies and postage. This agreement has an automatic continuation for one year periods, unless cancelled by either party.
2. Cost Sharing Agreement – The two districts have agreed to share some costs associated with the enlargement of Stevens Reservoir. At December 31, 2009, Pagosa Area Water and Sanitation District has expended \$6,363,778 for this enlargement; San Juan Water Conservancy District has expended \$100,000; the amount that will be expended in the future is estimated at \$292,017. The amount that San Juan Water Conservancy District will contribute cannot be determined at this time. There is no expiration date for this agreement.
3. 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. To date, San Juan Water Conservancy District has expended \$1,342,664 and Pagosa Area Water and Sanitation District has spent \$9,061,593 for this project which includes land acquisition. Because this project depends on the growth of the community, future water demands and public support for the project, it is not possible to estimate future costs.

SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

(Note 6 continued)

4. Intergovernmental Agreement concerning CWCB Loan Financing of 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 has entered into a loan agreement with Colorado Water Conservation Board (CWCB) for a loan of \$11,217,000 to fund estimated pre-construction expenditures through 2019. San Juan Water Conservancy District's contribution to this project cannot be estimated at this date.

7. 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.

8. JOINT VENTURE

The District is a participant in the Colorado Special Districts' Property and Liability Pool. The Pool is a joint venture between the Special Districts' 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 coverage to its members. The 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 exceeds 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 Pool issues a publicly available annual financial report that includes financial statements and supplementary information. That report may be obtained by calling the Colorado Special District Association at 303-863-1733 in the Denver metro area and 1-800-886-1733 from outside the metro area. The joint venture summary audited financial information as of December 31, 2009, is as follows:

Admitted Assets	<u>\$30,153,631</u>
Liabilities	11,972,279
Surplus	<u>18,181,352</u>
Total Liabilities and Surplus	<u>\$30,153,631</u>
Revenues	\$11,012,952
Expenses	<u>9,533,550</u>
Net Income	<u>\$1,479,402</u>

**SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

9. RESERVES, RESTRICTIONS AND DESIGNATIONS OF FUND BALANCES AND NET ASSETS

As of December 31, 2009, the District had reserved and restricted \$5,730 for emergency purposes as required by the Tabor amendment.

San Juan Water Conservancy District has also designated \$56,202 from its fund balance for 2010 expenditures.

10. ADJUSTMENTS COLUMN

The adjustments column on the governmental fund balance sheet/statement of net assets represents the recording of capital assets and the corresponding accumulated depreciation, and reclassifying deferred property taxes in accordance with GASB Statement No. 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as modified by GASB Statement No. 38 *Certain Financial Statement Note Disclosures*. The total value (net of accumulated depreciation) of the net capital assets recorded equals \$1,342,664 as of December 31, 2009. The reclassification of deferred property taxes results in a reduction of \$102,648 in liabilities. The adjustments column on the statement of governmental fund revenues, expenditures and change in fund balance/statement of activities represents the recording of property tax revenues of \$12,053, recognizing deferred grant revenues from 2008 of \$36,047 and reclassifies construction projects and land of \$86,773 into fixed assets.

11. LITIGATION

The District is involved in ongoing water rights litigation. The District does not anticipate an economic impact on future financial reports, other than payment of attorney fees.

REQUIRED SUPPLEMENTARY INFORMATION

SAN JUAN WATER CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended December 31, 2009

	<u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues			
General property taxes	\$90,595	\$91,070	\$475
Specific ownership taxes	7,600	7,449	(151)
Interest and penalties on taxes	400	824	424
Other interest income	5,000	2,710	(2,290)
Grant revenue	50,000		(50,000)
Impact fees	500	2,473	1,973
Total Revenues	<u>154,095</u>	<u>104,526</u>	<u>(49,569)</u>
Expenditures			
General government			
Cloud seeding	3,000	2,400	600
Dry Gulch	101,711	61,218	40,493
Dry Gulch - water rights	35,000	25,555	9,445
Sno-Tel site contribution	2,500	2,500	
Ditches and streams	2,200	77	2,123
Insurance	2,060	2,058	2
Legal	12,500	18,819	(6,319)
Publications	9,000	10,508	(1,508)
Lower Blanco River restoration	20,000	20,000	
Water information program	3,000	1,500	1,500
Administration			
Administration fees	10,000	4,958	5,042
Audit expense	9,500	8,210	1,290
Board expense	3,000	3,434	(434)
Miscellaneous	1,800	1,827	(27)
Contribution	500		500
County treasurers' fees	2,800	2,744	56
Outside services	4,000	1,413	2,587
Office expense	2,200	1,717	483
Total Expenditures	<u>224,771</u>	<u>168,938</u>	<u>55,833</u>
Net Change in Fund Balance	(70,676)	(64,412)	6,264
Fund Balance, Beginning	<u>296,112</u>	<u>306,350</u>	<u>10,238</u>
Fund Balance, Ending	<u><u>\$225,436</u></u>	<u><u>\$241,938</u></u>	<u><u>\$16,502</u></u>

Notes to required supplementary information are an integral part of this statement.

SAN JUAN WATER CONSERVANCY DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2009

BUDGETARY INFORMATION

San Juan Water Conservancy District adheres to the following procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

On or before October 15, the District Manager submits to the Board of Directors a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. 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 2009.

The District uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the budget. Expenditure estimates in the annual budget are enacted into law by the passage of appropriation resolutions. Budgetary control exists at the total fund level and encumbrance accounting is not employed as a part of the budgetary process.

Budget appropriations lapse at the end of each year.

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 were no supplemental appropriations made during 2009.