Fort Collins-Loveland Water District

Financial Statements and Supplementary Information

For the Years Ended December 31, 2016 and 2015

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Anton Collins Mitchell LLP
Accountants & Consultants

Fort Collins-Loveland Water District

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Anton Collins Mitchell LLP
Accountants & Consultants

Independent Auditor's Report

Board of Directors
Fort Collins-Loveland Water District
Fort Collins, Colorado

We have audited the accompanying financial statements of the Fort Collins-Loveland Water District (the "District") as of and for the years ended December 31, 2016 and 2015, 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

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 an opinion on these financial statements based on our audits. We conducted our audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fort Collins-Loveland Water District as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 17 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 evidence sufficient 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 Schedule of Revenues and Expenditures - Budget and Actual (Budgetary Basis) on pages 37 to 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Anton Collins Mitchell LLP

Greeley, Colorado
June 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Fort Collins – Loveland Water District (the District) offers the readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2016. In addition to this overview and analysis based on currently known facts, decisions and conditions, the District would encourage readers to consider the information presented in the District's financial statements, which begin on page 18 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities and deferred inflows of resources at the end of the fiscal year ended December 31, 2016 by $284.9 million (net position). Of the net position balance, $41.1 million is unrestricted and is available to meet the District's ongoing obligations.

- The District's net position increased by $26.4 million (10.2%).

- The District's revenues from metered water sales increased from $10.0 million to $11.6 million (a 15.7% increase).

- The District sold 384 taps in 2016, generating $13.4 million in system development fees, impact fees and raw water cash-in-lieu, and $28.6 thousand in prepaid tap activations. This is a decrease from 2015 tap sales of 424 (a decrease of 10%). This reflects the stabilization of the economy in Colorado and its direct effect on the new home market in the District service area. The District served a total of 17,019 taps at year end.

- The District accepted 16 new water line extension projects for the year ended December 31, 2016, representing $3.0 million in contributions in aid of construction.

- The District did not need to impose watering restrictions in 2016. There was no increase in water rates. The District's management continually monitors revenue from metered sales and its impact on the District's financial position.

- In 2016, the water portfolio was increased by 673 units of C-BT and 9.5 shares of North Poudre Irrigation (NPI). This includes the 213 units of C-BT and 7.5 shares of NPI that was contributed by Spring Canyon Water and Sanitation District (SCWSD) on June 9, 2016. (The District began service to SCWSD via a master meter in 2017.) As of December 31, 2016, the District owned 12,868 units of C-BT, 1,188.5 shares of NPI, 1,238 shares of Divide Canal and Reservoir Company, 37.5 shares of Windsor Reservoir & Canal Co. and small amounts of other ditch companies . The cost of C-BT shares was approximately $26,000 / unit by year-end.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District operates as a special district under Title 32 Colorado Revised Statutes. Accordingly, the financial statements are prepared to account for operations similar to a business-type enterprise. The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows shown on a comparative basis with the prior year. The notes to the financial statements are considered to be an integral part of the basic financial statements since they provide additional information needed to gain a full understanding of the data provided.

- The statement of net position presents information on all of the District's assets, liabilities and deferred inflows of resources. The difference between assets, liabilities and deferred inflows of resources is reported as net position. Over time, increases and decreases in net position may provide an indication of whether the District's financial position is improving or deteriorating. The statement also provides the basis for determining the overall financial health of the District including liquidity and financial flexibility.

- The statement of revenues, expenses and changes in net position presents information reflecting how the District's net position has changed during the fiscal year just ended. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected service charges / accounts receivable [$669 thousand] and earned but unused vacation leave [$125 thousand]). This statement measures the success of the District's overall operation and can be used to determine the District's user fee, rates and changes are sufficient to cover operating costs.

- The statement of cash flows presents information concerning the District's cash receipts and cash payments during the year. The statement reports the cash receipts, cash payments, and net cash from operations, non-capital financing and capital and investing activities.

FINANCIAL ANALYSIS OF THE FORT COLLINS – LOVELAND WATER DISTRICT

The financial statements of the District begin on page 18. The true picture of the financial health of the District must be tempered with the operational theory and financial control that is practiced on a daily basis by the District.

Financial Policy and Priorities

The financial goal of the District is to operate as cost efficiently as possible and similar to the practices of private enterprise. The District annually reviews its financial policies to assess their impact on financial activities. Policies that affected financial activities are as follows:

1. Growth within the District pays its own way to the extent it is possible.
2. District administration and operations are funded from metered water sales.
3. Raw water purchases are funded by raw water fees charged to new tap holders.
4. Capital improvements to existing District assets are funded from metered water sales.
5. Acquisition of new assets such as new lines, pump stations, etc. are funded from plant investment fees or are contributed by the developer of new subdivisions.
6. Acquisition of new assets such as vehicles, computers and improvements to district office and maintenance area are funded by metered water sales.

Raw water charges, plant investment fees and monthly service fees are reviewed annually. Raw water charges are subject to the changes in the market price of raw water. The current level of these fees has been determined to be sufficient at this time to provide the necessary revenues to sustain operations, water purchases and capital construction. The District also requires developers to oversize connections where applicable, with reimbursements made to the developer with fees collected by the District as additional subdivisions attach to the line.

Day-To-Day Operational Control of the District

For operational control, the District has classified all operations into two distinct funds: Enterprise and General Government.

The general governmental activity was funded in 2016 by a 1.50 total mill levy. This total levy funds debt incurred by the District in 2010.

The District operates as a self-supporting enterprise. The enterprise fund is funded by revenues received from user fees, tap purchases and other sources that are sufficient to cover the day-to-day operating expenses of the District. There are two segments of the enterprise fund: general operations and non-operating (debt payment / water purchases / new construction).

The general operations segment is funded primarily from monthly user service charges and other miscellaneous revenues received by the District. These revenues cover the daily administration, plant operations and line maintenance expense of the District. The excess of revenue over expenses or expenses over revenue generated by general operations contributes to the non-operating segment.

The non-operating segment of the District can be divided into four categories:

1. Retirement of debt,
2. Raw water purchases,
3. Capital improvements, and
4. New development.

Debt payments are funded with taxes collected via the 1.50 mill levy. Raw water purchases are funded from fees collected for this purpose at the time a tap is purchased. The capital improvements are funded from PIFs (plant investment fees) collected when a tap is purchased. Developers pay for all infrastructures within a new development or subdivision.

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

Overall Financial Position and Results of Operations

Financial Analysis

A summary of the statement of net position is shown in Table A. The total net position represents the difference between the District's total assets, total liabilities and deferred inflows of resources and is one way to measure the District's health. Increases or decreases in the District's net position are indicators of improving or deteriorating financial health. This information, along with other non-financial information such as population growth or decline, legislative changes or board policy changes, provides an integrated assessment of the District's health.

The table indicates that all of the District's finances are excellent. However, it is important that on a year-to-year basis the District operates within the constraints of its budget.

It is also important to note that in the non-operating portion of the budget, annual expenditures may in some instances exceed the annual revenues when reported during a single year. Because it is the policy of the District that growth funds construction, it is possible that some funds recorded as revenues and received from raw water charges and plant investment fees are received in one year and the expenditures are not incurred until the next or future years. The difference is accounted for in the overall long range financial planning of the District. Also, funds collected from user fees may be used at various times to fund capital improvements, District-required line oversizing of distribution lines and other costs authorized by the board of directors. A summary of the statement of revenues, expenses and changes in net position is shown in Table B.

Table A
Condensed Statement of Net Position

	December 31,		
	2016	2015	2014 (Restated)
Current Assets	$ 43,253,618	$ 41,541,193	$ 31,793,081
Restricted Cash	1,127,500	1,127,500	1,127,500
Capital Assets	259,211,508	235,363,080	223,552,498
Other Assets	656,295	155,600	(57,852)
Total Assets	$ 304,248,921	$278,187,373	$256,415,227
Current Liabilities	$ 2,768,773	$ 1,877,611	$ 1,855,393
Long-Term Debt	15,496,293	16,722,275	17,693,151
Total Liabilities	$ 18,265,066	$ 18,599,886	$ 19,548,544
Deferred Inflows of Resources	$ 1,056,170	$ 1,038,468	$ 1,544,355
Net Position			
Net Investment in Capital Assets	$242,666,193	$218,001,685	$204,881,748
Restricted for Debt Service	1,127,500	1,127,500	1,127,500
Restricted Emergency Reserve	31,500	31,020	19,292
Unrestricted	41,102,492	39,388,814	29,293,788
Total Net Position	$284,927,685	$258,549,019	$235,322,328

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

	December 31,		
	2016	2015	2014 (Restated)
Total Operating Revenues	$ 12,589,478	$ 11,173,258	$ 10,917,440
Total Operating Expenses	6,880,256	6,352,452	6,118,908
Net Operating Income before Depreciation	5,709,223	4,820,806	4,798,532
Depreciation	2,604,678	2,474,215	2,324,244
Income (Loss) from Operations	3,104,544	2,346,591	2,474,288
Non-Operating Revenues	1,689,482	1,350,610	1,265,250
Non-Operating Expenses	838,223	854,522	870,988
Net Income	3,955,803	2,842,679	2,868,550
Capital Contributions	22,422,863	20,384,012	16,870,892
Changes in Net Position	26,378,666	23,226,691	19,739,442
Total Net Position - Beginning of Year	258,549,019	235,322,328	216,786,015
Prior Period Adjustment	-	-	(1,203,129)
Total Net Position - End of Year	$284,927,685	$258,549,019	$235,322,328

Operating activities increased the District's net position by $3.1 million, accounting for 11.7% of the District's overall increase in net position. Key elements of this change are due to the following:

- Service charges for metered water sales were $11.6 million, up from $10.0 million in 2015. The increase is due to the increase in District customers and a much drier and hotter summer than previous year. There were no rate increases for 2016.

- There was an overall increase in operating expenses of $528 thousand, not including depreciation, (up 8.3%). The increase is composed of:

    - Source and Treatment had an increase of $124 thousand, attributable to higher treatment costs at Soldier Canyon, increased assessments and purchase of treated water from the City of Loveland.

    - Distribution and Engineering costs increased by $129 thousand, attributable to the addition of a new employee in distribution.

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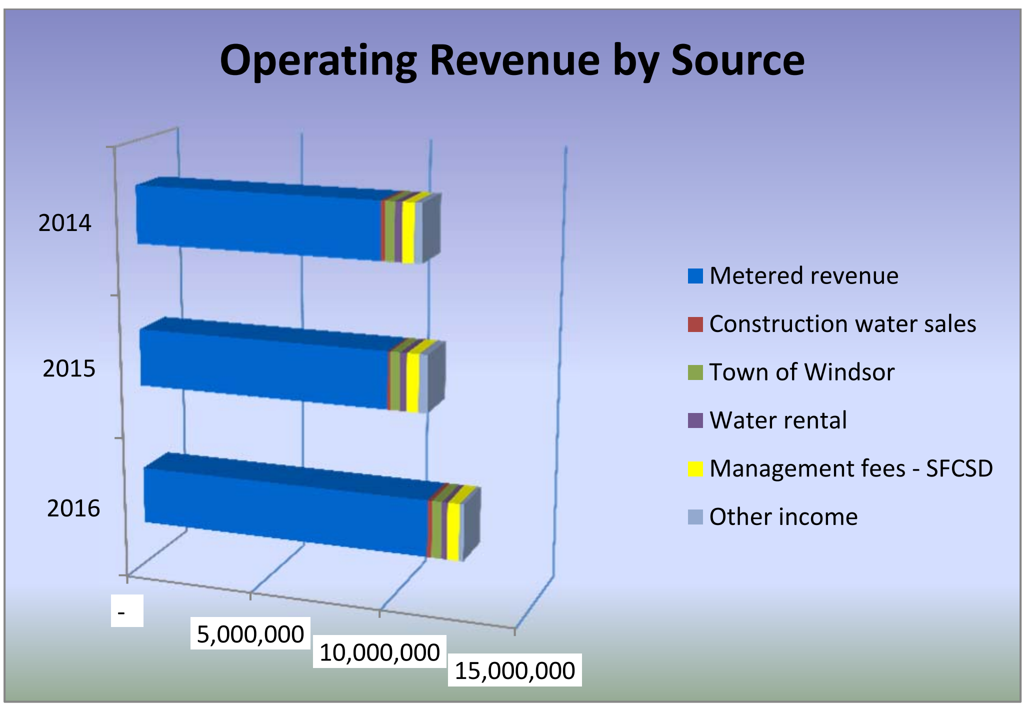
- o Office and administrative costs increased $275 thousand due to the duplication of administrative salaries during the transition from the previous general manager to the new general manager and costs associated with the M. Timm lawsuit.

Non-operating activities increased the District's net position by $851 thousand, accounting for 3.2% of the District's overall increase in net position. The key components of this change are due to the following:

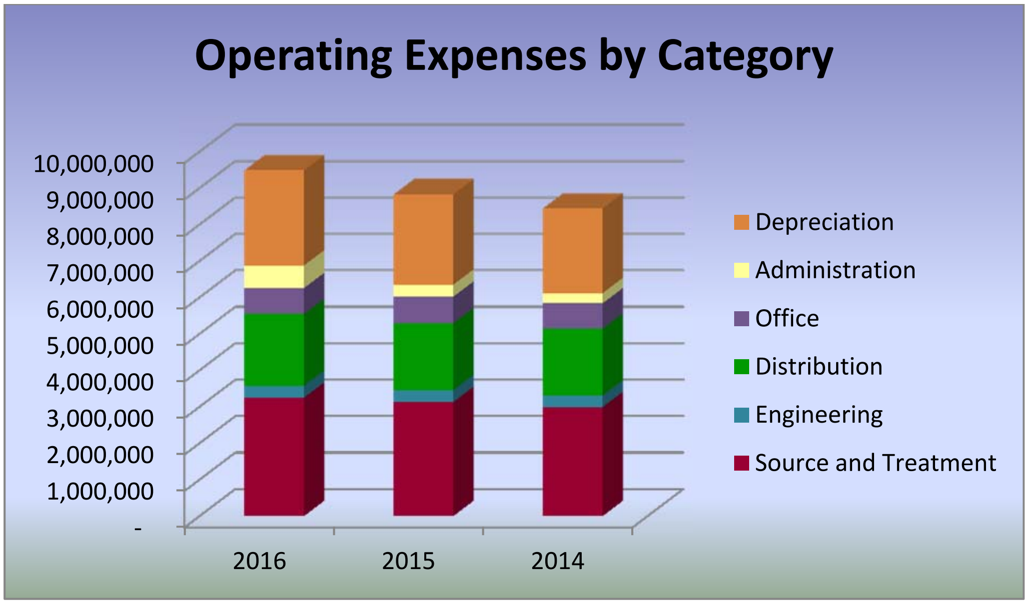
- ❖ Property tax revenue of $1.1 million.
- ❖ Interest income of $247 thousand
- ❖ Interest expense was $738 thousand.

Operating Activities

Operating revenues increased the District's Net position by $12,589,478

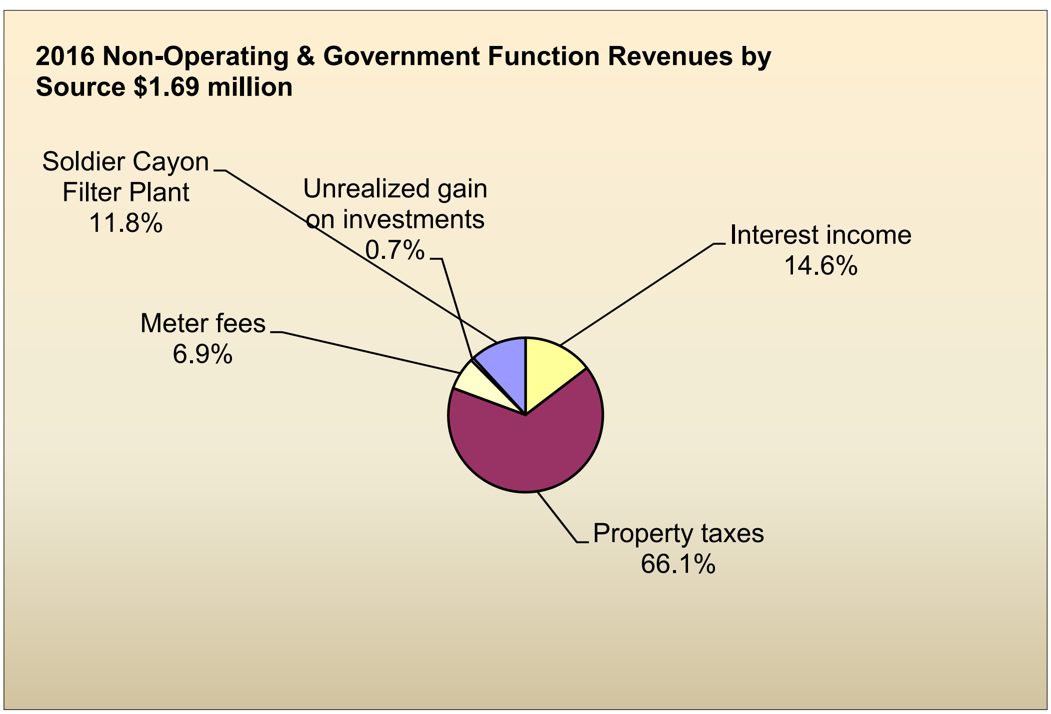


Operating expenses decreased the District's net position by $9,484,934

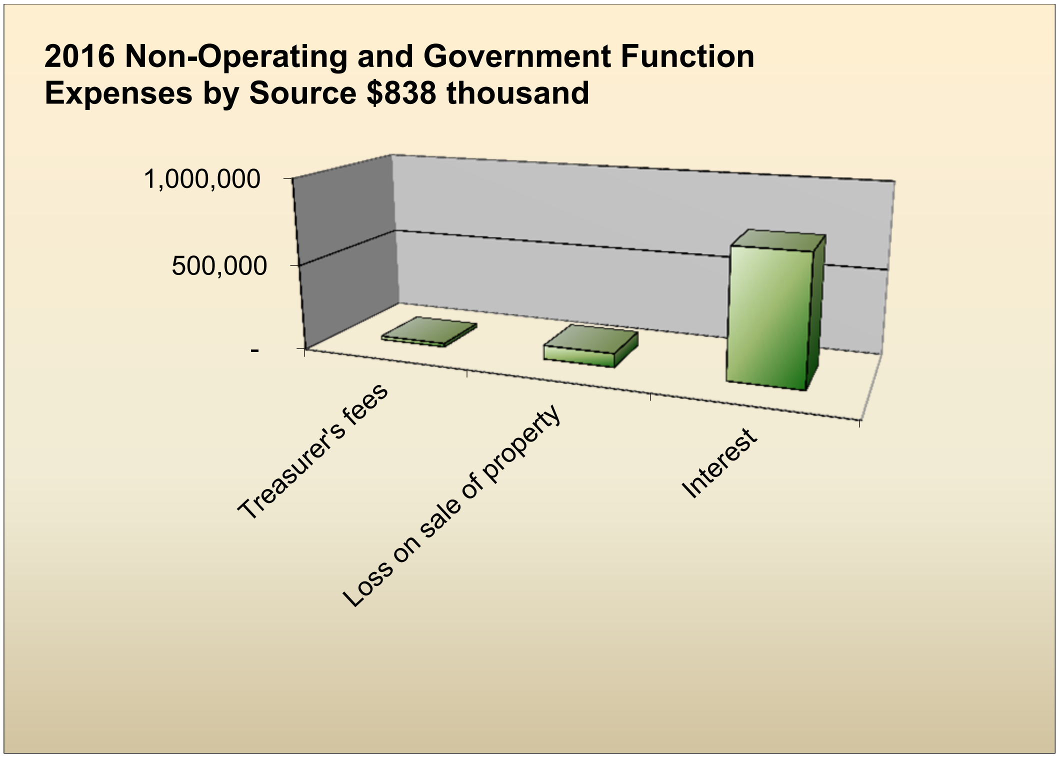


Non-Operating Activities

Non-operating revenues increased the District net position by $1,689,482



Non-operating expenses decreased the District's net position by $838,223



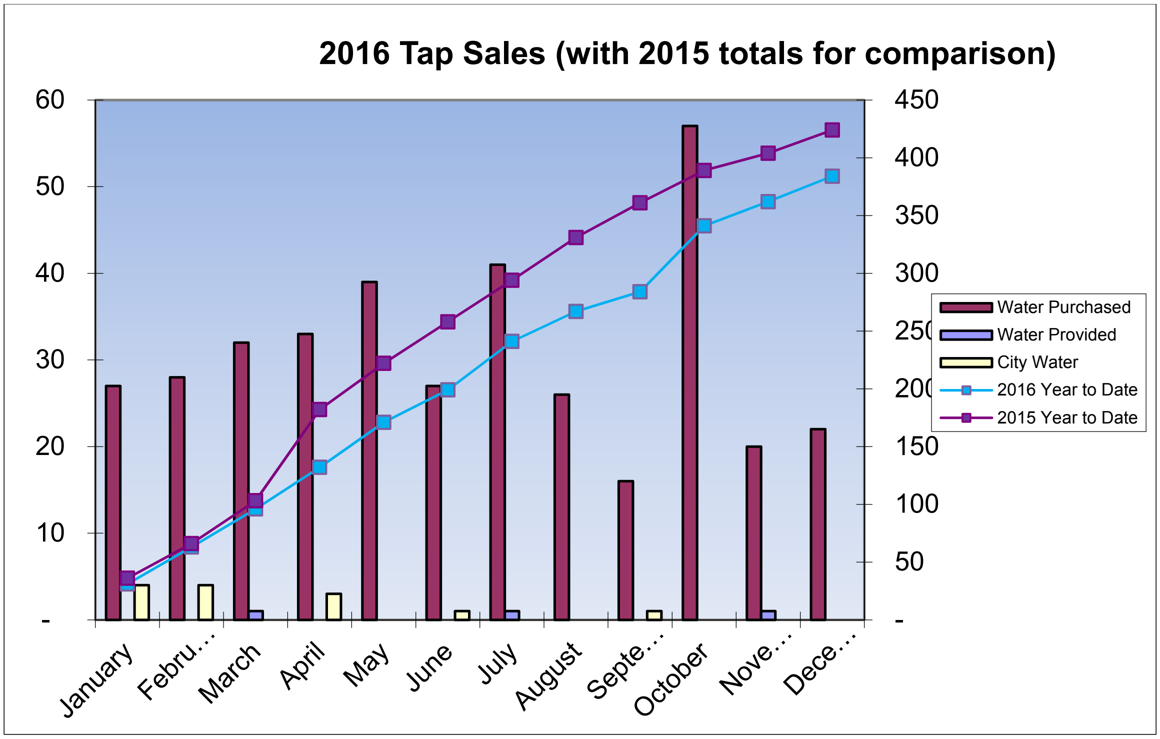
Capital contributions increased the District's net position by $22.4 million, accounting for 85% of the District's overall increase in net position.

- ❖ Contributions of capital assets were $9.0 million of the increase. These contributions represent new distribution lines in subdivisions that were deeded to the District.

- ❖ System development fees (tap and impact fees) of $13.4 million were received for raw water and plant investment fees. These represent new residential and non-residential capital payments to the District for the cost of the investment in raw water stock, Soldier Canyon treatment plant and replacement of distribution lines. The District did not increase the fees for tap purchases in 2016.

- ❖ Prepaid taps activated accounted for $28.6 thousand. This represents raw water contributed to District prior to 2005 (when the District discontinued allowing those contributions) that was used for the purchase of taps during 2016.

Active taps grew by 384 in 2016



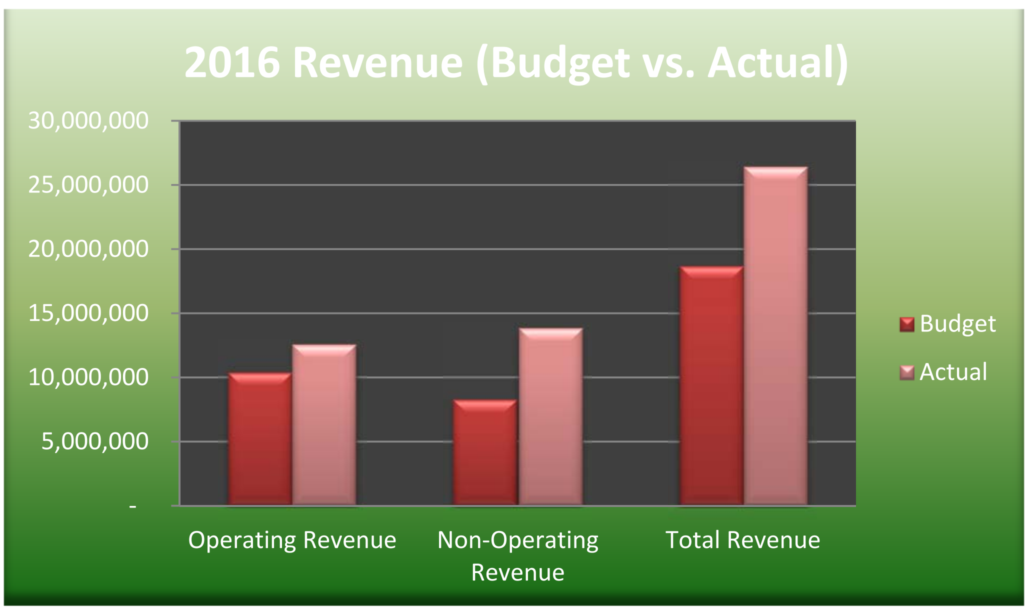
Budgetary Highlights

The District prepares its budget on a modified accrual basis, which is a non-GAAP basis of accounting. The modified accrual basis reports capital contributions as revenue, capital purchases as charges and does not report depreciation as an expense. A schedule of revenue and expenditures -- actual and budget (non-GAAP budgetary basis) begins on page 37 of this report.

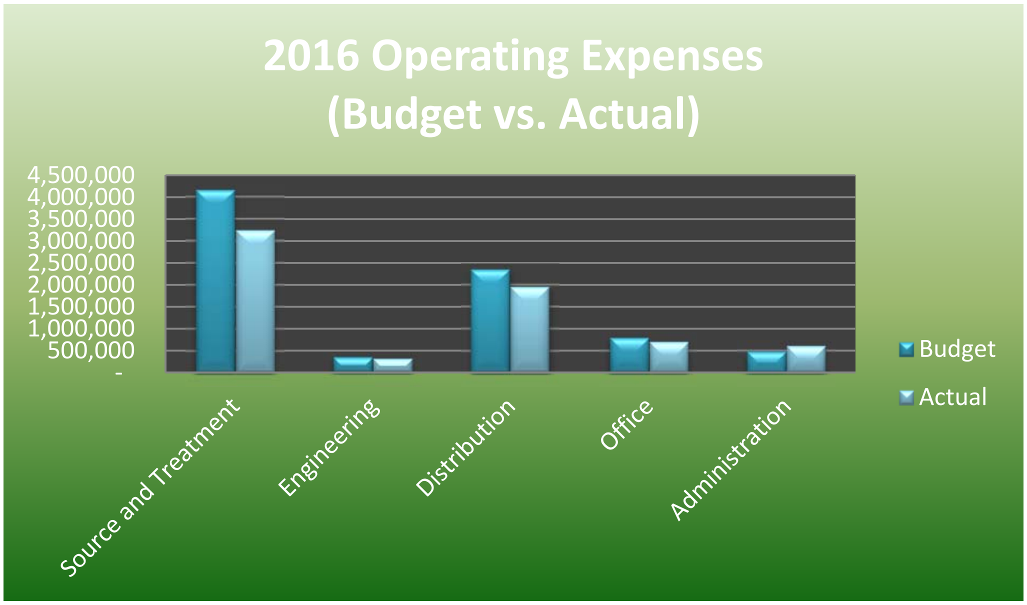
The variance between actual revenue and expenditures and the budget amounted to a favorable $6.1 million and is summarized as follows:

- Operating revenue was $2.2 million over budget due to an increase of $1.8 million for metered revenue, $161 thousand from water sales – construction, $103 thousand from water rental.

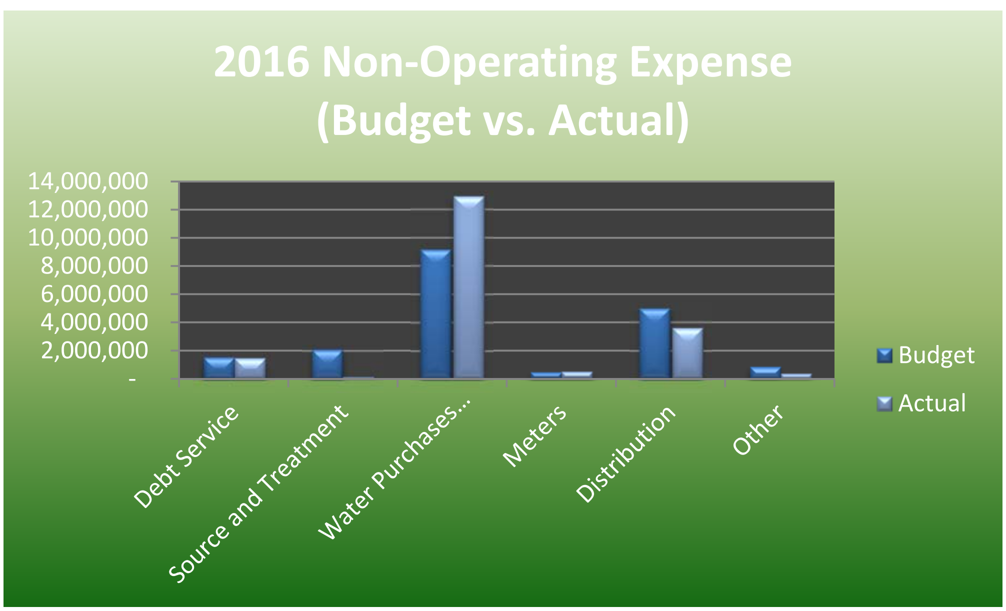
- Non-operating revenue (including property tax revenues) was $5.6 million over budget, primarily due to increased tap sales.



❖ Operating expenditures, including governmental function expenditures, were under budget by $1.3 million, with savings in source and treatment of $915 thousand, engineering of $35 thousand, distribution of $395 thousand and office of $90 thousand. Administration expenses were over budget by $111 thousand.



❖ Non-operating expenditures were $906 thousand under budget, primarily due to decreased expenditures for source & treatment and delayed construction of distribution lines and delayed purchases of operations equipment and building improvements. Water purchases and water storage purchases were $3.9 million over budget.



Capital Assets, Other Investments and Long-Term Debt

Capital Assets. The District's investment in capital assets as of December 31, 2016 amounted to $259.2 million (net of accumulated depreciation). This investment in capital assets includes water stock, land, transmission and distribution system, buildings and improvements, furniture, equipment and vehicles.

Major capital additions and deletions during the year included the following:

- ❖ Water rights and storage ($13.0 million), purchasing 460 units of C-BT and 2 shares of North Poudre Irrigation.

- ❖ Contribution of water rights ($6.0 million) from Spring Canyon Water and Sanitation District.

- ❖ Additions to the transmission and distribution system ($3.8 million), primarily for the construction of a 1.5 MG tank in Timnath.

- ❖ Contribution of distribution system lines by developers ($3.0 million).

Other Assets. The District owns an undivided one-third interest in Soldier Canyon Filter Plant along with the East Larimer County Water District and the North Weld County Water District. Each District reports their share of all treatment facility capital improvement costs and operating expenses at the Plant.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of $15.8 million.

- ❖ Two notes payable to the Colorado Water Conservancy Board ($198 thousand). These notes were assumed as part of the purchase of the Windsor Reservoir and Canal. Payments of $18 thousand are due annually through 2032 and will be paid with operating revenues of the District.
- ❖ Series 2010 Revenue Bonds ($6.5 million). The revenue bonds were issued to facilitate the Divide purchase.
- ❖ Note payable to the City of Fort Collins ($9.1 million). The note is to pay for four (4) MGD of treatment capacity at the City water treatment facility. The District bought five (5) MGD and paid cash for one (1) MGD.

Conditions Impacting Future Operations

- ❖ The District budgeted for the sale of 250 taps in 2017, and has sold 136 through March 31, 2017. The remaining growth area for the District is principally in the Town of Timnath, where an additional 4,000 to 6,000 housing unit are expected to be built.

- ❖ The estimated build-out growth of the District is approximately 7,000 additional units.

- ❖ The local economy reflects the continued recovery from the 2009 recession. At the end of 2016 unemployment in the Fort Collins – Loveland MSA was 2.3%of the labor force which is down from 2.8% at the end of 2015. The 2016 rate was lower than unemployment rates in both Colorado (3.0%) and United States (4.7%). (U.S. Bureau of Labor Statistics.) The median family income was $53,775. (Sperling's Best Places Survey)

- ❖ The recovery of the U.S. and local economies, along with historically low interest rates has been reflected in the increased sale of new taps. Tap sales will continue to increase or decrease as the economy recovers or wanes.

- ❖ The District continues to look for ways to increase water stock ownership and storage.

  - o Raw water costs increased to $26,000 per unit of C-BT during 2016 and continues to rise. The District has kept the raw water component of a tap purchase (3/4" tap) at $25,000. If the market price of C-BT increases may be necessary through 2017 to keep even with the market. The District is in the process of a rate study.

  - o Current water storage projects are under study. If these projects are found to be feasible, and the District decides to participate with other area utilities, the District may need to explore additional funding methods.

- ❖ In January 2015, the District purchased 5 MGD of treatment capacity from the City of Fort Collins for $12.6 million. Due to anticipated growth, the District will need to continue finding ways to increase the availability of treated water.

  - o The water treatment rates for the City purchased water is $2.10 / thousand vs. $0.52 at the Soldier Canyon Filter Plant. The 2016 budget includes estimated treatment costs due to this increase.

Subsequent Event

During 2016, the District was in a lawsuit with M. Timm Revocable Trust, over the District's plant investment fees and cash-in-lieu fee for raw water. The District was successful in winning that lawsuit early in 2017. On April 20, 2017, the plaintiff was ordered to reimburse the District for the Expert Witness fees incurred for the trial. This amounts to approximately $62 thousand in reimbursement.

Contact

Questions concerning any of the information presented in this report or requests for additional information should be directed to the District's manager at the following address:

Chris Matkins
District Manager
5150 Snead Drive
Ft. Collins, CO 80525

Basic Financial Statements

FORT COLLINS - LOVELAND WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

ASSETS

	2016	2015
Current Assets:		
Cash and cash equivalents	$ 38,124,947	$ 37,767,640
Investments	2,876,290	1,867,443
Accounts receivable	991,993	824,702
Interest receivable	6,998	4,831
Prepaid expenses	196,016	34,451
Property taxes receivable	1,057,374	1,042,126
Total current assets	43,253,618	41,541,193
Restricted Investments:		
Investments restricted for debt service	1,127,500	1,127,500
Total restricted investments	1,127,500	1,127,500
Capital Assets		
Capital assets, not being depreciated	182,794,243	160,653,058
Capital assets, being depreciated, net	76,417,265	74,710,022
Total capital assets	259,211,508	235,363,080
Other Assets:		
Investment in Soldier Canyon Filter Plant, using the equity method	652,778	152,083
Deposit	3,517	3,517
Total other assets	656,295	155,600
Total Assets	304,248,921	278,187,373

Continued

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

FORT COLLINS - LOVELAND WATER DISTRICT
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2016	2015
Current Liabilities:		
Accounts payable	**862,809**	318,351
Accrued interest payable	**25,474**	26,984
Accrued expenses	**98,641**	134,893
Customer deposits	**71,482**	65,763
Customer advances for tap fees	**536,750**	565,399
Current portion of long-term debt	**1,173,617**	766,221
Total current liabilities	**2,768,773**	1,877,611
Non-Current Liabilities		
Accrued compensated absences	**124,595**	127,101
Notes and bonds payable, net of current maturities	**15,371,698**	16,595,174
Total non-current liabilities	**15,496,293**	16,722,275
Total Liabilities	**18,265,066**	18,599,886
Deferred Inflows of Resources		
Unearned revenue, property taxes	**1,050,000**	1,034,000
Unearned revenue, budget billing	**6,170**	4,468
Total deferred inflows of resources	**1,056,170**	1,038,468
Net Position:		
Net investment in capital assets	**242,666,193**	218,001,685
Restricted for debt service	**1,127,500**	1,127,500
Restricted for emergency, TABOR amendment	**31,500**	31,020
Unrestricted	**41,102,492**	39,388,814
Total Net Position	**$ 284,927,685**	$ 258,549,019

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

FORT COLLINS - LOVELAND WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues	**$ 12,589,478**	$ 11,173,258
Operating Expenses		
Source and treatment	**3,254,954**	3,131,145
Engineering	**324,747**	325,734
Distribution	**1,963,444**	1,833,647
Office	**714,991**	706,453
Administration	**622,120**	355,473
Depreciation	**2,604,678**	2,474,215
Total operating expenses	**9,484,934**	8,826,667
Income from Operations	**3,104,544**	2,346,591
Non-Operating Revenues (Expenses):		
Earnings from investments (net of management fees)	**246,603**	61,339
Meter fees	**116,105**	151,773
Property taxes	**1,116,199**	969,427
Treasurer's fees	**(20,590)**	(18,826)
Unrealized gain (loss) on investments	**11,699**	(10,243)
Interest expense	**(738,003)**	(825,453)
(Loss) gain on sale of capital assets	**(79,630)**	90,207
Inclusion fee	**-**	112
Equity in net gain of joint venture	**198,876**	77,752
Total non-operating revenues (expenses)	**851,259**	496,088
Net Income	**3,955,803**	2,842,679
Capital Contributions	**22,422,863**	20,384,012
Increase in Net Position	**26,378,666**	23,226,691
Total Net Position - Beginning of Year	**258,549,019**	235,322,328
Total Net Position - End of Period	**$ 284,927,685**	$ 258,549,019

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

FORT COLLINS - LOVELAND WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers	**$ 12,427,441**	$ 11,208,201
Cash paid to suppliers	**(4,219,399)**	(4,262,287)
Cash paid to employees	**(2,467,574)**	(2,284,560)
Net cash flows from operating activities	**5,740,468**	4,661,354
Cash flows from noncapital financing activities		
Property taxes	**1,116,951**	967,786
Property tax collection fees	**(20,590)**	(18,826)
Net cash flows from noncapital financing activities	**1,096,361**	948,960
Cash flows from capital and related financing activities		
Contributed capital	**13,423,149**	17,486,001
Proceeds from the sale of assets	**-**	184,549
Acquisition of capital assets	**(17,382,170)**	(11,374,244)
Proceeds from prepaid tap sales	**(28,649)**	(88,376)
Principal paid on notes and bonds payable	**(766,221)**	(1,287,052)
Interest paid on notes and bonds payable	**(789,372)**	(886,266)
Meter fees	**116,105**	151,773
Net cash flows from capital and related financing activities	**(5,427,158)**	4,186,385
Cash flows from investing activities		
Earnings on investments	**242,502**	62,639
Inclusion fees	**-**	112
Purchases of investments	**(1,497,422)**	(2,500,254)
Proceeds from sale of investments	**504,375**	2,000,000
Cash invested in joint venture	**(301,819)**	(135,700)
Net cash flows from investing activities	**(1,052,364)**	(573,203)
Net change in cash and cash equivalents	**357,307**	9,223,496
Cash and cash equivalents at beginning of year	**37,767,640**	28,544,144
Cash and cash equivalents at end of year	**$ 38,124,947**	$ 37,767,640

Continued

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

FORT COLLINS - LOVELAND WATER DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2016	2015
Reconciliation of operating income to net cash flows from operating activities:		
Income from operations	**$ 3,104,544**	$ 2,346,591
Adjustments to reconcile operating (loss) to cash flows from operating activities:		
Depreciation	**2,604,678**	2,474,215
Changes in assets and liabilities:		
Receivables	**(169,458)**	23,106
Prepaid expenses	**(161,565)**	90,630
Accounts payable	**393,606**	(228,815)
Accrued expenses	**(36,252)**	(66,240)
Accrued compensated absences	**(2,506)**	10,030
Customer deposits	**5,719**	11,949
Unearned revenue	**1,702**	(112)
Net cash flows from operating activities	**$ 5,740,468**	$ 4,661,354
Noncash capital and related financing transactions		
Capital assets contributed	**$ 8,999,714**	$ 2,898,011
Equity in net operating gain of joint venture	**$ 198,876**	$ 77,752
Capital asset additions included in accounts payable	**$ 150,852**	$ 106,884

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

1. Summary of Significant Accounting Policies

Form of Organization

The Fort Collins - Loveland Water District (the "District") is organized under the provisions of Section 32-1-305(6) of the Colorado Revised Statutes, ("C.R.S."). It is a quasi-municipal corporation and a political subdivision of the State of Colorado with all powers thereof which includes the power to levy taxes against property within the District.

Scope of Reporting Entity

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District applies all applicable GASB pronouncements.

Financial Reporting Entity

For financial reporting purposes, management has considered all potential component units in defining the District. The basic criterion for including a potential component unit is the District's ability to exercise significant operational control or financial accountability with the District. Financial relationship or operational control is determined on the basis of the District's obligation to fund deficits, responsibility for debt, budgetary authority, fiscal management, selection of governing authority and/or management, and the ability to significantly influence operations.

Based on the criteria mentioned above, no other entities are considered to be component units of the District, nor is the District a component unit of any other governmental entity.

Basic Financial Statements

The District is a special-purpose government engaged only in business-type activities. As such, enterprise fund financial statements are presented.

Basis of Accounting

Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflow of resources, liabilities, and deferred inflows of resources associated with the operation of this fund are included on the statement of net position. Revenues and expenses are recorded in the accounting period in which they are earned or incurred, and they become measurable. Total net position is segregated into net investment in capital assets, restricted for debt service and emergencies, and unrestricted net position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

Budgets and Budgetary Accounting

An annual budget and appropriation resolution is adopted by the Board of Directors in accordance with state statutes. The budget is prepared on a basis consistent with GAAP except that capital asset additions and principal payments on debt are budgeted as expenditures, and debt proceeds are budgeted as revenues and depreciation and contributed capital assets are not budgeted.

1. On or about October 15, the District staff submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at regular Board meetings to obtain taxpayer comments.
3. Prior to December 15, the budget is legally adopted by the Board of Directors.
4. Unused appropriations lapse at the end of each year.

Total appropriated expenditures for the District are as follows:

	Original Budget	Total Revision	Revised Budget
Business-Type Fund:			
Governmental function	$ 40,640	$ -	$ 40,640
Enterprise function	$28,275,000	$ -	$28,275,000

Comparison of actual operations on the accrual basis to the annual budget is not meaningful. However, a statement comparing actual (budgetary basis) to the budget is included as other supplementary information. The adjustments necessary to convert the actual revenue and expenditures to the budgetary basis are presented in the following schedule.

	2016	2015
Change in net position	**$26,378,666**	$23,226,691
Depreciation	**2,604,678**	2,474,215
Non-cash capital contributions	**(8,999,714)**	(2,898,011)
Debt service	**(766,221)**	(1,287,052)
Acquisition of capital assets (cash and non-cash)	**(17,382,170)**	(11,374,244)
Change in customer advances for tap fees	**(28,649)**	(88,375)
Unrealized gain on securities	**(11,699)**	10,243
Excess revenues over expenditures, budgetary basis	**$1,794,892**	$10,063,467

Cash and Cash Equivalents

The District considers all highly liquid investments purchased with an original maturity of three months or less to be cash and cash equivalents.

Investments

The District's investments consist of U.S. government securities, with original maturities of greater than three months, and are carried at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

Accounts Receivable and Allowance for Doubtful Accounts

Revenues are recognized when earned. Customers are billed monthly on 30 day cycles. Accounts receivable result from the timing of billed accounts and are shown net of an allowance for doubtful accounts. User and other similar fees set from time to time by the District's governing board constitute a perpetual lien on or against the property served until paid. Such liens may be foreclosed in the same manner as provided by the laws of the State of Colorado. The District has determined that no allowance is necessary at December 31, 2016 or 2015, based on historical collection experience.

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and non-operating items in the statements of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the District's purpose of providing water services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses, and depreciation expense. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses or capital contributions.

Capital Assets

Capital assets purchased or acquired with an original cost or fair value, if donated, of greater than $5,000 and expected life greater than 12 months are reported at historical cost. Property replacements and improvements, which extend the lives of assets, are capitalized and subsequently depreciated. Contributed assets are reported at their fair market value at the date received. The cost of maintenance and repairs is charged against income as incurred.

Depreciation has been computed using the straight-line method based on lives of 50 years for treatment facilities and distribution systems and 3 to 20 years for equipment.

Connection Fees

Potential customers seeking to connect to the water distribution system must make a formal, written request to the District. If the application is approved, the applicant may purchase a tap by paying a District investment fee ("PIF") of $7,000 and raw water cost of $25,000 per single-family unit ("SFE"). District investment fees for non-residential customers are based on the size of the water tap.

Property Taxes

Property taxes are levied in December and attach as an enforceable lien on property as of January 1 of the following year. Taxes are payable in two installments on the last day of February and June 15, or in full on

April 30. The District uses the Larimer County Treasurer to bill and collect its property taxes. Taxes levied in December 2016 are recorded as taxes receivable and deferred inflows of resources as of December 31, 2016.

Accrued Compensated Absences Payable

In accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*, vested or accumulated vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expense and a liability.

The following is a summary of accrued compensated absences for the years ended December 31:

	Beginning	Additions	Deletions	Ending
2016	$ 127,101	$ 130,701	$ (133,207)	$ 124,595
2015	$ 117,071	$ 103,977	$ (93,947)	$ 127,101

Contributions in Aid of Construction

Contributions of cash and collection and transmission lines to the District by developers, customers or by agreements with others are treated as capital contributions on the District's statement of revenues, expenses and changes in net position.

Deferred Inflows of Resources

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Contributions in Aid of Construction

Contributions of cash and collection and transmission lines to the District by developers, customers or by agreements with others are treated as capital contributions on the District's statements of revenues, expenses and changes in net position.

Net Position

Net position is classified in the following categories:

> ***Net Investment in Capital Assets*** – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt, if any, that are attributable to the acquisition, construction or improvement of these assets reduce this category.
>
> ***Restricted Net Position*** – This category represents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the District, which is not restricted for any project or other purpose. A deficit will require future funding.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Reclassifications

Certain amounts in the 2015 financial statements have been reclassified for comparative purposes to conform to the current year financial statement presentation. These reclassifications have no impact on the previously reported change in net position.

Use of Estimates

Preparation of the District's financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items 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.

2. Cash and Investments

Cash Deposits

Custodial Credit Risk

This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits. The District's deposit policy is in accordance with C.R.S. 11-10.5-101, Colorado Public Deposit Protection Act ("PDPA"), which governs the investment of public funds. PDPA requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The financial institution is allowed to create a single collateral pool for all public funds held. The pool is maintained by another institution, or held in trust for all of the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The institution's internal records identify collateral by depositor, and as such, these deposits are considered uninsured but collateralized. The State Regulatory Commission for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2016 and 2015, all of the District's deposits shown below were either insured by federal depository insurance or collateralized under PDPA, and are therefore not deemed to be exposed to custodial credit risk.

Cash deposits and cash equivalents held by the District at December 31, 2016 and 2015, were as follows:

	2016	2015
Petty cash	**$ 250**	$ 250
Cash on deposit with financial institutions	**31,414,289**	17,153,518
Local government investment pools	**6,710,408**	20,613,872
Total cash and cash equivalents	**$38,124,947**	$37,767,640

Local Government Investment Pools

As of December 31, 2016 and 2015, the District had invested balances of $6,695,814 and $20,600,568, respectively, in CSAFE, an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. CSAFE is a 2a-7 like external investment pool and balances in CSAFE are valued using the NAV per share (or its equivalent) of the investments. CSAFE operated similarly to a money market fund and each share is equal in value to $1.00. The designated custodial bank of CSAFE provides safekeeping and depository services in connection with the direct investment and withdrawal functions of CSAFE. All securities owned by CSAFE are held by the Federal Reserve Bank in the account maintained for the custodial bank. Investments of CSAFE consist of U.S. Treasury bills, notes and note strips and repurchase agreements collateralized by U.S. Treasury Notes. The final maturity of any and all securities purchased by CSAFE may not exceed one year. CSAFE is rated AAAm by Standard & Poor's.

As of December 31, 2016 and 2015, the District had invested balances of $14,594 and $13,304, respectively, in COLOTRUST, an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. COLOTRUST is operated similarly to a money mark fund and each share is equal in value to $1.00. The designated custodial bank of COLOTRUST provides safekeeping and depository services in connection with the direct investment and withdrawal functions of COLOTRUST. All securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. Investments of COLOTRUST consist of U.S. Treasury bills, government agencies and in the highest-rate commercial paper. The final maturity of any and all securities purchased by Colotrust may not exceed one year. COLOTRUST is rated AAAm by Standard and Poor's.

Investments

Credit Risk

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest, which include:

- Certificates of deposit with an original maturity in excess of three months
- Certain obligations of the United States and U.S. Government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper

- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

District policy is to hold investments until maturity.

Interest Rate Risk

The District's investment policy, established January 13, 2009 follows the guidelines and limitations set forth by the C.R.S. The policy limits investment maturities to three years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair value fluctuations arising from increasing interest rates.

Investments held by the District at December 31, 2016, were as follows:

Investments	**S & P Rating**	**Moody Rating**	**Fair Value**	**Weighted Average Days to Maturity**	**Concentration of Credit Risk**
UST Notes	**AA+**	**Aaa**	**$4,003,790**	**535**	**100.0%**
Total			**$4,003,790***		

*Includes $1,127,500 reported as restricted investments.

Investments held by the District at December 31, 2015, were as follows:

Investments	S & P Rating	Moody Rating	Fair Value	Weighted Average Days to Maturity	Concentration of Credit Risk
FFCB Notes	AA+	Aaa	$500,763	88	16.7%
UST Notes	AA+	Aaa	2,494,180	886	83.3%
Total			$2,994,943*		

*Includes $1,127,500 reported as restricted investments.

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2016 and 2015, financial instruments held by the District, consisting of UST Notes, FFCB Notes, and local government investment pools (Colotrust) were categorized in Level 2.

Restricted Assets

Amounts shown as restricted investments have been restricted by bond indentures to be used for specified purposes. The balance restricted as of December 31, 2016 and 2015, was $1,127,500.

3. Receivables

Receivables at December 31, 2016 and 2015 consisted of the following:

	2016	2015
Trade accounts receivable	**$ 991,993**	$ 824,702
Property taxes receivable	**1,057,374**	1,042,126
Accrued interest receivable	**6,998**	4,831
Total receivables	**$2,056,365**	$1,871,659

4. Capital Assets

The following is a summary of capital asset activity for the year ended December 31, 2016:

	Beginning	**Additions**	**Deletions**	**Ending**
Capital assets, not being depreciated:				
Construction in progress	**$ 758,690**	**$ 3,628,357**	**$ (319,446)**	**$ 4,067,601**
Land and easements	**460,137**	**-**	**-**	**460,137**
Water rights	**136,806,056**	**18,006,224**	**-**	**154,812,280**
Water storage and capacity	**22,554,894**	**899,331**	**-**	**23,454,225**
Regional transmission and treatment (CIP)	**73,281**	**-**	**(73,281)**	**-**
Total capital assets, not being depreciated	**160,653,058**	**22,533,912**	**(392,727)**	**182,794,243**
Capital assets, being depreciated:				
Water treatment plant	**13,925,163**	**162,081**	**-**	**14,087,244**
Office building	**2,365,729**	**2,509**	**-**	**2,368,238**
Transmission and distribution system	**86,572,771**	**3,878,143**	**-**	**90,450,914**
Equipment	**2,627,675**	**395,671**	**(369,655)**	**2,653,691**
Total capital assets, being depreciated	**105,491,338**	**4,438,404**	**(369,655)**	**109,560,087**
Less accumulated depreciation for:				
Water treatment plant	**(3,076,457)**	**(296,505)**	**-**	**(3,372,962)**
Office building	**(789,009)**	**(66,853)**	**-**	**(855,862)**
Transmission and distribution system	**(25,197,572)**	**(1,990,610)**	**-**	**(27,188,182)**
Equipment	**(1,718,278)**	**(250,710)**	**243,172**	**(1,725,816)**
Total accumulated depreciation	**(30,781,316)**	**(2,604,678)**	**243,172**	**(33,142,822)**
Total capital assets, being depreciated, net	**74,710,022**	**1,833,726**	**(126,483)**	**76,417,265**
Capital assets, net	**$235,363,080**	**$ 24,367,638**	**$ (519,210)**	**$259,211,508**

The following is a summary of capital asset activity for the year ended December 31, 2015:

	Beginning	Additions	Deletions	Ending
Capital assets, not being depreciated:				
Construction in progress	$ 195,085	$ 966,153	$ (402,548)	$ 758,690
Land and easements	460,137	-	-	460,137
Water rights	129,010,441	7,795,615	-	136,806,056
Water storage and capacity	21,289,891	1,269,977	(4,974)	22,554,894
Regional transmission and treatment (CIP)	73,281	-	-	73,281
Total capital assets, not being depreciated	151,028,835	10,031,745	(407,522)	160,653,058
Capital assets, being depreciated:				
Water treatment plant	13,773,824	151,339	-	13,925,163
Office building	2,330,563	35,166	-	2,365,729
Transmission and distribution system	82,538,122	4,034,649	-	86,572,771
Equipment	2,364,189	533,762	(270,276)	2,627,675
Total capital assets, being depreciated	101,006,698	4,754,916	(270,276)	105,491,338
Less accumulated depreciation for:				
Water treatment plant	(2,766,208)	(310,249)	-	(3,076,457)
Office building	(722,020)	(66,989)	-	(789,009)
Transmission and distribution system	(23,308,734)	(1,888,838)	-	(25,197,572)
Equipment	(1,686,073)	(208,139)	175,934	(1,718,278)
Total accumulated depreciation	(28,483,035)	(2,474,215)	175,934	(30,781,316)
Total capital assets, being depreciated, net	72,523,663	2,280,701	(94,342)	74,710,022
Capital assets, net	$223,552,498	$ 12,312,446	$ (501,864)	$235,363,080

5. Divide Canal and Reservoir Company

In November 2010, the District purchased a 60% interest in the Divide Canal and Reservoir Company (a not-for-profit mutual ditch company, 501(c) 12 organization). The total purchase price was $21,251,631. The purchase was a combination of $9,719,452 in cash (from revenue bond proceeds), water shares held by the District valued at $11,410,000 and legal and engineering costs capitalized. The acquisition of Divide is expected to provide the District with additional water yield from the 2,300 acre-feet allotment related to the District's 60% ownership in that water right. Water rights given up amounted to 1,239 acre feet and, accordingly, the District increased it water rights by over 1,000 acre feet. There will potentially be legal expenses when a change in use case is brought before the Water Court. The shares of the Company are characterized as ownership of water rights diverted and delivered by the Company; thus this is reflected within water rights in the capital assets of the District.

6. Long-Term Debt

A summary of the District's long-term debt as of December 31, 2016 and 2015, is as follows:

	2016	2015
Revenue Bonds		
$11,275,000 April 14, 2010, water revenue bonds, Series 2010 due in principal installments of $770,000 in 2016 with additional increases through 2023; interest at 2.0% to 5.0%. The bonds are special revenue obligations of the District, payable from all income and revenues directly or indirectly derived by the District from the operation and use of the Water System, or any part thereof less all reasonable and necessary current expenses of the District, paid or accrued, for operating, maintaining and repairing the System. The bond proceeds were used to purchase shares in Divide Canal and Reservoir Company (see Note 5). Accrued interest on these bonds is $24,811 and $26,227 at December 31, 2016 and 2015, respectively.	**$6,505,000**	$6,930,000
Loans Payable		
$126,153 May 6, 2006, loan payable to the Colorado Water Conservation Board ("CWCB"). This loan is held in the name of Tunnel Water Company and this represents the District's portion of the liability. Principal installments in 2016 were $3,728 with additional increases through December 1, 2032; interest at 4.5%. Revenues of the District are pledged in an amount sufficient to pay the annual amounts due under the loan contract. Accrued interest payable is $343 and $357, December 31, 2016 and 2015, respectively.	**91,431**	95,327
$148,319 May 6, 2006, loan payable to the Colorado Water Conservation Board ("CWCB"). This loan is held in the name of		

Tunnel Water Company and this represents the District's portion of the liability. Principal installments in 2016 were $4,415 in 2016 with additional increases through December 1, 2032, interest at 4.3%. The CWCB loans for the Tunnel are secured by water rights of the Tunnel Water Company and the shareholder assessments. Accrued interest payable is $320 and $400, December 31, 2016 and 2015, respectively.	**106,920**	111,524
$10,080,000 January 2, 2015, loan payable to the City of Fort Collins, due in principal installments of $316,527 in 2016 with additional increases through January 1, 2034, interest at 5%. If the District defaults on payments, the District's capacity in the City's water treatment plant will be reduced to the ratio of the amount paid. The payment is made monthly and there is no interest payable at December 31, 2016 or 2015.	**9,129,631**	9,462,352
Total Bonds and Loans Payable	**$15,832,982**	$16,599,203

A summary of changes in debt is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Revenue Bonds					
2010	$6,930,000	$ -	$(425,000)	$ 6,505,000	$ 815,000
Loan Payable					
2006 CWCB	95,327	-	(3,896)	91,431	4,071
2006 CWCB	111,524	-	(4,604)	106,920	4,802
2015 City of Fort Collins	9,462,352	-	(332,721)	9,129,631	349,744
Compensated Absences	127,101	130,701	(133,207)	124,595	-
Total	$16,726,304	$130,701	$(899,428)	$15,957,577	$1,173,617
Current portion of long term debt	(766,221)			(1,173,617)	
Net bond premiums	762,192			712,333	
Noncurrent portion of long term debt	$16,722,275			$15,496,293	

The annual requirements to amortize all debt outstanding as of December 31, 2016, are as follows:

Year Ending December 31,	Annual Maturities	Interest	Total Payment
2017	$1,173,617	$754,977	$1,928,594
2018	1,226,900	704,094	1,930,994
2019	1,271,116	653,002	1,924,118
2020	1,331,313	597,806	1,929,119
2021	1,437,538	530,829	1,968,367
2022-2026	4,595,978	1,688,362	6,284,340
2027-2031	3,264,786	814,554	4,079,340
2032-2033	1,531,734	80,910	1,612,644
Totals	$15,832,982	$5,824,534	$21,657,516

7. Contingency

Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets, errors and omissions, or acts of God. The District is a member of the Colorado Special Districts Property and Liability Pool ("CSDPLP"). The CSDPLP is an organization composted of approximately 1,400 members created by intergovernmental agreement to provide property and general liability, automobile physical damage and liability, public officials liability, and boiler and machinery coverage to its members. The CSDPLP provides coverage for property claims up to the values declared and liability and public official's coverage for claims up to $1,000,000.

At December 31, 2016, CSDPLP has assets of $52,645,796, liabilities of $28,757,242 and surplus of $23,888,554. The liability includes no long-term debt. Total revenues for 2016 amounted to $19,338,769 and total expenses were $14,100,230 resulting in an excess of revenues over expenses of $5,238,539. The amount of the District's share of these amounts is less than 1%.

8. Transactions with Other Governmental Entities

The District bills another special District with separately elected officers a monthly fee for their management. The two Districts provide water and wastewater services to a service area with similar boundaries. Total amounts received for each of the years ended December 31, 2016 and 2015, was $450,189 and $447,191, respectively. As of December 31, 2016 and 2015, the special District owed the Fort Collins – Loveland Water District $148,386 and $64,105, respectively, which is reported in accounts receivable on the Statement of Net Position .

The District, along with East Larimer County Water District and North Weld County Water District (collectively known as the Tri-Districts) own the Soldier Canyon Filter Plant (the "Filter Plant"). The Filter Plant bills the owners monthly for treatment costs, allocated capital (depreciated on the Filter Plant's financial statements) and water resources expenses. The District has an undivided one-third interest in the Plant. The District records its respective share of increase (decrease) in net position at the end of each calendar year and reports it as

Investment in Soldier Canyon Filter Plant. The investment at December 31, 2016 and 2015 is $652,778 and $152,083, respectively.

Summary audited financial information of the Filter Plant as of and for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Current assets	**$ 791,023**	$ 893,333
Capital assets, net of accumulated depreciation	**1,721,047**	1,133,238
Deferred outflows of resources	**602,505**	239,971
Total assets and deferred outflows of resources	**$ 3,114,575**	$ 2,266,542
Current liabilities	**$ 263,887**	$ 352,020
Net Pension Liability	**2,295,780**	2,071,995
Deferred inflows of resources	**157,769**	42,015
Net position	**397,139**	(199,488)
Total liabilities, deferred inflows of resources and net position	**$ 3,114,575**	$ 2,266,542
Operating revenues	**$ 3,188,183**	$ 3,106,437
Capital contributions	**755,289**	357,178
Non-operating revenues	**-**	3,252
Operating expense	**(3,346,845)**	(3,233,610)
Change in net position	**$ 596,627**	$ 233,257

9. Defined Contribution Plan

Effective December 8, 1988, the District established a defined contribution plan, the Fort Collins – Loveland Water District 401 Qualified Plan, under Internal Revenue Code Section 401, covering all full-time employees with service of six months or more. Each participant is required to contribute 3% of base pay when eligible. The District contributes 6% of base pay taxable earnings for the plan year on behalf of each participant. The participants are fully vested in employee contributions immediately, and after five years for employer contributions. Employer contributions are to be invested only in guaranteed funds, and employee contributions are unrestricted.

The District's contributions to the plan for the years ending December 31, 2016, 2015 and 2014 were $102,036, $93,939 and $88,371, respectively.

10. 457 Deferred Compensation Plan

The District offers its employees a deferred compensation plan (the "Plan"), created in accordance with Internal Revenue Code Section 457. The Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS ($17,500 and $18,000, for the calendar years 2015 and 2016, respectively). Catch-up contributions of up to $5,500 and $6,000 for calendar years 2015 and 2016, respectively, were allowed for participants who had attained age 50 before the close of the plan year. All assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. For the years ended December 31, 2016 and 2015, the Plan member contributions were $58,590 and $41,371, respectively.

11. Tabor Compliance

In November 1992, Colorado voters passed an amendment (The "Amendment" or "TABOR") to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on property taxes, revenue, and "fiscal year spending" include allowable annual increases tied to inflation and local growth in construction valuation. Fiscal year spending, as defined by the Amendment, excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and the fund reserves (balances). The Amendment requires voter approval for an increase in the mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the "spending limit" must be refunded or approved to be retained by the District under specified voting requirements by the entire electorate.

On July 18, 1995 the District passed a resolution, "Adopting and Establishing a Water Activity Enterprise." This resolution was passed after much research by legal counsel regarding the status of the District following the passage of the Amendment. Because the District qualifies as an enterprise fund as defined by paragraph 2 (d), Section 20, Article X of the Colorado Constitution, it was determined that the District's Water Enterprise Fund is therefore exempt from the requirements and limitations of Section 20, Article X of the Colorado Constitution.

The Amendment also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by the Amendment, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year spending (excluding bonded debt service). The District has restricted $31,500 and $31,020 as of December 31, 2016 and 2015, respectively for emergencies as defined by TABOR.

The Amendment is complex and subject to judicial interpretation. However, under C.R.S. 37-45-1-1-3, the District is excluded from the provisions of the Amendment.

12. Subsequent Events

The District evaluated subsequent events through June 29, 2017, the date these financial statements were available to be issued.

On October 20, 2016, the Steering Committee and Districts voted to transfer all Plant assets and operations to a newly formed entity called Soldier Canyon Water Treatment Authority. The transfer occurred on February 1, 2017 and the Filter Plant ceased operating. This resulted in the District relinquishing all ownership to the Filter Plant to the newly formed entity.

There were no material subsequent events that required recognition or additional disclosure.

Other Supplementary Information

FORT COLLINS - LOVELAND WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended December 31, 2016
With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Budget - Original	Budget - Final	Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)	2015 Actual
Enterprise Function:					
Revenue					
Operating Revenue					
Metered revenue	$ 9,400,000	$ 9,400,000	$ 11,227,747	$ 1,827,747	$ 9,688,249
Water sales - construction	-	-	161,892	161,892	98,438
Town of Windsor	350,000	350,000	366,299	16,299	366,494
Water rental	110,000	110,000	213,815	103,815	243,732
Miscellaneous income	100,000	100,000	169,536	69,536	329,154
Management fees - SFCSD	450,189	450,189	450,189	-	447,191
Total operating revenue	10,410,189	10,410,189	12,589,478	2,179,289	11,173,258
Non-Operating Revenue					
Soldier Canyon Income	-	-	198,876	198,876	77,752
Earnings from investments	65,000	65,000	246,603	181,603	61,339
Tap fees (water)	6,250,000	6,250,000	10,057,500	3,807,500	13,050,726
Tap fees (PIF)	1,700,000	1,700,000	2,942,100	1,242,100	3,956,400
Meter fees	71,000	71,000	116,105	45,105	151,773
Impact fees	220,000	220,000	394,900	174,900	390,500
Gain (loss) on disposal of capital assets	-	-	(79,630)	(79,630)	90,207
Inclusion fees	-	-	-	-	112
Total non-operating revenue	8,306,000	8,306,000	13,876,454	5,570,454	17,778,809
Operating transfer in		-	1,073,508	1,073,508	934,704
Total revenue	18,716,189	18,716,189	27,539,440	8,823,251	29,886,771
Expenditures - Operating					
Source and Treatment					
Assessments	1,200,000	1,200,000	931,857	268,143	953,947
Soldier Canyon	1,500,000	1,500,000	1,267,569	232,431	1,208,355
City of Loveland	50,000	50,000	14,939	35,061	66,148
FTC - Water Sale IGA	790,000	790,000	816,583	(26,583)	790,843
FTC - Transmission charges	125,000	125,000	130,322	(5,322)	114,486
FTC - Water Exchange IGA	30,000	30,000	8,919	21,081	1,472
FTC - Water purchase	450,000	450,000	84,765	365,235	-
North Weld County Water District	25,000	25,000	-	25,000	-
R & M - Source and Supply		-	-	-	(4,106)
Total source and treatment	4,170,000	4,170,000	3,254,954	915,046	3,131,145

continued.

See accompanying Independent Auditor's Report.

FORT COLLINS - LOVELAND WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended December 31, 2016
With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Budget - Original	Budget - Final	Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)	2015 Actual
Engineering					
Engineering wages	247,000	247,000	229,502	17,498	227,566
Payroll taxes	21,600	21,600	19,291	2,309	19,290
Medical insurance	36,000	36,000	36,000	-	36,000
Life insurance	2,500	2,500	2,008	492	1,979
Retirement	16,200	16,200	14,951	1,249	14,843
Worker's compensation insurance	3,000	3,000	2,085	915	1,776
Cell phone service	1,000	1,000	355	645	633
Dues and subscriptions	600	600	335	265	335
Education & training	6,000	6,000	936	5,064	333
Fuel	2,000	2,000	1,130	870	1,128
Miscellaneous	1,000	1,000	-	1,000	-
R & M - equipment	1,500	1,500	-	1,500	1,930
R & M - vehicles	1,000	1,000	-	1,000	2,168
Software maintenance	16,750	16,750	17,239	(489)	16,650
Supplies	3,100	3,100	915	2,185	1,103
Total engineering	359,250	359,250	324,747	34,503	325,734
Distribution					
Wages	1,000,000	1,000,000	932,811	67,189	872,083
Overtime & on-call pay	82,000	82,000	77,867	4,133	52,754
Payroll taxes	80,000	80,000	76,789	3,211	70,736
Medical insurance	192,000	192,000	192,000	-	168,000
Life insurance	7,700	7,700	8,205	(505)	7,235
Retirement	60,000	60,000	51,010	8,990	49,487
Worker's compensation insurance	30,000	30,000	24,589	5,411	18,674
R & M - lines & equipment	375,000	375,000	235,109	139,891	231,137
R & M - emergency contingency	-	-	-	-	2,425
R & M -tank cleaning	25,000	25,000	-	25,000	-
Cell phone service	16,000	16,000	12,788	3,212	9,739
Education & training	14,000	14,000	4,679	9,321	9,921
Fuel	100,000	100,000	29,240	70,760	32,288
Internet hosting	7,500	7,500	16,949	(9,449)	4,580
Meter hosting service	60,000	60,000	12,717	47,283	27,440
Office supplies	2,500	2,500	415	2,085	923
R & M - vehicles	30,000	30,000	19,765	10,235	51,901
Safety program	10,000	10,000	8,715	1,285	3,474
Supplies	2,500	2,500	3,002	(502)	3,338
Telemetry	12,000	12,000	17,885	(5,885)	8,889
Uniforms	12,000	12,000	7,280	4,720	7,937
Utilities	195,000	195,000	190,930	4,070	167,739
Utility locates	20,000	20,000	18,401	1,599	15,252
Water quality testing	25,000	25,000	22,298	2,702	17,695
Total distribution	2,358,200	2,358,200	1,963,444	394,756	1,833,647

continued.

See accompanying Independent Auditor's Report.

FORT COLLINS - LOVELAND WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended December 31, 2016
With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Budget - Original	Budget - Final	Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)	2015 Actual
Office					
Wages	448,000	448,000	419,143	28,857	413,975
Payroll taxes	36,000	36,000	31,420	4,580	31,661
Medical insurance	84,000	84,000	84,000	-	84,000
Life insurance	3,700	3,700	3,537	163	3,444
Retirement	27,000	27,000	23,715	3,285	21,597
Worker's compensation insurance	850	850	955	(105)	564
Education & training	5,000	5,000	570	4,430	3,299
Miscellaneous expense	2,500	2,500	415	2,085	352
On-line bill processing	22,000	22,000	7,158	14,842	6,347
Payroll processing	7,200	7,200	6,801	399	6,443
Postage	50,700	50,700	44,883	5,817	45,053
Printing	40,000	40,000	27,823	12,177	28,739
Publications & notices	1,000	1,000	893	107	161
R & M - equipment	25,000	25,000	13,654	11,346	17,623
Software maintenance	22,000	22,000	21,089	911	15,767
Supplies	14,000	14,000	14,902	(902)	12,941
Telephone	15,000	15,000	13,757	1,243	13,899
Travel	1,200	1,200	276	924	588
Total office	805,150	805,150	714,991	90,159	706,453
Administration					
Wages	190,000	190,000	187,488	2,512	135,003
Payroll taxes	15,200	15,200	19,163	(3,963)	9,993
Medical insurance	14,000	14,000	4,065	9,935	9,352
Life insurance	1,500	1,500	774	726	641
Retirement	11,400	11,400	12,360	(960)	8,011
Worker's compensation insurance	2,500	2,500	1,955	545	1,614
Audit & consulting fees	11,000	11,000	10,000	1,000	10,000
Contingency	35,000	35,000	18,122	16,878	9,022
Customer relations	4,000	4,000	2,642	1,358	2,108
Dues & subscriptions	4,000	4,000	7,113	(3,113)	1,812
Education & training	6,000	6,000	45	5,955	-
Insurance - liability	41,000	41,000	36,996	4,004	33,381
Insurance - property	31,000	31,000	32,235	(1,235)	28,094
Janitorial service	18,000	18,000	8,430	9,570	7,240
Legal	25,000	25,000	165,546	(140,546)	20,718
Miscellaneous expenses	500	500	420	80	70
R & M - land and building	30,000	30,000	19,173	10,827	27,587
Trash removal service	1,600	1,600	1,440	160	1,380
Travel - manager	9,000	9,000	8,695	305	7,020
Utility - electricity	12,000	12,000	8,416	3,584	7,861
Utility - gas	10,000	10,000	4,240	5,760	4,894
Utility - sewer	1,600	1,600	1,339	261	1,165
Utility - storm water	2,400	2,400	1,849	551	1,902
Utility - water	2,000	2,000	1,700	300	1,354
Water conservation	10,000	10,000	45,813	(35,813)	9,354

continued.

See accompanying Independent Auditor's Report.

FORT COLLINS - LOVELAND WATER DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended December 31, 2016
With Comparative Actual Amounts for the Year Ended December 31, 2015

	2016				
	Budget - Original	Budget - Final	Actual Amounts (Budgetary Basis)	Variance Favorable (Unfavorable)	2015 Actual
Total administration	488,700	488,700	600,019	(111,319)	339,576
Total operating expenses	8,181,300	8,181,300	6,858,154	1,323,146	6,336,556
Debt Service - Non-Operating					
Interest on bonds (2010 issue)	317,000	317,000	263,399	53,601	308,302
Debt service - 2010 issue	425,000	425,000	425,000	-	770,000
Interest on CWCB notes	9,100	9,100	9,043	57	9,412
Debt service - CWCB notes	8,600	8,600	8,500	100	8,143
Interest on Warson/Treiber	-	-	-	-	25,983
Debt services - Warson/Treiber	-	-	-	-	192,382
Interest on FTC 20 year note	467,000	467,000	465,561	1,439	481,756
Debt service - FTC 20 year note	332,000	332,000	332,721	(721)	316,527
Capital Expenditures - Non-Operating					
Source & treatment	1,200,000	1,200,000	162,081	1,037,919	151,399
Water purchases	9,000,000	9,000,000	11,742,533	(2,742,533)	9,065,592
Water storage	-	-	899,331	(899,331)	-
Meters	510,000	510,000	551,062	(41,062)	541,290
Distribution	6,400,000	6,400,000	3,628,982	2,771,018	1,047,035
Operation equipment	400,000	400,000	373,793	26,207	485,360
Office equipment	175,000	175,000	21,878	153,122	48,402
Building improvements	850,000	850,000	2,510	847,490	35,166
Total non-operating expenses	20,093,700	20,093,700	18,886,394	1,207,306	13,486,748
Enterprise Gain (Loss)	(9,558,811)	(9,558,811)	1,794,892	11,353,703	10,063,467
Government Function:					
Revenues					
Property taxes	1,034,000	1,034,000	1,116,199	82,199	969,427
Expenditures					
Collection fees	20,000	20,000	20,590	(590)	18,826
Directors fees	8,000	8,000	7,654	346	7,700
Directors payroll taxes	640	640	644	(4)	633
Directors expenses	12,000	12,000	13,803	(1,803)	7,564
Operating transfer out	-	-	1,073,508	(1,073,508)	934,704
Total expenditures	40,640	40,640	1,116,199	(1,075,559)	969,427
Excess revenues over expenditures	993,360	993,360	-	(993,360)	-
Excess (deficiency) of budgetary revenues over budgetary expenditures	$ (8,565,451)	$ (8,565,451)	$ 1,794,892	$ 10,360,343	$ 10,063,467

See accompanying Independent Auditor's Report.