

LA PLATA ARCHULETA WATER DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016 and 2015



RECEIVED

By Electronic Submission at 7:44 am, May 11, 2017

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 3, 2017

To the Board of Directors
La Plata Archuleta Water District**Report on the Financial Statements**

We have audited the accompanying statements of net position of La Plata Archuleta Water District as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements for the years then ended.

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 opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of La Plata Archuleta Water District as of December 31, 2016 and 2015, and the

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La Plata Archuleta Water District
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changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise La Plata Archuleta Water District's basic financial statements. The supplemental schedule of expenses – budget and actual and the supplemental schedule of operations and maintenance reserve calculation for the Colorado Water Resources and Power Development Authority note payable are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

 Beckstead & Co., LLC

Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the La Plata Archuleta Water 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, 2016. The financial statements are an integral part of this analysis and should be read in conjunction with this document.

Financial Highlights

1. The District began serving its first customers in January 2014. By the end of 2016 the District had sold 88 taps and was serving water to 75 customers.
2. Currently, the District's primary source of income is property taxes that are the result of the 5 mil tax issue that passed in the May 2010 election. A total of \$2,561,647 in general property taxes and \$220,415 in specific ownership taxes were received in 2016, an increase of \$324,517 and \$19,141, respectively, from 2015.
3. The District has a contract with Colorado Water Conservation Board (CWCB) to purchase a portion of CWCB's allocation of water in Lake Nighthorse. Lake Nighthorse is the reservoir constructed as part of the Bureau of Reclamation's Animas-La Plata Project which is situated southwest of the City of Durango. The District has the option to purchase up to 2,500 acre-feet of water over a 40-year period. The District has acquired a total of 220 acre-feet for a total \$761,681 as of December 31, 2016.
4. The District's total assets on December 31, 2016 totaled \$22,652,149 including unrestricted net position of \$5,788,230. The District has restricted assets of \$178,999 for TABOR reserves, \$362,169 for bond reserve and \$426,908 for bond proceeds that had not been spent yet. The District also has \$265,641 in payments in lieu of taxes (PILT) received from the Southern Ute Indian Tribe, which the District Board has designated to be used for the purchase of raw water.
5. The District began construction of its water distribution system in late 2012 and has completed construction of approximately 20 miles of water mains. The District entered a contract with Integrated Water Services in June 2015 for the construction of the Bayfield Water Treatment Plant Expansion Project in the amount of \$7,062,131 which had a final construction costs after change orders of \$7,341,899. Substantial completion of the treatment plant expansion was made in October 2016 with Final Completion expected in early 2017.

The costs associated with the treatment plant expansion are considered to be prepaid costs of water because the District will not own the facility, but only has

an Intergovernmental Agreement with the Town to receive treated water in exchange for the District paying the costs of the expansion.

The District has capital assets of \$7,885,635 and prepaid cost of water of \$8,163,035. The prepaid costs of water include the design, construction and construction inspection costs associated with the expansion of the Town of Bayfield's Water Treatment Plant.

6. The District borrowed \$2,500,000 in Drinking Water Revolving Loan funds from the Colorado Water Resources and Power Development Authority to pay for construction of pipelines in 2016, 2017 and 2018. Although the District usually pays for pipeline construction with annual revenue, because the cost of the Bayfield Water Treatment Plant exceeded the \$5,000,000 in 2013 General Obligation Bonds that were sold for that purpose, the Board of Directors felt that they needed to backfill the revenue that had been planned to be used for pipeline construction.
7. The District had four water main breaks occur in summer 2014 on a section of pipeline that was completed in early 2014. The District began investigation of these leaks in 2015 and after negotiations with the Contractor and their Surety were unsuccessful, filed a complaint in La Plata County District Court in 2016 against the Contractor and their Surety for corrective actions to be taken. The District is holding a receivable in the amount of \$151,832 with the expectation of being reimbursed for legal and engineering costs involved in the investigation and negotiations from the contractor or its surety.

Report Layout

Besides this Management's Discussion and Analysis (MD&A), the report consists of combined government-wide financial statements, notes to the basic financial statements, and required supplementary information including a budget comparison schedule. La Plata Archuleta Water 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 La Plata Archuleta Water District contain three primary statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position reflects the cumulative financial condition of the District at December 31, 2016, and the Statement of Revenues, Expenses, and Changes in Net Position show the change in financial condition from operations and other activities for the year then ended. The Statement of Net position and Statement of Revenues, Expenses and Changes in Net Position are reported using the economic resources measurement focus and the accrual basis of accounting.

Government-Wide Financial Analysis

A comparison to the prior year is provided below. This section will discuss and analyze significant differences.

A condensed version of the comparison for 2015 and 2016 of the Statement of Net Position follows:

	<u>2015</u>	<u>2016</u>
Current Assets	\$8,777,981	\$4,103,479
Capital Assets	7,230,176	7,885,635
Prepaid Cost of Water	3,677,188	8,163,035
Undisbursed Loan Proceeds		2,500,000
Total Assets	<u>19,685,345</u>	<u>\$22,652,149</u>
 Total Liabilities	 \$5,353,982	 \$7,100,142
 Deferred Property Tax Revenue	 \$2,563,619	 \$1,690,620
 Invested in Capital Assets, Net of related debt	 \$7,230,186	 \$7,894,158
Restricted	145,540	178,999
Unrestricted	4,390,028	5,788,230
Total Net position	<u>\$11,767,744</u>	<u>\$13,861,387</u>

A condensed version of the Statement of Revenues, Expenditures and Changes in Net Position follows:

	<u>2015</u>	<u>2016</u>
Operating Income		
Service Charges	\$ 29,154	\$36,306
Total operating expenses	647,585	736,027
Operating Income (Loss)	(618,431)	(699,721)
Nonoperating revenues (expenses)		
Property taxes and specific ownership taxes	2,237,130	2,561,647
Interest income	17,728	15,371
Tap Fees	82,536	73,578
Specific Ownership Tax	201,274	220,415
PILT income	172,789	145,229
Other income	4,326	4,490
Interest Expense and Debt Issuance Cost	(136,574)	(150,754)
Treasure Fees- La Plata County	(66,897)	(76,612)
Total nonoperating revenues	<u>2,512,312</u>	<u>2,793,364</u>
Change in net position	1,893,881	2,093,643
Beginning net position	9,873,863	11,767,744
Ending net position	<u>\$11,767,744</u>	<u>\$13,861,387</u>

The District was originally formed in August of 2008. A 5 mil property tax was approved by the voters of the District in May 2010. 2016 is the sixth year that the District has received property tax income. Approximately 80% of the District's property tax base consists of taxes from the production and processing of natural gas, the majority of which is tied to the commodity price of the natural gas. This can cause a large swing in the property tax revenue received by the District. There is a two year lag between the sales of gas and when the District receives the property tax for those sales. For instance, the price of gas in 2014 is reflected in the property taxes received by the District in 2016.

Because the District is relatively new and currently serves few customers, the tax revenue will be used to fund operations until there is enough of a customer base to cover these costs. Any tax revenue that is available after operations and to pay any debt obligations will be used for the capital construction program to continue expanding the water system and serving additional customers.

The District's Funds

General Fund

With the exception of the TABOR reserve requirements, the \$358,800 in bond reserves, the bond proceeds designated for the Town of Bayfield treatment plant expansion, and the PILT funds that are designated for the purchase of raw water, the remainder of this fund is available for operation and capital expenses.

Budgetary Highlights

Total income for 2016 was only about \$38,000 less than what was budgeted. While budgeted income from Tap Fees and PILT were overestimated by \$67,000 and \$30,000, respectively, income from Specific Ownership Taxes, Interest and Service Fees was underestimated by \$40,000, \$12,000 and \$6,000, respectively. As the District has more years of history it should be able to have a better idea of what the different income sources will provide.

Capital Assets and Long-Term Debt

Construction of the expansion to Bayfield's Water Treatment Plant began in 2015 and was substantially complete by October 2016. A total of \$4,485,848 was expended on construction, engineering design and construction management services in 2016. Although this is not a capital asset that the District will own, it is part of an IGA with the Town of Bayfield that secures the District a long term supply of treated water.

Pipeline construction expended about \$515,000 including construction and engineering costs. Due to delays in receiving federal permits for segments of pipeline projects that cross Southern Ute Indian Tribe or U.S. Bureau of Land Management lands, pipeline construction was minimal for 2016. These permits were finally received in December 2016.

The District sold General Obligation Tax Bonds in 2013 in the amount of \$5,000,000 to help pay the costs of the Bayfield Water Treatment Plant Expansion Project. The current outstanding principal for those bonds at the end of 2016 is \$4,150,000. The District borrowed \$2,500,000 from the Colorado Water Resources and Power Development Authority to pay the costs of pipeline construction in 2016, 2017 and 2018. Although the District usually pays for pipeline

construction with annual revenues, because the cost of the water treatment plant expansion exceeded the 2013 GO Bonds, it felt that it was necessary to borrow the money to backfill revenues that should have been used for pipeline construction instead of the treatment plant expansion. The current outstanding principal on that loan is \$2,491,477.

Future Plans

The District will continue to construct more distribution pipelines and connect new customers for the foreseeable future. The expansion of the Bayfield Water Treatment Plant will provide the District with at least 750,000 gallons per day of treatment capacity. As mentioned previously, the District is also negotiating with the City of Durango for a joint water treatment plant that will utilize water that the District has acquired in Lake Nighthorse. This is not expected to come to fruition for four to five years.

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 Edward Tolen at P.O. Box 1377, Ignacio, Colorado 81137.

La Plata Archuleta Water District

STATEMENTS OF NET POSITION

December 31,

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,401,406	\$ 1,716,938
Restricted cash - unspent bond proceeds	426,908	4,018,677
Restricted cash - bond reserve	362,169	360,166
Amount due from county treasurer	-	11,960
Accounts receivable	3,486	1,898
Property taxes receivable	1,690,620	2,563,619
Other receivables	151,832	50,358
Prepaid expenses	10,545	9,545
Inventory	56,513	44,232
Other current assets	-	588
Total current assets	<u>4,103,479</u>	<u>8,777,981</u>
Prepaid Costs of Water	8,163,035	3,677,188
Undisbursed Loan Proceeds	2,500,000	-
Capital Assets	7,885,635	7,230,176
Total assets	<u>22,652,149</u>	<u>19,685,345</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 281,880	\$ 836,862
Accrued payroll and related liabilities	11,381	10,022
Accrued interest expense	14,113	-
Current portion of long-term debt	305,624	195,000
Total current liabilities	<u>612,998</u>	<u>1,041,884</u>
Non-current Liabilities		
Long-term debt	6,487,144	4,312,098
Total liabilities	<u>7,100,142</u>	<u>5,353,982</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	<u>1,690,620</u>	<u>2,563,619</u>
NET POSITION		
Net Position		
Net investment in capital assets	7,894,158	7,230,176
Restricted for emergencies	178,999	147,540
Unrestricted	5,788,230	4,390,028
Total net position	<u>\$13,861,387</u>	<u>\$11,767,744</u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended,

	2016	2015
Operating Revenues		
Charges for services	\$ 36,306	\$ 29,154
Operating Expenses		
Compensation and benefits	210,084	197,980
Depreciation expense	173,146	145,023
Legal fees	85,610	82,308
Employee benefits and taxes	56,583	52,742
Engineering	48,768	38,389
Raw water operating and maintenance assessment	45,865	45,053
Miscellaneous	36,182	39,949
Accounting and auditing	21,424	21,973
Capital outlay	15,696	(6,896)
Contract costs for water treatment plant operation and maintenance	14,157	6,772
Rent	13,563	13,359
Insurance	9,847	10,933
Repairs and maintenance	5,102	-
Operating Expenses	<u>736,027</u>	<u>647,585</u>
Operating Income (Loss)	(699,721)	(618,431)
Nonoperating Revenues (Expenses)		
Property taxes	2,561,647	2,237,130
Specific ownership taxes	220,415	201,274
Payments in lieu of taxes	145,229	172,789
Tap fees	73,578	82,536
Interest income	15,371	17,728
Other income	4,490	4,326
Interest expense	(150,754)	(136,574)
Treasurer fees - La Plata County	(76,612)	(66,897)
Nonoperating Revenues (Expenses)	<u>2,793,364</u>	<u>2,512,312</u>
Change in Net Position	2,093,643	1,893,881
Net position at beginning of year	11,767,744	9,873,863
Net position at end of year	<u>\$13,861,387</u>	<u>\$11,767,744</u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

STATEMENTS OF CASH FLOWS

For the year ended,

	2016	2015
Cash Flows from Operating Activities		
Cash received from customers	\$ 34,718	\$ 27,759
Other receipts	4,490	4,326
Cash paid to employees	(208,725)	(196,808)
Cash paid to suppliers	(5,439,076)	(2,966,424)
Net Cash Provided (Used) by Operating Activities	(5,608,593)	(3,131,147)
Cash Flows from Non-capital Financing Activities		
Property and specific ownership taxes	2,717,410	2,377,379
Tap fees	73,578	82,536
Payment in lieu of taxes	145,229	172,789
Net Cash Provided (Used) by Non-capital Financing Activities	2,936,217	2,632,704
Cash Flows from Capital and Related Financing Activities		
Principal payments of capital debt	(203,523)	(205,000)
Interest payments	(147,448)	(147,381)
Purchases of capital assets	(897,322)	(1,122,293)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,248,293)	(1,474,674)
Cash Flows from Investing Activities		
Interest income	15,371	17,728
Net Cash Provided (Used) by Investing Activities	15,371	17,728
Net Increase (Decrease) in Cash	(3,905,298)	(1,955,389)
Cash at beginning of year	6,095,781	8,051,170
Cash at end of year	<u>\$ 2,190,483</u>	<u>\$ 6,095,781</u>
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities		
Operating loss	\$ (699,721)	\$ (618,431)
Depreciation expense	173,146	145,023
Other income	4,490	4,326
Change in accounts receivable	(1,588)	(1,395)
Change in prepaid expenses	(1,000)	(2,465)
Change in other receivables	(101,474)	(50,358)
Change in inventory	(12,281)	(44,232)
Change in other current assets	588	(140)
Change in prepaid costs of water	(4,485,847)	(3,189,951)
Change in accounts payable, net of capital and related financing activity	(486,265)	625,304
Change in accrued payroll and related liabilities	1,359	1,172
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,608,593)</u>	<u>\$ (3,131,147)</u>
Noncash Capital and Related Financing Activity:		
Capital assets acquired by incurring accounts payable	\$ 129,283	\$ 198,000
Proceeds of debt retained by lender until approved expenditures incurred	\$ 2,500,000	\$ -
Cash reported on the Statement of Net Position		
Cash and cash equivalents	\$ 1,401,406	\$ 1,716,938
Restricted cash - unspent bond proceeds	426,908	4,018,677
Restricted cash - bond reserve	362,169	360,166
	<u>\$ 2,190,483</u>	<u>\$ 6,095,781</u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

REPORTING ENTITY

The La Plata Archuleta Water District (the “District”) was formed by court decree on August 19, 2008. The District is an independent political subdivision operating under the statutes for special districts of the State of Colorado and has its own elected governing board members.

The mission of the District is to finance, construct, operate, and maintain a public water distribution system in the southeast portion of La Plata County.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

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, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency. Based upon these criteria, no entities were found to be includable within the reporting unit of the District.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the 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.

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as proprietary enterprise funds. The enterprise fund is used since the District’s powers are related to those operated in a manner similar to a private business enterprise where net income and capital maintenance are appropriate determinations of accountability. The District is constructing a public water distribution system that, when complete, will assess charges to its constituents for water usage by those constituents.

The more significant accounting policies of the District are described as follows:

Proprietary Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or

La Plata Archuleta Water District

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recovered in part through user charges. The District's operations are accounted for as one enterprise fund.

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Expenditures for property, plant and equipment are shown as increases in assets.

Budgets and Budgetary Accounting

The District's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, management submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.
2. Public hearings are conducted to obtain public comment.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. Management is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.
5. State statutes require the adoption of a summary budget for proprietary funds.
6. Appropriations lapse at the end of each calendar year.
7. The District's Board may authorize supplemental appropriations during the year.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

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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.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents. Certificates of deposit with maturities exceeding twelve months are also considered to be cash equivalents when early redemption charges would not be significant.

Inventory and Prepaid Expenses

Inventory is valued at cost using the first-in/first-out (FIFO) method and consists of expendable supplies and pipeline repair parts. The cost of such inventory is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. The cost of prepaid expenses are recorded as expenses when consumed rather than when purchased.

Capital Assets

Capital assets are valued at historical cost.

Depreciation of the water distribution system will be charged to operating expenses over its useful life when it is placed in service using the straight line method.

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 reporting period. Actual results could differ from those estimates.

Restricted Resources

It is the District's policy to use restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

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CASH AND INVESTMENTS

The District's policy in determining which items are treated as cash equivalents include cash, demand deposits, treasury bills, and other short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

Investments are reported at fair value which is determined using selected bases. Short term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last quoted market price. Cash deposits are reported at carrying amounts which reasonably estimates fair value.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. The eligible depository is required to pledge to the Colorado Division of Banking a pool of collateral having a market value that at all times exceeds 102 percent of uninsured aggregate public deposits. The eligible collateral is determined by the PDPA, which includes obligations of the United States, the State of Colorado, Local Colorado governments, and obligations secured by first lien mortgages on real property located in the state. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. 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.

There is no custodial credit risk for public deposits collateralized under PDPA.

At December 31, 2016, all of the District's deposits were held in eligible depositories as required by PDPA. Accordingly, all deposits are either insured by the Federal Deposit Insurance Corporation (FDIC) or are collateralized as required by PDPA in accordance with state statute. Bank balances before outstanding checks, deposits in transit, and other reconciling items total \$1,067,837 and \$1,402,191 at December 31, 2016 and 2015, respectively. The carrying amount in the financial statements for these deposits is \$1,083,703 and \$1,400,992 at December 31, 2016 and 2015, respectively.

The District's investment policy requires that, in making investment decisions, the District exercise judgment and care considering the probable income as well as the safety of capital. All investments allowed by Colorado statutes are considered by the District's policy to comply with this standard. This investment policy applies to the investment of all financial assets of all funds of the District over which it exercises financial control.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

Obligations of the United States and certain U.S. governmental agency securities, including securities issued by FNMA (federal national mortgage association), GNMA (governmental national mortgage association), FHLMC (federal home loan mortgage corporation), the federal farm credit bank, the federal

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land bank, the export-import bank, and by the Tennessee Valley Authority, and certain international agency securities, including the World Bank

General obligation and revenue bonds of U.S. local government entities, the District of Columbia, and territorial possessions of the U.S. rated in the highest two rating categories by two or more nationally recognized rating agencies

Bankers' acceptances of certain banks

Certain securities lending agreements

Commercial paper

Written repurchase agreements collateralized by certain authorized securities

Certain money market funds

Guaranteed investment contracts

Local government investment pools

The investing local government's own securities including certificates of participation and lease obligations.

Colorado Surplus Asset Fund Trust

Included in cash and cash equivalents is \$1,106,780 (2016) and \$4,694,789 (2015) held in the Colorado Surplus Asset Fund Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust invests in U.S. Treasury securities, obligations of U.S. government agencies, and repurchase agreements collateralized by U.S. Treasury securities and obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the Trust. The pool is not required to be, and is not, registered with the SEC.

The Colorado Surplus Asset Fund Trust is rated AAAM by Standard & Poor's rating service. The custodian's internal records segregate investments owned by the Trust.

Investments in local government investment pools are not categorized in terms of custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

La Plata Archuleta Water District
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December 31, 2016 and 2015

The following is a summary of cash and cash equivalents:

<u>Fair Value</u>	<u>2016</u>	<u>2015</u>
Bank deposits	\$ 1,083,703	\$ 1,400,992
Colorado Surplus Asset Fund Trust	1,106,780	4,694,789
	<u>\$ 2,190,483</u>	<u>\$ 6,095,781</u>

Risk Disclosures

Additional investment and deposit disclosures for credit risk, interest rate risk, and foreign currency risk, as required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, are included below.

To minimize custodial credit risk, or the risk that an insurer or other counterparty to an investment will not fulfill its obligations, state law limits District investments to those where the issuer is rated in one of the three highest rating categories by one or more nationally recognized organizations that rate such issuers. The District has deposits in Colorado Surplus Asset Fund Trust. Colorado Surplus Asset Fund Trust is rated AAAM by Standard & Poor's.

The concentration of credit risk, or the risk of loss attributed to the magnitude of a government's investment in a single issuer, occurs when deposits are not diversified. District policy places no limit on the amount the District may invest in any one issuer; however the District maintains general guidelines for investments to ensure proper diversification by security type and institution. All District investments are issued or explicitly guaranteed by securities of the U.S. government, or insured by PDPA, or are investments in external investment pools, and therefore are not subject to concentration of credit risk disclosure requirements.

Interest rate risk is the extent to which changes in interest rates will adversely affect the fair value of an investment. The District maintains an investment policy that limits investment maturities to three years as means of managing its exposure to fair value losses arising from increasing interest rates and to avoid undue concentration in any sector of the yield curve. Exceptions to this structure may be allowed where maturities can be structured to accommodate readily identifiable cash flows as approved by the Board.

The District was not subject to foreign currency risk as of December 31, 2016 and 2015.

Restricted Cash

The District has unspent proceeds from the Limited Tax General Obligation Bonds, Series 2013 that are required to be spent on the acquisition, construction, installation, expansion and / or completion of a rural domestic water system as approved by the District's electors. \$426,908 remains to be spent at December 31, 2016.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

The District has established a reserve account in accordance with the Limited Tax General Obligation Bonds, Series 2013. The bond resolution establishes the calculation of the required reserve. The requirement has been met at December 31, 2016 by cash of \$362,169 included in the bond reserve account.

TAX, SPENDING, AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. In general, TABOR restricts the ability of the State and local governments to increase revenues and spending, to impose taxes, and to issue debt and certain other types of obligations without voter approval. TABOR generally applies to the State and all local governments, including the District.

Some provisions of TABOR are unclear and will require further judicial interpretation. No representation can be made as to the overall impact of TABOR on the future activities of the District, including its ability to generate sufficient revenues for its general operations, to undertake additional programs, or to engage in any subsequent financing activities.

TABOR also requires local governments to establish emergency reserve funds. The reserve fund must consist of at least 3% of fiscal year spending. TABOR allows local governments to impose emergency taxes (other than property taxes) if certain conditions are met. Local governments are not allowed to use emergency reserves or taxes to compensate for economic conditions, revenue shortfalls, or local government salary or benefit increases. The statement of net position carries a balance of \$178,999 (2016) and \$147,540 (2015) restricted for emergencies.

On May 4, 2010, the District's constituents voted to authorize a 5.0 mill levy rate and to exempt the District from the revenue limitations included in TABOR.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

The District believes it has complied with all aspects of the TABOR amendment.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

CAPITAL ASSETS

A summary of changes in capital assets during 2016 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable Assets					
Land	\$ 368,722	\$ -	\$ -	\$ -	\$ 368,722
Construction in progress	336,838	614,686	-	(569,390)	382,134
Raw water supply	553,950	207,731	-	-	761,681
Total nondepreciable assets	<u>1,259,510</u>	<u>822,417</u>	<u>-</u>	<u>(569,390)</u>	<u>1,512,537</u>
Depreciable Assets					
Pipelines	5,928,382	-	-	569,390	6,497,772
Subdivision lines	181,664	-	-	-	181,664
Service lines	19,038	-	-	-	19,038
Equipment	30,229	-	-	-	30,229
Vehicles	58,510	6,188	-	-	64,698
Software	7,500	-	-	-	7,500
Total depreciable assets	<u>6,225,323</u>	<u>6,188</u>	<u>-</u>	<u>569,390</u>	<u>6,800,901</u>
Less accumulated depreciation	<u>254,657</u>	<u>173,146</u>	<u>-</u>	<u>-</u>	<u>427,803</u>
Net depreciable assets	<u>5,970,666</u>	<u>(166,958)</u>	<u>-</u>	<u>569,390</u>	<u>6,373,098</u>
Total capital assets	<u><u>\$ 7,230,176</u></u>	<u><u>\$ 655,459</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,885,635</u></u>

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

A summary of changes in capital assets during 2015 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable Assets					
Land	\$ 360,448	\$ 8,274	\$ -	\$ -	\$ 368,722
Construction in progress	362,979	1,005,498	-	(1,031,639)	336,838
Raw water supply	346,219	207,731	-	-	553,950
Total nondepreciable assets	<u>1,069,646</u>	<u>1,221,503</u>	<u>-</u>	<u>(1,031,639)</u>	<u>1,259,510</u>
Depreciable Assets					
Pipelines	4,882,970	13,773	-	1,031,639	5,928,382
Subdivision lines	160,336	21,328	-	-	181,664
Service lines	11,717	7,321	-	-	19,038
Equipment	30,229	-	-	-	30,229
Vehicles	58,510	-	-	-	58,510
Software	7,500	-	-	-	7,500
Total depreciable assets	<u>5,151,262</u>	<u>42,422</u>	<u>-</u>	<u>1,031,639</u>	<u>6,225,323</u>
Less accumulated depreciation	109,634	145,023	-	-	254,657
Net depreciable assets	<u>5,041,628</u>	<u>(102,601)</u>	<u>-</u>	<u>1,031,639</u>	<u>5,970,666</u>
Total capital assets	<u>\$ 6,111,274</u>	<u>\$ 1,118,902</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,230,176</u>

LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations during 2016 follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2013 Limited Tax					
General Obligation	\$ 4,345,000	\$ -	\$ 195,000	\$ 4,150,000	\$ 200,000
2016 CWRPDA Loan					
	-	2,500,000	8,523	2,491,477	105,624
	<u>4,345,000</u>	<u>2,500,000</u>	<u>203,523</u>	<u>6,641,477</u>	<u>305,624</u>
Unamortized premium	162,098	-	10,807	151,291	-
Total	<u>\$ 4,507,098</u>	<u>\$ 2,500,000</u>	<u>\$ 214,330</u>	<u>\$ 6,792,768</u>	<u>\$ 305,624</u>

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

A summary of changes in long-term obligations during 2015 follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
2013 Limited Tax General Obligation Bonds	\$ 4,550,000	\$ -	\$ 205,000	\$ 4,345,000	\$ 195,000
Add unamortized premium	172,905	-	10,807	162,098	-
	<u>\$ 4,722,905</u>	<u>\$ -</u>	<u>\$ 215,807</u>	<u>\$ 4,507,098</u>	<u>\$ 195,000</u>

Limited Tax General Obligation Bonds - Series 2013

Limited Tax General Obligation Bonds in the face amount of \$5,000,000 were issued at a premium of \$191,817 with a date of April 3, 2013. The interest rate varies from 2.0% to 4.0% payable semi-annually on June 15 and December 15. Principal is due and payable on December 15. Final maturity date is December 15, 2032.

Colorado Water Resources and Power Development Authority (CWRPDA) Note Payable

A note payable in the amount of \$2,500,000 was issued to CWRPDA during 2016. Payments, including interest at 2% per annum, of \$77,464 are payable on May 1st and November 1st through May 1, 2036. The District has covenanted to levy ad volorem taxes on all taxable property within its boundaries in amount sufficient to pay the principal and interest on the loan, but not in excess of 2.5 mills.

The total annual requirements to amortize the long-term debt are as follows:

Year	Principal	Interest	Total
2017	\$ 305,624	\$ 188,685	\$ 494,309
2018	312,747	182,563	495,310
2019	324,913	176,296	501,209
2020	332,122	168,712	500,834
2021	339,376	160,958	500,334
2022-2026	1,842,300	648,719	2,491,019
2027-2031	2,175,837	346,752	2,522,589
2032-2036	1,008,558	47,418	1,055,976
	<u>\$ 6,641,477</u>	<u>\$ 1,920,103</u>	<u>\$ 8,561,580</u>

On November 1, 2011, the electors of the District approved the incurrence of debt not to exceed \$25,000,000. \$7,500,000 of this authorization has been issued with \$17,500,000 remaining as authorized, but not issued.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and general liability. The District is a member of the Colorado Special District Property and Liability Pool (“Pool”) for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to \$1,000,000, except if the claim falls within the government immunity statute, then the coverage is \$150,000 per person and a \$600,000 aggregate claim. The Pool is reinsured for 80% of the first \$250,000 of all claims and 100% for claims in excess of \$250,000. The District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. Any excess funds, which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. Any settled claims are not expected to exceed coverage.

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2015 (the latest audited information available) is as follows:

Assets	\$ 44,054,744
Liabilities	\$ 24,739,781
Surplus	19,314,963
	<u>\$ 44,054,744</u>
Revenues	\$ 16,561,452
Expenses	14,839,993
Net Income (Loss)	<u>\$ 1,721,459</u>

CONTRACTUAL MATTERS

Town of Bayfield

The District has entered into an intergovernmental agreement with the Town of Bayfield (the Town). Pursuant to this agreement, the District will pay costs to expand the water treatment plant owned by the Town. The cost of this expansion is estimated at \$8,163,035. The plant will continue to be owned and operated by the Town. The District will participate in the operating and maintenance costs of the expanded plant when the expansion project has been completed. The District will also provide its share of raw water to the treatment plant.

The Town will provide treated water to the District which the District will distribute to its users through the District’s distribution system.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

The costs paid by the District that are associated with the expansion of the Town's water treatment plant are reflected in the Statement of Net Position as Prepaid Costs of Water. When water usage charges commence being charged to the District's users, these prepaid costs will be amortized over 25 years from the date the expanded water treatment plant is placed in service to match the costs of providing water to the revenues generated. If the agreement is terminated prior to 25 years after the date the expanded water treatment plant is placed in service, the Town will reimburse the District for the unamortized costs of the expansion. At December 31, 2016 and 2015, prepaid costs of water are \$8,163,035 and \$3,677,188, respectively. Amortization of these costs are scheduled to commence in 2017.

If neither the Town nor the District terminates the agreement at the end of its term (including renewals if applicable), the agreement renews for additional terms of five years.

Colorado Water Conservation Board

The District has entered into a contract with the Colorado Water Conservation Board to acquire long-term municipal and industrial water supply. The agreement provides the District with the option to acquire up to 2,500 acre-feet of water stored in Lake Nighthorse. The agreement provides that the District may acquire additional acre-feet of water supply until the cumulative supply acquired equals the allotted 2,500 acre-feet of water. The minimum purchase each year is the lesser of 60-acre feet or the remaining allotment of the 2,500 acre-feet. If the District fails to exercise its option for two consecutive years the Colorado Water Conservation Board may terminate the agreement. The agreement expires when the District acquires its full allotment or in the year 2054 if the District has not acquired its full allotment.

During 2016 the District acquired 60 acre feet for \$207,731. Cumulative purchases through December 31, 2016 total 220 acre feet at a cost of \$761,681.

Pine River Irrigation District

The District leases 200 acre-feet of water per year from the Pine River Irrigation District. Leased water is billed at \$250 per acre-foot and standby water is billed at \$40 per acre-foot. The lease also requires a surcharge of 15% of the total billed. The lease does not have a stated expiration date. The District paid \$12,219 (2016) and \$10,821 (2015) pursuant to this agreement.

RETIREMENT PLANS

401(a) Retirement Plan

The District provides a 401(a) retirement plan for eligible District employees through the Colorado County Officials and Employees Retirement Association (CCOERA) (the Plan). The Plan is a defined contribution money purchase plan. Employees participate in the Plan after 90 days of employment. The employees and the District each contribute 5% of gross wages. The District's contributions for each employee plus earnings are fully vested after five years of continuous service. District contributions and

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

related interest forfeited by employees who leave employment before fully vesting are returned to the Plan to reduce future retirement requirements. The District contributed \$9,015 (2016) and \$8,528 (2015) to the Plan.

Deferred Compensation Plan

The District has a deferred compensation plan (the Plan), administered by CCOERA, and created in accordance with Internal Revenue Code Section 457. The Plan permits the District's employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation in the Plan is optional.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of the participants or their beneficiaries. The District has no ownership interest in the Plan, nor is the District liable for any losses under the Plan.

RECLASSIFICATION

During the year it was determined that Prepaid Costs of Water, the related debt incurred to finance these costs, and the related Restricted Cash – Unspent Bond Proceeds should not be included in the Net Position caption of Net Investment in Capital Assets. Accordingly, \$488,421 of net position previously reported as Unrestricted at December 31, 2015 was reclassified to Net Investment in Capital Assets.

SUPPLEMENTAL INFORMATION

La Plata Archuleta Water District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31, 2016 and 2015

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures Reported on the GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
2016						
Total expenditures	\$10,250,528	\$10,250,528	\$ 963,393	\$ 858,982	\$ 1,822,375	\$ 8,428,153
2015						
Total expenditures	\$10,785,819	\$10,785,819	\$ 851,056	\$1,323,902	\$ 2,174,958	\$ 8,610,861

Adjustments to budgetary basis are comprised of capital expenditures, depreciation expense, and debt principal payments.

La Plata Archuleta Water District

SCHEDULE OF OPERATIONS AND MAINTENANCE RESERVE CALCULATION FOR THE
 COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY NOTE PAYABLE

For the year ended December 31, 2016

Budgeted expenditures for 2016		\$10,250,528
Nonoperating and maintenance adjustments:		
Capital outlay	7,350,000	
Contingency and TABOR reserves	1,677,738	
Principal payments	<u>300,000</u>	
		<u>9,327,738</u>
Budgeted operations and maintenance expenses for 2016		922,790
Three months' budgeted operations and maintenance expenses for 2016		230,698
Unrestricted cash reported on the Statement of Net Position		1,401,406
Is unrestricted cash greater than three months' budgeted operations and maintenance expenses for 2016?		Yes