

**RIO GRANDE WATER CONSERVATION
FINANCIAL STATEMENTS**

December 31, 2016



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**Wall,
Smith,
Bateman** Inc.

Certified Public Accountants

RIO GRANDE WATER CONSERVATION DISTRICT
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Wall,
Smith,
Bateman Inc.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rio Grande Water Conservation District
Alamosa, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Rio Grande Water Conservation District (the District) as of and for the year ended December 31, 2016, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Rio Grande Water Conservation District, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Fund Balance - Budget Actual Special Improvement District #1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenues, Expenses, and Changes in Fund Balance - Budget Actual Special Improvement District #1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenses, and Changes in Fund Balance - Budget Actual Special Improvement District #1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Wall, Smith, Bateman Inc.
Alamosa, Colorado

August 28, 2017

RIO GRANDE WATER CONSERVATION DISTRICT
BASIC FINANCIAL STATEMENTS

RIO GRANDE WATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2016

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets			
Cash	\$ 1,256,587	\$ 8,649,190	\$ 9,905,777
Restricted Assets:			
Cash - Bureau of Reclamation	71,665	-	71,665
Cash - Study Account	1,822,908	-	1,822,908
Property Taxes Receivable	1,171,962	-	1,171,962
Assessments Receivable, Net of Allowance for Uncollectable Accounts	-	5,337,808	5,337,808
Interfund Balances	79,429	(79,429)	-
Due From Other Governments	1,147	-	1,147
Interest Receivable	370	-	370
Prepaid Other	16,661	-	16,661
Total Current Assets	4,420,729	13,907,569	18,328,298
Capital Assets			
Land and Structures	1,967,541	-	1,967,541
Structures	2,315,890	-	2,315,890
Equipment and Vehicles	99,957	-	99,957
Office Furniture	129,045	-	129,045
Accumulated Depreciation	(378,429)	-	(378,429)
Total Capital Assets	4,134,004	-	4,134,004
TOTAL ASSETS	8,554,733	13,907,569	22,462,302
LIABILITIES			
Current Liabilities			
Accounts Payable	45,137	1,280,773	1,325,910
Unearned Revenue - Bureau of Reclamation	42,087	-	42,087
Total Current Liabilities	87,224	1,280,773	1,367,997
Long-Term Liabilities			
Accrued Compensated Absences	34,667	-	34,667
Total Long-Term Liabilities	34,667	-	34,667
TOTAL LIABILITIES	121,891	1,280,773	1,402,664
DEFERRED INFLOWS OF RESOURCES - CURRENT			
Unavailable Revenue- Property Tax	1,171,962	-	1,171,962
NET POSITION			
Net Investment in Capital Assets	4,134,004	-	4,134,004
Restricted:			
Bureau of Reclamation	71,665	-	71,665
Tabor Reserve	32,807	-	32,807
Unrestricted	3,022,404	12,626,796	15,649,200
TOTAL NET POSITION	\$ 7,260,880	\$ 12,626,796	\$ 19,887,676

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		Total
					Primary Government	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 1,170,046	\$ -	\$ -	\$ -	\$ (1,170,046)	\$ -	\$ (1,170,046)
Conservation of Natural Resources	56,110	-	-	-	(56,110)	-	(56,110)
Bureau of Reclamation Contract	210,201	-	205,003	-	(5,198)	-	(5,198)
Total Governmental Activities	1,436,357	-	205,003	-	(1,231,354)	-	(1,231,354)
Business-Type Activities:							
Enterprise Fund	4,511,074	5,434,509	-	-	-	923,435	923,435
Total Business-Type Activities	4,511,074	5,434,509	-	-	-	923,435	923,435
Total Primary Government	\$ 5,947,431	\$ 5,434,509	\$ 205,003	\$ -	(1,231,354)	923,435	(307,919)
General Revenues:							
Taxes:							
					1,272,807	-	1,272,807
					4,270	-	4,270
					7,173	24,122	31,295
					50,596	-	50,596
Total General Revenues					1,334,846	24,122	1,358,968
Change in Net Position					103,492	947,557	1,051,049
Net Position - Beginning					7,157,388	11,679,239	18,836,627
Net Position - Ending					\$ 7,260,880	\$ 12,626,796	\$ 19,887,676

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET
For the Year Ended December 31, 2016

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 1,256,587
Restricted Assets:	
Cash - Bureau of Reclamation	71,665
Cash- Study Account	1,822,908
Property Taxes Receivable	1,171,962
Due From Other Funds	79,429
Due From Other Governments	1,147
Interest Receivable	370
Prepaid	16,661
TOTAL ASSETS	<u><u>\$ 4,420,729</u></u>
LIABILITIES	
Accounts Payable	45,137
Unearned Revenue - Bureau of Reclamation	42,087
TOTAL LIABILITIES	<u>87,224</u>
DEFERRED INFLOWS OF RESOURCES - CURRENT	
Unavailable Revenue- Property Tax	<u>1,171,962</u>
FUND BALANCE	
Nonspendable:	
Prepaid Items	16,661
Restricted:	
Tabor Reserve	32,807
Committed:	
Water Study Account	1,822,908
Assigned:	
Designated for Subsequent Year Expenses	1,188,900
Unassigned	100,267
TOTAL FUND BALANCE	<u>3,161,543</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	<u><u>\$ 4,420,729</u></u>

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION
December 31, 2016

Total Governmental Fund Balances \$ 3,161,543

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 4,134,004

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (34,667)

Net Position of Governmental Activities \$ 7,260,880

**RIO GRANDE WATER CONSERVATION DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Year Ended December 31, 2016**

	GENERAL FUND
REVENUES	
Taxes	\$ 1,272,807
Intergovernmental Revenue	
Bureau of Reclamation (BOR)	205,003
Interest Earned on BOR Funds	25
Miscellaneous Revenue	
Interest Revenue	7,148
Other Revenue	54,866
TOTAL REVENUES	1,539,849
EXPENDITURES	
General Government	
Salaries and Fringe	549,418
Travel	17,283
Office Expense	80,054
Professional Services	352,012
Other General Government	98,701
Conservation of Natural Resources	56,110
Bureau of Reclamation Contract	210,201
Capital Outlay	529,694
TOTAL EXPENDITURES	1,893,473
Excess (Deficiency) of Revenues Over Expenditures	(353,624)
Fund Balance at Beginning of Year	3,515,167
Fund Balance at End of Year	\$ 3,161,543

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

Net change in fund balances - total governmental funds **\$ (353,624)**

Amounts reported for governmental activities in the statements of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statements of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the activity in capital assets in the current period.

Fixed asset additions	506,140	
Depreciation expense	<u>(63,508)</u>	
		442,632

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences		<u>14,484</u>
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Change in net position of governmental funds **\$ 103,492**

RIO GRANDE WATER CONSERVATION DISTRICT
ENTERPRISE FUND
STATEMENT OF NET POSITION
December 31, 2016

	SPECIAL IMPROVEMENT DISTRICT #1 FUND
ASSETS	
Current Assets	
Cash	\$ 8,649,190
Assessments Receivable, Net of Allowance for Uncollectable Accounts	5,337,808
TOTAL ASSETS	\$ 13,986,998
 LIABILITIES AND FUND EQUITY	
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 1,280,773
Due to Rio Grande Water Conservation District	79,429
TOTAL LIABILITIES	1,360,202
 NET POSITION	
Unrestricted	12,626,796
 TOTAL NET POSITION	12,626,796
 TOTAL LIABILITIES AND NET POSITION	\$ 13,986,998

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2016

	<u>SPECIAL IMPROVEMENT DISTRICT #1 FUND</u>
OPERATING REVENUE	
Variable Fees	\$ 4,768,331
Administration Fees	331,589
CREP Fees	333,089
Contract Inclusion Fees	1,500
Total operating revenue	<u>5,434,509</u>
OPERATING EXPENSES	
Water Management Expenses	
Water Lease and Storage Expense	2,088,168
CREP	252,700
CREP - Incentive Fees	1,760,187
Administration	271,714
Professional Fees	138,305
Total operating expenses	<u>4,511,074</u>
Operating income (loss)	<u>923,435</u>
NONOPERATING REVENUE	
Interest Revenue	<u>24,122</u>
Total Nonoperating Revenue (Expense)	24,122
Change in Net Position	947,557
Net Position at Beginning of Year	<u>11,679,239</u>
Net Position at End of Year	<u>\$ 12,626,796</u>

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016

	2016
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Administration, CREP, and Variable Fees	\$ 5,366,926
Cash Received from Miscellaneous Activities	1,500
Cash Payments for Water Management Expenses	(3,853,922)
Cash Payments for Professional Services	(165,328)
Cash Payments for Administration	(395,332)
	<u>953,844</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>953,844</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	24,122
	<u>24,122</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>24,122</u>
Net Increase (Decrease) in Cash and Cash Equivalents	977,966
Cash and Cash Equivalents, Beginning of Year	<u>7,671,224</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,649,190</u>
OPERATING INCOME (LOSS)	\$ 923,435
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Change in assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(128,078)
(Increase) Decrease in Prepaid Water	250,000
(Increase) Decrease in Due From Other Governments	61,995
Increase (Decrease) in Accounts Payable related to Operating Activities	(23,239)
Increase (Decrease) in Due to RGWCD	(130,269)
	<u>(130,269)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 953,844</u>

The accompanying notes are an integral part of this financial statement.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

Primary Government

The District was created by HB No. 1536 during the 1967 legislative assembly. The District is governed by a board of nine directors: two from Alamosa, Conejos, Rio Grande, and Saguache counties, and one from Mineral County. Conserving water of the Rio Grande River Basin for beneficial use is the primary function of the District.

In October 2006, Sub-District #1 was approved by the board and District Court, Water Division No. 3, State of Colorado. In 2010 the Court approved the Plan of Water Management of which the objective is to cause groundwater levels in the Unconfined Aquifer of the Closed Basin to recover, and then to maintain a sustainable irrigation water supply in the Unconfined Aquifer with due regard for the daily, seasonal, and longer term demands on the aquifer and to protect senior surface water rights and avoid interference with Colorado's obligations under the Rio Grande Compact. To achieve these goals, reducing and managing overall groundwater consumption is essential. Only the administrative fee can be used for reimbursement of formation costs. As the Sub-Districts are formed and administrative fees are collected the District will formulate a plan to reimburse the General Fund. During 2016, Sub-District #2 was formed; however, this sub-district did not produce any current year activity. There are currently four additional Sub-Districts being formed. Sub-Districts are not independent entities, they are sub-districts of Rio Grande Water Conservation District, and the District is responsible for the operation of the Sub-Districts.

Component Units

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

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

Based on the aforementioned criteria, the District has no component units.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the District. Mainly taxes and intergovernmental revenues support governmental activities.

The statement of activities reflects the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include:

- Grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate financial statements are provided for the governmental funds and proprietary funds. The emphasis of fund financial statements is on major governmental funds and enterprise funds, each reported as a separate column.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants are recognized as revenue when all applicable eligibility requirements, imposed by the provider, are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

The District reports the following major governmental fund:

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

The District reports the following major enterprise fund:

- The **Enterprise Fund** accounts for fees and expenses for operating, financing, and maintaining the Sub-District.

Certain eliminations have been made as prescribed by the GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the statement of net position have been eliminated.

Proprietary fund financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The District's only proprietary fund is the Special Improvement District #1 (Sub-District), used to account for the activities of the Sub-district. Sources of revenue consist of administration fees, Conservation Reserve Enhancement Program (CREP) fees, and variable fees assessed on landowners within the Sub-District.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

The proprietary fund is accounted for using the accrual basis of accounting as follows:

- Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
- Current year contributions, administrative expenses, and premium payments, which are not received or paid until the subsequent year, are accrued.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities subject to this same limitation.

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

ASSETS, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Cash

The District's cash and cash equivalents are considered to be cash in bank, certificates of deposit, and liquid investments with an initial maturity of three months or less.

Restricted Cash

The District keeps a bank account for money received from the Bureau of Reclamation. The money in this account is to be used only for expenses approved by the Bureau of Reclamation. The District also keeps a bank account for money received for studies of water resources. See Note 4 for more information regarding the Study Account.

Receivables/Payables To/From Other Funds

Balances that originate from current lending/borrowing arrangements between funds are referred to as "Due To/From Other Funds."

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital Assets, which include land, buildings, and vehicles, are reported in the applicable governmental activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and a life of more than one year. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

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

Assets	Years
Structures	30-50
Equipment & Vehicles	5-10

Compensated Absences

Employees of the District are entitled to paid vacation depending on the length of service and other factors. The employees are also entitled to sick leave. Sick leave will vest according to a formula based on the sick leave hours that have been accumulated and the terms of termination. Accrued vacation and the vested portion of sick leave have been accrued in the amount of \$34,667 at December 31, 2016.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 each year. The taxes are payable in two installments on February 28 and June 15 or in full on April 30. The District's property taxes are collected by each of the five counties that comprise the District: Alamosa, Conejos, Mineral, Rio Grande, and Saguache. The respective county treasurers remit monthly receipts to the District; property tax revenue is recognized when received by the County Treasurer. The 2016 property tax levy due January 1, 2017, has been recorded as a receivable and a corresponding deferred inflow of resources in the financial statements.

Assessments – Special Improvement District #1

Assessments attach as an enforceable lien on property as of January 1 each year. The assessments are payable in two installments on February 28 and June 15 or in full on April 30. Only lands irrigated by groundwater and the pumping and use of groundwater on Sub district lands will be subject to assessment. There are three fees the Sub-District #1 can assess; Administrative Fee, Conservation Reserve Enhancement Program (CREP) Fee, and the Variable Fee. Sub-District #1 assessed a \$2 per irrigable acre Administrative Fee and a \$2 per irrigable acre CREP Fee. The Variable Fee is a calculation based on the surface water owned and groundwater pumped during 2016. Any excess groundwater from that calculation is charged \$75 per acre foot which is to generate sufficient funds to retire existing sources of groundwater consumption necessary to cause the groundwater system to recover to a historical sustainable level. The aforementioned fees are based on several variables and are subject to an appeals process by the landowner. The appeal can cause an adjustment to revenue.

Expenditures – Plan of Water Management

Special Improvement District #1 (Sub District) expends funds to implement the following:

- A program of temporary fallowing to remove sufficient acreage from production to achieve reduction of water consumption.
- Economic incentives for the permanent removal of lands from irrigation.
- Replacement of stream depletions and/or increases in groundwater recharge.
- Infrastructure improvements to maximize the diversion and recharge of water.
- Purchase and retirement of irrigated lands and/or water rights.
- Education and research into water conservation, water use efficiency, improved water management and public education.
- Improvement and operation of ditches, headgates, and recharge facilities to make the best use of available water and to improve groundwater recharge.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

Deferred Inflows

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

Encumbrances

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

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position should be displayed in the following three components:

- *Net investment in capital assets* – consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets consist of assets that have limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- *Unrestricted* – consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Fund Balance

Fund balances are reported based on the extent to which the District is bound to honor constraints for the specific purposes on which amounts in the fund can be spent. Fund balances are classified in one of the five categories:

- *Nonspendable Fund Balance*- are amounts that cannot be spent because they are not in spendable form- such as inventory and prepaid insurance.
- *Restricted Fund Balance*- are restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed Fund Balance*- are amounts that can only be used for specific purposes as a result of constraints imposed by the Board of Directors, the highest level of decision making authority. Committed amounts cannot be used for any other purpose unless the Board removed those constraints by taking the same type of action. Committed fund balances differ from restricted balances because the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.
- *Assigned Fund Balance*- are amounts a government intends to use for a specific purpose; intent can be expressed by the Board of Directors or by an official or body to which the governing body delegates the authority.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

- *Unassigned Fund Balance*- are amounts that are available for any purpose; these amounts are reported only in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, and unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Directors has provided otherwise in its commitment or assignment actions.

Use of Estimates

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Rio Grande Water Conservation District follows the procedures set forth in the Colorado Local Budget Law when preparing annual budgets for each fund. Budget procedures include:

- 1) Preparation of budget documents by administrative staff shall be submitted to the Board.
- 2) Publication of a notice stating that the budget is available for public inspection.
- 3) Discussion of the budget in a meeting open to the public.
- 4) Adoption of the budget in a public meeting by appropriate resolution.

Formal budgetary integration is employed as a management control device for all funds of the District. All fund budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). The total expenditures for each fund cannot exceed the budgeted amount unless a supplemental appropriation is adopted. The District did not adopt supplemental appropriations during 2016. All budget amounts presented reflect the original budget and the final amended budget if applicable.

NOTE 3 CASH AND DEPOSITS

Cash and Deposits

Colorado State Statutes govern the District's deposits of cash. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance (FDIC) on deposits held. The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories, determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA. PDPA allows the institution to create a single collateral pool for all public funds to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. All deposits in 2016 were in eligible public depositories, as defined by the Public Deposit Protection Act of 1989.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, \$10,423,603 was exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institutions through PDPA.

NOTE 4 STUDY ACCOUNT

During 1995 the District was awarded a refund of certain costs and fees arising from its defense of water interests of the San Luis Valley. The amount awarded was \$1,802,133 from which \$136,906 was used to repay the remaining balance of money borrowed to finance its defense. The Board of Directors, by resolution, established the Rio Grande Water Conservation District Water Study Fund. Moneys from principal and future earnings can only be used for certain purposes. These purposes include the following:

- 1.) Studies of the water resources of the San Luis Valley.
- 2.) Technical services to assist in the defense of the use of water resources of the San Luis Valley.
- 3.) Legal services required in the defense of the water resources of the San Luis Valley.

The District has determined that the refund constitutes a damage award under Article X Section 20 of the Colorado Constitution and is exempt from revenue limitations.

At December 31, 2016, the remaining balances of the award are as follows:

Cash in Bank	\$	169,694
Certificate of Deposit		1,653,214
		\$ 1,822,908

During the year total interest earned on the account was \$4,492. There were no disbursements for the year ended December 31, 2016.

NOTE 5 ASSESSMENTS RECEIVABLE, NET

Sub District #1 assessed fees upon approximately 166,545 irrigable acres within its boundaries in Alamosa, Rio Grande and Saguache Counties on November 30, 2016. The Sub District is still refining the assessment computation and has estimated an uncollectible amount of \$100,000. Assessments receivable consist of the following fees:

Variable Fees		\$4,771,630
Administrative Fees		333,089
CREP Fees		333,089
Less: estimated uncollectible		(100,000)
		\$5,337,808

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Receivables/Payables

The District reports interfund balances between the District and Sub District. The balances result from time lags between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances are generally expected to be repaid within one year of the financial statement date.

Interfund receivable and payable balances at December 31, 2016 were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Improvement District #1	\$ 79,429

NOTE 7 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
GOVERNMENTAL ACTIVITIES				
Land	\$ 1,967,541	\$ -	\$ -	\$ 1,967,541
Construction in Progress	1,616,072	-	1,616,072	-
Total capital assets not being depreciated	3,583,613	-	1,616,072	1,967,541
Capital assets being depreciated				
Structures	214,366	2,101,524	-	2,315,890
Equipment and Vehicles	99,957	-	-	99,957
Office Furniture	108,357	20,688	-	129,045
Total capital assets being depreciated	422,680	2,122,212	-	2,544,892
Less accumulated depreciation for:				
Structures	214,366	42,030	-	256,396
Equipment and Vehicles	70,852	5,656	-	76,508
Office Furniture	29,701	15,822	-	45,523
Total accumulated depreciation	314,919	63,508	-	378,427
Total capital assets being depreciated, net	107,761	2,058,704	-	2,166,465
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	\$ 3,691,374	\$ 2,058,704	\$ 1,616,072	\$ 4,134,006

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

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

Governmental activities:	
General Government	\$ 63,508
Total depreciation expense – governmental activities	\$ 63,508

NOTE 8 LONG-TERM DEBT

Changes in Long-Term Debt

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Compensated Absences	\$ 49,151	\$ -	\$ 14,484	\$ 34,667	\$ -
GOVERNMENTAL ACTIVITIES LONG-TERM DEBT	\$ 49,151	\$ -	\$ 14,484	\$ 34,667	\$ -

NOTE 9 COOPERATIVE AGREEMENT WITH BUREAU OF RECLAMATION

Rio Grande Water Conservation District entered into a cooperative agreement with the United States Department of the Interior's Bureau of Reclamation on February 6, 1989. The agreement stipulates that the District is to assist the Bureau in the operation and maintenance of Closed Basin Division facilities and to participate with the Bureau in the planning, scheduling, and decision-making associated with the Closed Basin Division.

Under the provisions of the agreement, the Bureau will reimburse the District for costs incurred in the performance of the agreement. The Bureau advances moneys to the District based on pre-approved quarterly work schedules. As the District incurs Bureau approved costs, earned revenue is recognized. The portion of the moneys advanced by the Bureau that have not been recognized as earned are classified as unearned revenue.

Bureau of Reclamation Agreement Revenues as of December 31, 2016, are as follows:

(Receivable)/Unearned Revenue, beginning of year	\$ (23,185)
Reimbursement and Advances	270,275
Interest Revenue	25
Earned Revenue	(205,028)
(Receivable)/Unearned Revenue, end of year	\$ 42,087

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

NOTE 10 PENSION

Defined Contribution Plan

All eligible District employees, participate in the Nationwide Governmental 401(a) Plan, a defined contribution plan, authorized by state statute. The Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Employees are eligible to participate after one year of full-time permanent employment, and participation is mandatory. Employees are 100% vested after one year of service.

The District contributed the required 6% of the compensation of each employee for 2016. Employees are not allowed to make contributions to the plan. For the year ended December 31, 2016, the District's contributions were calculated using the base salary amount of \$653,411 and the District and Special Improvement District #1 have recorded expenditures amounting to \$39,205 of which \$20,595 is recorded in the District and \$5,092 is recorded in the Special Improvement District #1 and the balance to the Bureau of Reclamation Contract.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. The Plan may be amended by resolution of the Board of Directors but it may not be amended beyond the limits established by state statute.

Section 457 Plan Defined Contribution Plan

The District also offers its employees an additional voluntary deferred compensation plan created in accordance with Internal Revenue Code 457, administered by Nationwide Retirement Solutions.

The plan permits the 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 emergencies. The District has no other liability other than to make the required monthly contributions.

NOTE 11 TABOR EMERGENCY RESERVE

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

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

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2016

NOTE 12 RISK MANAGEMENT

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

NOTE 13 OPERATING LEASES – LESSEE

On October 1, 2010, the District entered into an operating lease agreement for office space with the Bureau of Reclamation Department of Interior. The lease had a term of five years, which expired on October 1, 2015. The District continued to make monthly rental payments of \$1,800 per month until March of 2016 when the District moved to their new location.

NOTE 14 SUBSEQUENT EVENTS

In July 2017, The District approved purchasing land, West Medano Ranch, for a \$4,000,000 total purchase price. This purchase will not create any long term debt as it will be paid for with cash.

RIO GRANDE WATER CONSERVATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

In addition to the basic financial statements,
A budgetary comparison schedule is required
for the General Fund.

RIO GRANDE WATER CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended December 31, 2016

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
				POSITIVE
				(NEGATIVE)
REVENUES				
Taxes	\$ 1,271,000	1,271,000	\$ 1,272,807	\$ 1,807
Intergovernmental Revenue				
Bureau of Reclamation (BOR)	217,025	217,025	205,003	(12,022)
Interest Earned on BOR Funds	-	-	25	25
Miscellaneous Revenue				
Interest Revenue	6,100	6,100	7,148	1,048
Other Revenue	64,500	64,500	54,868	(9,632)
TOTAL REVENUES	<u>1,558,625</u>	<u>1,558,625</u>	<u>1,539,851</u>	<u>(18,774)</u>
EXPENDITURES				
General Government				
Salaries and Fringe	1,291,000	1,291,000	549,418	741,582
Travel	24,500	24,500	17,283	7,217
Supplies	106,600	106,600	80,054	26,546
Professional Services	916,000	916,000	352,012	563,988
Other General Government	148,400	148,400	128,710	19,690
Conservation of Natural Resources	261,025	261,025	555,795	(294,770)
Bureau of Reclamation Contract	-	-	210,201	(210,201)
TABOR Reserve	40,000	40,000	-	40,000
TOTAL EXPENDITURES	<u>2,787,525</u>	<u>2,787,525</u>	<u>1,893,473</u>	<u>894,052</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,228,900)</u>	<u>(1,228,900)</u>	<u>(353,622)</u>	<u>875,278</u>
Fund Balance at Beginning of Year	<u>3,838,823</u>	<u>3,838,823</u>	<u>3,515,165</u>	<u>(323,658)</u>
Fund Balance at End of Year	<u>\$ 2,609,923</u>	<u>\$ 2,609,923</u>	<u>\$ 3,161,543</u>	<u>\$ 551,620</u>

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP.

This schedule is measured on the GAAP basis.

RIO GRANDE WATER CONSERVATION DISTRICT
SUPPLEMENTARY INFORMATION

RIO GRANDE WATER CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL
SPECIAL IMPROVEMENT DISTRICT #1
For the Year Ended December 31, 2016

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FINAL BUDGET</u>
				<u>POSITIVE</u>
				<u>(NEGATIVE)</u>
OPERATING REVENUE				
Variable Fees	\$4,602,000	\$ 4,602,000	\$ 4,768,331	\$ 166,331
Administration Fees	328,500	328,500	331,589	3,089
CREP Fees	337,000	337,000	333,089	(3,911)
Inclusion Contract Fees	-	-	1,500	1,500
Total operating revenue	<u>5,267,500</u>	<u>5,267,500</u>	<u>5,434,509</u>	<u>167,009</u>
OPERATING EXPENSES				
Water Management Expenses				
Water Lease	3,040,446	3,040,446	2,088,168	952,278
CREP	1,000,000	1,000,000	252,700	747,300
CREP - Incentive Fees	2,324,500	2,324,500	1,760,187	564,313
Administration	341,600	341,600	271,714	69,886
Professional Fees	236,500	236,500	138,305	98,195
Total operating expenses	<u>6,943,046</u>	<u>6,943,046</u>	<u>4,511,074</u>	<u>2,431,972</u>
Operating income (loss)	<u>(1,675,546)</u>	<u>(1,675,546)</u>	<u>923,435</u>	<u>2,598,981</u>
NONOPERATING REVENUE				
Interest Revenue	-	-	24,122	24,122
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>24,122</u>	<u>24,122</u>
Change in Net Position - Budget Basis	<u>(1,675,546)</u>	<u>(1,675,546)</u>	<u>947,557</u>	<u>2,623,103</u>
Net Position at Beginning of Year	<u>1,868,418</u>	<u>1,868,418</u>	<u>11,679,239</u>	<u>9,810,821</u>
Net Position at End of Year	<u>\$ 192,872</u>	<u>\$ 192,872</u>	<u>\$12,626,796</u>	<u>\$ 12,433,924</u>

The accompanying notes are an integral part of this financial statement.