

UPPER ARKANSAS WATER
CONSERVANCY DISTRICT
FINANCIAL STATEMENTS
DECEMBER 31, 2016



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UPPER ARKANSAS WATER CONSERVANCY DISTRICT

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Upper Arkansas Water Conservancy District
Salida, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Upper Arkansas Water Conservancy 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 Upper Arkansas Water Conservancy 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.

Other Matters

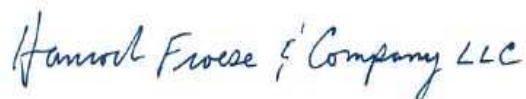
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, 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 Upper Arkansas Water Conservancy District's basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements 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 individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in blue ink that reads "Hancock Froese & Company LLC". The signature is written in a cursive, flowing style.

HANCOCK FROESE & COMPANY LLC

August 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Upper Arkansas Water Conservancy District (the "District") financial performance provides an overview of the District's financial activities for the year ended December 31, 2016. This information is presented in conjunction with the audited financial statements that follow this section.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District as prescribed by GASB Statement No. 34.

District-Wide Financial Statements

The district-wide statement consists of the Statement of Net Position and the Statement of Activities. These statements report information about the District as a whole and include all assets and liabilities and activities of the District in a manner similar to private sector businesses. The District's net position; the difference between assets and liabilities, is one way to measure the District's financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. In the Statement of Net Position and the Statement of Activities, the District is divided into two kinds of activities:

Governmental Activities - The activity of the District's general fund is reported here. Property taxes, specific ownership taxes, and interest income make up the majority of the revenues and general and administration expenditures along with protection of water and water rights are the major activities of this fund.

Business-Type Activities - The District manages a Water Activity Enterprise Fund, which develops and operates the District's water rights, well augmentation plans, land and other assets, coupled with the bonds issued for the acquisition of water rights. The activities of the Water Activity Enterprise Fund are supported by water augmentation sales, leasing of water, and reservoir storage and maintenance fees.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special districts, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the District are segregated into two categories: governmental funds and proprietary funds.

Governmental Fund. The District's basic services are reported in the governmental fund, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. This fund is reported using the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's projects.

Proprietary Fund. The District maintains one proprietary fund; a Water Activity Enterprise Fund. The Water Activity Enterprise Fund is reported using the accrual basis of accounting. Enterprise funds are used to report the same functions presented as business-type activity in the government-wide financial statements but provide more detail and additional information. The District uses an enterprise fund to account for its water, water storage facilities, and land management operations.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the basic financial statements can be found following the financial statements.

District-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5,760,525 at the end of the current year.

Financial Highlights

The perspective of the statement of net position is of the District as a whole. Following is a summary of the District's net position for 2016 and 2015:

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

Statement of Net Position - 2016

	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets	\$ 657,843	\$ 1,464,762	\$ 2,122,605
Capital Assets and Other Assets	-	5,262,433	5,262,433
TOTAL ASSETS	\$ 657,843	\$ 6,727,195	\$ 7,385,038
LIABILITIES:			
Current Liabilities	\$ 11,421	\$ 265,662	\$ 277,083
Non-Current Liabilities	-	901,705	901,705
Total Liabilities	11,421	1,167,367	1,178,788
DEFERRED INFLOWS OF RESOURCES:			
Deferred Revenues – Property Taxes	445,725	-	445,725
NET POSITION:			
Net Investment in Capital Assets	-	4,368,728	4,368,728
Restricted	13,000	-	13,000
Unrestricted	187,697	1,191,100	1,378,797
Total Net Position	200,697	5,559,828	5,760,525
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 657,843	\$ 6,727,195	\$ 7,385,038

Statement of Net Position - 2015

	GOVERNMENTAL ACTIVITIES	PRIMARY GOVERNMENT BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets	\$ 588,329	\$ 1,114,454	\$ 1,702,783
Capital Assets and Other Assets	-	5,389,033	5,389,033
TOTAL ASSETS	\$ 588,329	\$ 6,503,487	\$ 7,091,816
LIABILITIES:			
Current Liabilities	\$ 10,114	\$ 271,473	\$ 281,587
Non-Current Liabilities	-	909,705	909,705
Total Liabilities	10,114	1,181,178	1,191,292
DEFERRED INFLOWS OF RESOURCES:			
Deferred Revenues – Property Taxes	434,655	-	434,655
NET POSITION:			
Net Investment in Capital Assets	-	4,495,328	4,495,328
Restricted	13,600	-	13,600
Unrestricted	129,960	826,981	956,941
Total Net Position	143,560	5,322,309	5,465,869
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	\$ 588,329	\$ 6,503,487	\$ 7,091,816

The total net position of the District exceeded its liabilities by \$5,760,525. Of this amount \$1,378,797 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

- The District's net position increased by \$294,656 during the current year. The net position of our governmental activities increased by \$57,137 and net position of our business-type activity increased by \$237,519.
- As of the close of the current year, the District's governmental fund reported combined ending fund balance of \$200,697, an increase of \$57,137 in comparison with the prior year fund balance of \$143,560.
- At the end of the current year, unassigned fund balance for the governmental fund was \$187,697 or 43 percent of total general fund expenditures of \$436,107.

Statement of Activities

The perspective of the statement of activities is of the District as a whole. The following table reflects the change in net position for year 2016 and 2015:

2016	Program Revenues				Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions							
TOTAL GOVERNMENTAL ACTIVITIES	\$ 436,107	\$ -	\$ -	\$ -	\$ (436,107)	\$ -	\$(436,107)
TOTAL BUSINESS-TYPE ACTIVITIES	758,864	919,934	48,428	-	-	209,498	209,498
TOTAL PRIMARY GOVERNMENT	<u>\$1,194,971</u>	<u>\$919,934</u>	<u>\$ 48,428</u>	<u>\$ -</u>	(436,107)	209,498	(226,609)
TOTAL GENERAL REVENUES AND TRANSFERS					493,244	28,021	521,265
CHANGE IN NET POSITION					57,137	237,519	294,656
NET POSITION - BEGINNING					143,560	5,322,309	5,465,869
NET POSITION - ENDING					<u>\$ 200,697</u>	<u>\$5,559,828</u>	<u>\$5,760,525</u>

2015	Program Revenues				Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions							
TOTAL GOVERNMENTAL ACTIVITIES	\$ 453,617	\$ -	\$ -	\$ -	\$ (453,617)	\$ -	\$(453,617)
TOTAL BUSINESS-TYPE ACTIVITIES	778,498	880,673	57,301	-	-	159,476	159,476
TOTAL PRIMARY GOVERNMENT	<u>\$1,232,115</u>	<u>\$880,673</u>	<u>\$ 57,301</u>	<u>\$ -</u>	(453,617)	159,476	(294,141)
TOTAL GENERAL REVENUES AND TRANSFERS					479,495	27,814	507,309
CHANGE IN NET POSITION					25,878	187,290	213,168
NET POSITION - BEGINNING					117,682	5,135,019	5,252,701
NET POSITION - ENDING					<u>\$ 143,560</u>	<u>\$5,322,309</u>	<u>\$5,465,869</u>

The change in net position for the governmental activity was an increase of \$57,137 for the year ended December 31, 2016.

The change in net position for the business-type activity was an increase of \$237,519 for the year ended December 31, 2016.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

REVIEW OF REVENUES AND EXPENSES VS BUDGETARY COMPARISON - GENERAL FUND

Year Ended December 31, 2016:

	<u>Final Budget</u>	<u>Actual</u>
Total Revenues	\$ 499,871	\$ 493,244
Total Expenditures	639,871	436,107
Revenues over Expenditures	(140,000)	57,137
Fund Balance January 1	143,560	143,560
Fund Balance December 31	<u>\$ 3,560</u>	<u>\$ 200,697</u>

Year Ended December 31, 2015:

	<u>Final Budget</u>	<u>Actual</u>
Total Revenues	\$ 524,341	\$ 479,495
Total Expenditures	619,341	453,617
Revenues over Expenditures	(95,000)	25,878
Fund Balance January 1	117,682	117,682
Fund Balance December 31	<u>\$ 22,682</u>	<u>\$ 143,560</u>

Revenues: Changes between actual revenues and budgeted amounts were due to the reduction in amount of ad valorem taxes collected.

Expenditures: Changes between actual expenditures and budgeted amounts were primarily due to a reduction in capital outlay.

REVIEW OF REVENUES AND EXPENSES VS BUDGETARY COMPARISON WATER ACTIVITY ENTERPRISE FUND

Revenues: 2016	<u>Final Budget</u>	<u>Actual</u>
Water Sales & Maintenance Fees	\$ 987,400	\$ 882,667
Well Permits & Application Fees	9,000	17,195
Grants, Loans and Miscellaneous	236,400	68,500
Interest & Rental	21,000	28,021
Total Revenues	<u>\$ 1,253,800</u>	<u>\$ 996,383</u>

Revenues: 2015	<u>Final Budget</u>	<u>Actual</u>
Water Sales & Maintenance Fees	\$ 845,290	\$ 823,305
Well Permits & Application Fees	26,000	19,065
Grants, Loans and Miscellaneous	246,720	95,604
Interest & Rental	31,200	27,814
Total Revenues	<u>\$ 1,149,210</u>	<u>\$ 965,788</u>

Revenues: Changes between actual revenue and budgeted amounts were primarily due to decreased augmentation water sales and grant revenue and loan proceeds received in the current year.

Expenditures: 2016	<u>Final Budget</u>	<u>Actual</u>
Capital Outlay	\$ 1,789,730	\$ 0
Professional Fees	120,000	104,412
General & Administrative	424,447	433,400
Water Related Expenditure	334,623	194,167
Interest & Debt Retirement	80,000	26,885
Total Expenditures	<u>2,748,800</u>	<u>758,864</u>
Revenues over/under expenditures	(1,495,000)	237,519
Adjustments from budgetary to GAAP basis	<u>1,789,730</u>	<u>0</u>
Net change in net position	<u>\$ 294,730</u>	<u>\$ 237,519</u>

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

Expenditures: 2015	Final Budget	Actual
Capital Outlay	\$ 850,534	\$ 58,795
Professional Fees	145,000	106,507
General & Administrative	416,228	399,039
Water Related Expenditure	307,448	246,141
Interest & Debt Retirement	80,000	26,811
Total Expenditures	<u>1,799,210</u>	<u>837,293</u>
Revenues over/under expenditures	(650,000)	128,495
Adjustments from budgetary to GAAP basis	<u>850,534</u>	<u>58,795</u>
Net change in net position	<u>\$ 200,534</u>	<u>\$ 187,290</u>

Expenditures: Changes between actual expenditures and budgeted amounts were due to decrease interest expense, no water rights acquisitions (capital outlay) and decrease funded water studies in the current year than anticipated.

Capital Activity

The UAWCD mission is to acquire and preserve for present and future use of all water rights available in the Upper Arkansas Valley, for use within the Valley, whether municipal, agricultural, industrial, or domestic to seek every possible means to increase the water supply available within the Upper Arkansas Valley and to participate in water-related projects that will embody thoughtful conservation, responsible growth, and beneficial water usage within the Upper Arkansas Valley. The District works with cities and towns to coordinate the use of water through water storage projects and integrated water management. UAWCD is uniquely positioned to help coordinate water resources and conservation planning because its service area overlaps numerous political and geographic boundaries and operates its own water storage vessels or utilizes space allocations in other in-basin water storage vessels throughout the Upper Arkansas basin. One method of keeping water in the valley is to purchase and lease water and land offered for sale by various owners with the end result that the water will remain in use within Upper Arkansas basin. The District protects surface water rights by maintaining an efficient plan (augmentation plans) that replaces water depletions from out-of-priority usage by various diversion structures (i.e. wells and ponds) in Upper Arkansas Valley streams.

Protection of Water Rights

A major component of implementing the "watchdog" function of the district in protecting water rights is the legal and engineering activities surrounding the monitoring and involvement in water change cases proposed by other entities. Water rights are often changed from historic uses to other uses, especially municipal and industrial, to meet the increasing water demands in the basin.

Prevalent in these water change cases is a real potential for injury to the remaining water rights including District owned rights as well as a potential to increase the amount of water needed to maintain stream flows for consumptive as well as non-consumptive uses. One of the major expenditures of both the Water Activity Enterprise Fund and General Fund revenues is in the litigation and engineering required to be involved and thus help craft terms and conditions that protect existing Upper Arkansas Basin water rights.

Maintenance and Management of Stream, Reservoir and Weather CoAgMet Monitoring Stations:

Optimum exchange and storage operations assists in conservation of water resources in the Arkansas Valley and helps meet the replacement of stream depletions necessary for the State of Colorado to meet the requirements of the Colorado-Kansas Compact. The District, through its Water Activity Enterprise Fund, operates a reservoir and stream gaging system utilizing remote monitoring with satellite telemetry hardware at 23 sites throughout the Upper Arkansas basin and its tributaries. The operations are equipped with remote telemetry devices to measure, collect, and report stream flow and reservoir content data to NOAA satellites for downloading to the District's web server. Weather information is collected at 6 of these gage sites, at reservoir locations, and reported in addition to the water measurement data. In 2011 the District formed a coalition of five entities to complete installation of five Colorado Agricultural Meteorological weather stations to measure and record weather data using remote telemetry precipitation and related data to be used as a basis for crop consumption calculations in the Upper Arkansas Basin. Data of this type had never before been collected in the Upper Basin. In the absence of this data correlative studies were needed to get estimates of crop consumptive use from data collected at distant CoAgMet sites such as in the San Luis Valley in the neighboring Rio Grande Basin.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

The annual program maintenance cost is approximately \$10,000. This information is utilized to assist in obtaining more accurate evaluation of the potential impacts from changes of water rights. The District maintains hydrology personnel to maintain these stations and proof the collected data for publication and use by other entities in the Arkansas Basin. Since installation, data collected from these sites continues to be utilized each year to further studies and irrigation management tool development in the Basin. The stream and reservoir gages are used to manage the District's augmentation programs and protect water rights from negative impacts from out of priority water use.

USGS Water Budget Study

During 2010 the District embarked on a cooperative study with the United States Geologic Survey and 8 other county, municipal and water entities. The Water Budget Study uses modern technical tools to estimate the annually available surface and ground water supplies of the basin as compared to the present and future water needs. During 2011 and 2012 most of the intensive data collection was completed. Phase one covered the area from Northern Chaffee County to Wellsville and began in 2010 at a cost of approximately \$407,000. A completed study of Phase one was released to the public in late 2014.

In 2016 the District and cooperators from Custer, Chaffee, and Fremont Counties approved the Phase 2 scope of work for extension of the study to Custer County and parts of Fremont County. This Phase 2 study will include work on a water balance, and evaluation of alluvial storage potential by the USGS as well as a study by Colorado State University of irrigation water management techniques. The total cost of this 3-year study is \$667,056. Approximately \$207,000 will be completed in 2017. The District's net monetary cost is 10 percent of the total cost with cost share entities' net monetary contribution of 11 percent. USGS and CSU will provide a total of a 33 percent match with the remainder of 46 percent of the cost coming from the Water Supply Reserve Account of the Colorado Water Conservation Board. Additionally, the District is contributing administration, grant sponsor and data from its gage project network and the Upper Basin CoAgMet Stations. The need for further phases will be identified upon completion of this phase.

South Arkansas Reservoir Project & Permitting

The District operates three reservoirs, on U.S. Forest Service property in the headwaters of the South Arkansas River, North Fork, Boss and Grey's Creek and all three reservoirs require re-issuance of USFS special use permits. Re-permitting requires an environmental impact statement be completed prior to issuance of term permits for all three reservoirs. During 2007, the District completed the rehabilitation of North Fork Dam. Although future enlargement of North Fork Dam is possible with the existing infrastructure improvements, the board decided not to pursue enlargement at this time. The North Fork Dam rehabilitation included the replacement of a 50 year old outlet works as well as enlargement of the spillway to meet Colorado State dam safety requirements. In addition to the rehabilitation construction cost portion of this project are the expenditures for the legal, engineering and environmental consulting relating to the rehabilitation and the NEPA analysis for the continued permitting and operation of all three reservoirs.

Since 2011 no additional data has been collected and the USFS who has contracted with the District to complete much of these evaluations has been unable to renew a Collection Agreement with the District during this period. During the 2014 to 2015 period the USFS was unable to complete the evaluation of the environmental analysis and issue future term permits. In 2016 additional hydrologic studies of O'Haver and North Fork were continued with completion in early 2017. In 2017 it is anticipated the USFS will complete the evaluation and move forward with re-issue of permits for these vessels. In addition, by 2017 the USFS plans on re-issuing a term permit for Cottonwood Lake another vessel in which the District stores augmentation water.

The District, through its Water Activity Enterprise Fund, received a low-interest loan from the Colorado Water Conservation Board for \$3,009,800 with a rate of 3 percent per annum for 30 years. Funds may be drawn upon as the project progresses. Funds advanced during 2016 were \$0. Total funds loaned for the project through December 31, 2016 were \$893,705. In 2016 payment of \$80,000 was made to the Conservation Board and applied to accrued interest. In each year the District has budgeted funds to pay down the accrued interest until this project is met substantial completion at which time the District will begin to pay principal and interest annually. It is expected that the loan will be closed in late 2017 and payments on principal as well as interest will be made for the successive 30 years.

Upper Arkansas Multi-Use Project

Formerly this project was entitled the Trout Creek Storage Project. Storage is a major component of the operation of the District's augmentation plans. The need for additional storage by other constituents of the Upper Arkansas Basin is apparent too.

To meet the goals of the District, potential storage sites are always explored by the District to evaluate feasibility and cost of construction and operation to meet these omni-present demands. The Multi-Use Project embodies traditional storage, gravel pit storage and alluvial storage with a potential for a hydro-power project. Included are preservation of agricultural lands for wildlife and recreation with recreational Arkansas River access.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

Several partners are possible with this project and could serve as a means to assist in meeting the storage needs embodied in provision of future water supplies for meeting the “water demand gap” identified in the Statewide Water Supply Initiative that began in 2007 by the Colorado Water Conservation Board. Over the past several years the District has been evaluating this project and is positioning itself to begin this project as resources allow. The District will continue to pursue this project in the future.

In 2015 the District re-oriented its approach to this project with the goal of purchasing the irrigated lands, water rights and existing reservoir to better manage this future project. Funding sources are being sought and renewed focus on development of feasibility studies for multi-use projects in the upper basin. This process was continued in 2016 with a priority on alluvial storage development.

Lease-Fallowing Accounting-Administration Tool

Lease-Fallowing has been identified by the Arkansas Basin Roundtable as a method to provide annual water supplies by the leasing of a portion of the transferrable consumptive use of agricultural water to municipalities to assist in meeting future water needs. This would maintain the ownership water right with the agricultural producer although a portion of the irrigated acreage would be temporarily dried during the term of the lease. Although this may be attractive since it potentially could protect agricultural water rights in the future and provide temporary municipal water supplies; it is challenging to calculate the transferrable CU and the potentially injurious impacts to the remaining water rights. In this spirit the District embarked on a project to develop a “common technical platform” to provide a widely accepted, efficient and relatively less expensive method for calculating the impacts from these temporary changes. Colorado State University’s Department of Engineering was contracted to develop the tool. Funding was provided by the CWCB’s Alternative Agricultural Transfer Methods grant program and by other cost sharing participants in the basin. The District’s Consulting Engineer is the leader of a panel of recognized water resource experts in the basin that is overseeing the development including the Office of the State and Division Engineers. Phase 1-3 of the tool – the Accounting portion- was slated for completion by December of 2014; however, the completion date was June 2015 with demonstrations slated for the Fall of 2015 and Winter of 2016. In 2015 Phase 4 of this project – development of a user manual and technical manual-was completed with demonstrations. The Tool is available to all technical personnel on the DWR website.

During 2016 this tool has taken on a heightened importance by the State and Division 2 Water Engineers’ offices. Its use is encouraged throughout the basin for evaluation of water rights. It is being used by entities in the Lower Arkansas Valley and on other change cases throughout the basin.

Development and Implementation of Water Replacement Data Base

Since 2010 the District through its Water Activity Enterprise Fund has develop an extensive water augmentation replacement data base with electronic merging of data supplied by the Division of Water Resources to accurately and timely initiate releases of replacement water to streams impacted by structures augmented through District umbrella augmentation plans.

This accurate and timely tracking of stream flows and reservoir contents has optimized exchange and reservoir release operations saving the District precious water resources. Operations of the database are assisted by real time updating of data from our stream and reservoir gage operations on the district website. Expenditures for this development and ongoing operation are reflected in engineering and software & website design expenses. In 2015 much of this work has been moved in-house and operated by the District Hydrologist.

Integrated Water Management

In 2015 the District work with the Town of Buena Vista on Cottonwood Creek has been successful. Several agreements have been signed that work toward cooperative water resource development on augmentation of the Town’s structures and work toward moving demands now and in the future from Cottonwood Creek to the Arkansas River. Work on additional agreements for storage and exchange operations are continuing.

In 2016 discussions on integrated management on the South Arkansas took root and agreements were crafted for the District to do the raw water accounting for the Town of Poncha Springs. The details will be developed in 2017.

Expansion of Augmentation Area

During 2015 much of the engineering work for expansion of the District’s augmentation area was completed with the expectation of completion for filing of a water court application in 2016. This work will allow the District to augment structures in the Eastern portion of Fremont County. In 2016 additional engineering was completed and a filing of a new plan will be done in the Fall of 2017.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

Contacting the District' Financial Management

The District's financial statements are designed to present users (water users, taxpayers, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability.

If you have any question regarding this report or need additional information, please contact:

Upper Arkansas Water Conservancy District
P. O. Box 1090
Salida, CO 81201
(719) 539-5425

BASIC FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF NET POSITION

DECEMBER 31, 2016

	PRIMARY GOVERNMENT		TOTALS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
ASSETS			
CASH EQUIVALENTS	\$ 205,960	\$ 1,179,631	\$ 1,385,591
RECEIVABLES - NET			
ACCOUNTS	-	2,830	2,830
TAXES	450,844	-	450,844
GRANT	-	52,775	52,775
DUE FROM OTHER FUNDS	1,039	(1,039)	-
WATER INVENTORY	-	85,227	85,227
PREPAID EXPENSES	-	145,338	145,338
	<u>657,843</u>	<u>1,464,762</u>	<u>2,122,605</u>
CAPITAL ASSETS			
LAND	-	540,000	540,000
WATER SHARES AND RIGHTS	-	2,720,245	2,720,245
PROPERTY AND EQUIPMENT	40,920	2,052,111	2,093,031
DAMS	-	1,044,806	1,044,806
ACCUMULATED DEPRECIATION	(40,920)	(1,094,729)	(1,135,649)
CAPITAL ASSETS NET OF DEPRECIATION	-	5,262,433	5,262,433
TOTAL ASSETS	<u>\$ 657,843</u>	<u>\$ 6,727,195</u>	<u>\$ 7,385,038</u>
LIABILITIES			
ACCOUNTS PAYABLE	\$ 11,421	\$ 11,904	\$ 23,325
ACCRUED EXPENSES	-	104,718	104,718
UNEARNED REVENUES - CURRENT	-	149,040	149,040
NONCURRENT LIABILITIES			
DUE IN MORE THAN ONE YEAR	-	901,705	901,705
TOTAL LIABILITIES	<u>11,421</u>	<u>1,167,367</u>	<u>1,178,788</u>
DEFERRED INFLOWS OF RESOURCES			
DEFERRED REVENUES - PROPERTY TAXES	445,725	-	445,725
NET POSITION			
NET INVESTMENT IN CAPITAL ASSETS	-	4,368,728	4,368,728
RESTRICTED FOR			
EMERGENCIES - TABOR	13,000	-	13,000
UNRESTRICTED	187,697	1,191,100	1,378,797
TOTAL NET POSITION	<u>200,697</u>	<u>5,559,828</u>	<u>5,760,525</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 657,843</u>	<u>\$ 6,727,195</u>	<u>\$ 7,385,038</u>

SEE NOTES TO FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF ACTIVITIES

DECEMBER 31, 2016

	PROGRAM REVENUES			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
FUNCTIONS				
GOVERNMENTAL ACTIVITIES				
GENERAL GOVERNMENT	\$ 436,107	\$ -	\$ -	\$ -
BUSINESS-TYPE ACTIVITIES				
WATER CONSERVATION	758,864	919,934	48,428	-
TOTAL PRIMARY GOVERNMENT	\$ 1,194,971	\$ 919,934	\$ 48,428	\$ -
GENERAL REVENUES				
REAL PROPERTY TAXES				
SPECIFIC OWNERSHIP				
INTEREST INCOME				
RENT				
OTHER				
TOTAL GENERAL REVENUES				
CHANGE IN NET POSITION				
NET POSITION - BEGINNING				
NET POSITION - ENDING				

SEE NOTES TO FINANCIAL STATEMENTS

CHANGES IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (436,107)	\$ -	\$ (436,107)
-	209,498	209,498
(436,107)	209,498	(226,609)
434,742	-	434,742
57,712	-	57,712
189	1,571	1,760
-	26,450	26,450
601	-	601
493,244	28,021	521,265
57,137	237,519	294,656
143,560	5,322,309	5,465,869
\$ 200,697	\$ 5,559,828	\$ 5,760,525

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

BALANCE SHEET

GOVERNMENTAL FUND

DECEMBER 31, 2016

ASSETS	
CASH	\$ 205,960
TAXES RECEIVABLE	450,844
DUE TO WATER ACTIVITY ENTERPRISE	1,039
	<hr/>
TOTAL ASSETS	\$ 657,843
	<hr/> <hr/>
LIABILITIES	
ACCOUNTS PAYABLE	\$ 11,421
	<hr/>
DEFERRED INFLOWS OF RESOURCES	
DEFERRED REVENUES - PROPERTY TAXES	445,725
	<hr/>
FUND BALANCE	.
RESTRICTED FOR EMERGENCIES - TABOR	13,000
UNASSIGNED	187,697
	<hr/>
TOTAL FUND BALANCE	200,697
	<hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	\$ 657,843
	<hr/> <hr/>

SEE NOTES TO FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUND

YEAR ENDED DECEMBER 31, 2016

REVENUES	
REAL PROPERTY TAXES	\$ 434,742
SPECIFIC OWNERSHIP	57,712
INTEREST ON SAVINGS	189
OTHER	601
	<hr/>
TOTAL REVENUES	493,244
	<hr/>
EXPENDITURES	
GENERAL GOVERNMENT	
ADVERTISING	6,818
AUTO	1,925
DUES AND SUBSCRIPTIONS	5,606
INSURANCE	28,231
LEGAL AND PROFESSIONAL	31,963
ACCOUNTING AND AUDIT	26,093
MEALS	2,374
OFFICE	14,338
PENSION	5,194
PAYROLL TAXES	13,106
TELEPHONE	6,640
TRAVEL	16,889
UTILITIES	6,495
REPAIRS AND MAINTENANCE	4,178
EQUIPMENT RENT	9,246
SALARIES	140,121
DIRECTORS FEES	31,200
TREASURERS FEES	15,272
ENGINEERING	25,302
EDUCATION	7,688
IT SERVICES	37,428
	<hr/>
TOTAL EXPENDITURES	436,107
	<hr/>
REVENUES OVER EXPENDITURES	57,137
	<hr/>
FUND BALANCE JANUARY 1	143,560
	<hr/>
FUND BALANCE DECEMBER 31	\$ 200,697
	<hr/> <hr/>

SEE NOTES TO FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUND

DECEMBER 31, 2016

CURRENT ASSETS	
CASH & CASH EQUIVALENTS	\$ 1,179,631
ACCOUNTS RECEIVABLE	2,830
GRANT RECEIVABLE	52,775
WATER INVENTORY	85,227
PREPAID EXPENSES	145,338
	<hr/>
TOTAL CURRENT ASSETS	1,465,801
	<hr/>
CAPITAL ASSETS	
LAND	540,000
WATER SHARES AND RIGHTS	2,720,245
PROPERTY AND EQUIPMENT	2,052,111
DAMS	1,044,806
ACCUMULATED DEPRECIATION	(1,094,729)
	<hr/>
CAPITAL ASSETS NET OF DEPRECIATION	5,262,433
	<hr/>
TOTAL ASSETS	\$ 6,728,234
	<hr/> <hr/>
CURRENT LIABILITIES	
ACCOUNTS PAYABLE	\$ 11,904
ACCRUED EXPENSES	104,718
DUE TO GENERAL FUND	1,039
CURRENT PORTION OF UNEARNED REVENUES	149,040
	<hr/>
TOTAL CURRENT LIABILITIES	266,701
	<hr/>
TERM LIABILITIES	
UNEARNED REVENUES	8,000
NOTE PAYABLE	893,705
	<hr/>
TOTAL TERM LIABILITIES	901,705
	<hr/>
TOTAL LIABILITIES	1,168,406
	<hr/>
NET POSITION	
NET INVESTMENT IN CAPITAL ASSETS	4,368,728
UNRESTRICTED	1,191,100
	<hr/>
TOTAL NET POSITION	5,559,828
	<hr/>
TOTAL LIABILITIES AND NET POSITION	\$ 6,728,234
	<hr/> <hr/>

SEE NOTES TO FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUND

YEAR ENDED DECEMBER 31, 2016

REVENUES	
SALE OF WATER	\$ 249,196
WELL PERMITS	5,700
MAINTENANCE FEES	633,471
APPLICATION FEES	11,495
STORAGE FEES	12,297
OWNERSHIP TRANSFER FEES	4,225
FUNDED WATER STUDIES REIMBURSEMENTS	3,550
TOTAL REVENUES	<u>919,934</u>
OPERATING EXPENSES	
DEPRECIATION	126,600
INSURANCE - HEALTH	33,632
LEGAL AND PROFESSIONAL	28,012
REPAIRS AND MAINTENANCE	1,816
PENSION	18,574
SALARIES AND WAGES	235,809
PAYROLL TAXES	18,785
SUPPLIES	3,295
WATER STORAGE FEES & PURCHASE	106,878
FUNDED WATER STUDIES	3,077
SPECIAL USE FEES	20,414
WATER APPLICATIONS AND ASSESSMENTS	3,332
WELL PERMITS	6,600
ENGINEERING	76,400
OTHER	327
TOTAL OPERATING EXPENSES	<u>683,551</u>
OPERATING INCOME	236,383
NONOPERATING REVENUES (EXPENSES)	
INTEREST EXPENSE	(26,885)
GRANTS	48,428
GRANT FUNDING COST	(48,428)
RENTAL INCOME	26,450
INTEREST INCOME	1,571
CHANGE IN NET POSITION	<u>237,519</u>
NET POSITION JANUARY 1	<u>5,322,309</u>
NET POSITION DECEMBER 31	<u>\$ 5,559,828</u>

SEE NOTES TO FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
CASH RECEIVED FROM CUSTOMERS	\$ 925,380
CASH PAYMENTS TO SUPPLIERS OF GOODS OR SERVICES	(275,486)
CASH PAYMENTS TO EMPLOYEES FOR SERVICES	(306,800)
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	343,094
	<hr/>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
RENTS RECEIVED	60,739
ADVANCES TO GENERAL FUND	(178)
CASH PAYMENTS ON GRANTS	(44,570)
	<hr/>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	15,991
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
INTEREST PAID	(80,000)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
INTEREST ON INVESTMENTS	1,571
	<hr/>
NET CHANGE IN CASH	280,656
	<hr/>
CASH BEGINNING OF YEAR	898,975
	<hr/>
CASH END OF YEAR	\$ 1,179,631
	<hr/> <hr/>
RECONCILIATION OF OPERATING INCOME TO	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
OPERATING INCOME	\$ 236,383
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET	
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
DEPRECIATION	126,600
CHANGE IN ASSETS AND LIABILITIES	
ACCOUNTS RECEIVABLE	5,446
WATER INVENTORY	46,815
PREPAID EXPENSES	(73,307)
ACCOUNTS PAYABLE	1,157
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 343,094
	<hr/> <hr/>

SEE NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Upper Arkansas Water Conservancy District (the "District") was formed pursuant to Colorado Revised Statutes in 1979. The District designates a thirteen member Board of Directors to act as the governing authority. The accounting policies of the Upper Arkansas Water Conservancy District conform to generally accepted accounting principles as applicable to governments. The District's reporting entity applies all relevant Government Accounting Standards Board (GASB) pronouncements. A summary of significant policies is as follows:

Financial Reporting Entity

Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial reporting Entity" amended by GASB Statement No. 39, describes the financial reporting entity as it relates to governmental accounting. According to this Statement, the financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations whose exclusion from the reporting entity's financial statements would cause those statements to be misleading or incomplete. Any organizations that can be described by these last two items are included with the primary government in the financial statements as component units.

The District is not included in any other governmental "reporting entity" as defined in GASB No. 14. As required by accounting principles generally accepted in the United States of America, these basic financial statements present the District (the primary government) and its component units if applicable. Currently no component units have been included in the District's reporting entity because of a lack of significant operational or financial relationship with the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds.

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, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be 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 generally are recorded when a liability is incurred, as under accrual accounting.

Property and specific ownership taxes, interest revenues, and charges for services are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Grants and entitlement awards are recorded as revenue when earned. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has the following major funds:

Governmental Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund – The Water Activity Enterprise Fund operation is composed of water and water share sales and leasing activities. It accounts for transactions that are financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the costs and expenses of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through charges. The fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing or delivering goods in connection with the fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets and Budgetary Accounting

The District adheres to the following procedures in establishing budgeting data reflected in the financial statements:

Public hearings are held to obtain taxpayer comment.

Prior to December 31, the budget is adopted by formal resolution.

Revisions that alter the total expenditures of any fund generally must be approved by the Board of Directors.

Appropriations lapse at year end and any open purchase items must be re-appropriated in the following year.

Expenditures may not legally exceed appropriations at the fund level.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District because at the present time it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of six months or less when purchased to be cash equivalents.

Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Water Inventory

The water inventory is carried at the lower of cost or market, with cost determined using the expenses involved in acquiring water held in storage or the actual purchase of water.

Capital Assets

Capital assets, which include water rights, are utilized for general District operations and are capitalized at actual or estimated cost. Donations of such assets are recorded at estimated fair value at the time of donation. Capital assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The monetary threshold for capitalization of assets is \$5,000.

The estimated useful lives for depreciation are as follows:

Buildings and improvements	40 years
Dams	50 years
Equipment	5-10 years

Property Tax Revenues Recognition

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied November 15 and are due and payable in full by April 30 or in two equal installments due February 28 and June 15 of the ensuing year to the County Treasurers.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Water Leases

The right to use water from certain canal companies and reservoirs in the area is leased from the stockholders of these entities for a period designated in the leases. The District in turn rents the right to the water to individuals or entities that wish to use the water for a fee. The lease is amortized into expense over the term of the lease, usually one year. The revenue from the use of the water is recognized as earned based on the terms of the lease.

Water Shares and Rights

Water shares and rights represent an investment in stocks that the District has purchased in canal and reservoir companies in the area served by the District. The shares are recorded at cost. Based on the fact that the water shares and rights have a perpetual life and a decrease in value is remote, depreciation is not recognized.

Long – Term Obligations

In the government-wide financial statements, and proprietary fund type in the fund statements, long-term debt is reported as liabilities in the applicable financial statements. Bond premiums and discounts, as well as issuance costs, except any portion related to prepaid insurance costs, are recognized as an expense in the period incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item that qualifies for reporting in this category. Deferred revenue – property tax, represents unavailable revenues that are deferred and recognized in the period that the amounts become available.

Net Position / Fund Position

In the government-wide and proprietary financial statements, net position is classified in the following categories:

Net investment in capital assets – This amount consists of capital assets, net of accumulated depreciation, reduced by outstanding debt, if applicable, attributed to the acquisition, construction, or improvement of those assets.

Restricted net position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted net position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position”

GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions” provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

Nonspendable fund balance – amounts that are not in spendable form (such as inventory) or required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the General Fund.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established through the adoption or amendment of the budget as intended for specific purposes.

When both restricted and unrestricted resources are available in governmental funds, the District applies expenditures against restricted fund balance first, followed by committed fund balance, assigned fund balance and unassigned fund balance.

Restricted Fund Balance

Emergency Reserves have been provided for as required by article X, Section 20 of the Constitution of the State of Colorado. A portion of the fund balance has been restricted in compliance with this requirement.

Advertising

The District follows the policy of charging the costs of advertising to expense as incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND TEMPORARY CASH INVESTMENTS

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. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. 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 market value of the collateral must be at least equal to 102% of the uninsured deposits.

Credit Risk - The District may invest in bonds or other interest bearing obligations issued by or unconditionally guaranteed by the United States, bonds that are the direct obligation of the State of Colorado or any county, city or school district in the State. The District may also invest in repurchase agreements of any marketable security otherwise authorized by law, where the market value of such security is at all times at least equal to the monies involved and there is assignment of such security pursuant to current depository regulations. Investments are carried at fair value as determined by published stock quotes.

Interest Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to loss resulting from increasing interest rates. The Colorado Revised Statute 24-75-601 limits investment maturities to five years or less without governing board approval.

Deposits as of December 31, 2016, had a bank balance of \$1,398,985 corresponding carrying balance as follows:

Insured Deposits	\$ 439,251
Covered by Public Deposit Protection Act	<u>946,340</u>
	<u>\$ 1,385,591</u>
Cash is reported as follows:	
Cash and Cash Equivalents	<u>\$ 1,385,591</u>

The District may invest in bonds or other interest bearing obligations issued by or unconditionally guaranteed by the United States, bonds that are the direct obligation of the State of Colorado, or any county, city or school district in the State. The District may also invest in repurchase agreements of any marketable security otherwise authorized by law, where the market value of such security is at all times at least equal to the moneys involved and there is assignment of such security pursuant to current deposit regulations.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PROPERTY TAXES RECEIVABLE AND DEFERRED REVENUES

Taxes receivable represents 2016 property tax assessments, which are due in 2017. Deferred revenue in the same amount has also been recognized.

NOTE 4 – CAPITAL ASSETS

Governmental Activities – Capital Assets Being Depreciated:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Property Equipment	\$ 40,920	\$ 0	\$ 0	\$ 40,920
Accumulated Depreciation	<u>(40,920)</u>	<u>0</u>	<u>0</u>	<u>(40,920)</u>
Governmental Activities Capital Assets - Net	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Business-Type Activities – Capital Assets Not Being Depreciated:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>
Land	\$ 540,000	\$ 0	\$ 0	\$ 540,000
Water Shares & Rights	<u>2,720,245</u>	<u>0</u>	<u>0</u>	<u>2,720,245</u>
Total	<u>3,260,245</u>	<u>0</u>	<u>0</u>	<u>3,260,245</u>

Business-Type Activities – Capital Assets Being Depreciated:

Buildings & Other	1,105,637	0	0	1,105,637
Dams	1,044,806	0	0	1,044,806
Furniture & Equipment	<u>946,474</u>	<u>0</u>	<u>0</u>	<u>946,474</u>
Total	<u>3,096,917</u>	<u>0</u>	<u>0</u>	<u>3,096,917</u>

Less Accumulated Depreciation

Buildings & Other	(335,546)	(22,599)	0	(358,145)
Dams	(167,295)	(20,896)	0	(188,191)
Furniture & Equipment	<u>(465,288)</u>	<u>(83,105)</u>	<u>0</u>	<u>(548,393)</u>
Total	<u>(968,129)</u>	<u>(126,600)</u>	<u>0</u>	<u>(1,094,729)</u>

Business-Type Activities Capital Assets - Net	<u>\$ 5,389,033</u>	<u>\$ (126,600)</u>	<u>\$ 0</u>	<u>\$ 5,262,433</u>
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NOTE 5 - UNEARNED REVENUE

The District in its Water Activity Enterprise Fund collected fees in the amount of \$157,040 that is for future years rent, fees and applications, which \$149,040 has been accounted for as unearned revenues – current and \$8,000 as unearned revenues.

NOTE 6 - PENSION PLANS

The District entered into a pension plan under I.R.C. Sec. 457, otherwise referred to as a deferred compensation plan, whereby the District will match contributions up to 8% of the employee's wages. Contributions to the plan in 2016 were \$23,768.

NOTE 7 – TERM LIABILITIES

On February 1, 2005, the Water Activity Enterprise Fund entered into a loan contract with the Colorado Water Conservation Board. The loan amount may be up to \$3,009,800. The terms call for reimbursement of project costs up to a maximum of \$2,980,000 over the life of the project estimated at seven years with a loan fee of 1%. Upon completion, the loan terms will be 3% per annum for thirty years with annual payments due beginning one year from completion. As of December 31, 2016, \$893,705 of costs incurred had been requested and reimbursement received.

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 7 – TERM LIABILITIES (Continued)

The following is a summary of activity for long-term liabilities:

Business-Type Activities:

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Current</u>
Unearned Revenues	\$ 122,676	\$ 34,364	\$ 0	\$ 157,040	\$ 149,040
Note Payable	<u>893,705</u>	<u>0</u>	<u>0</u>	<u>893,705</u>	<u>0</u>
	<u>\$ 1,016,381</u>	<u>\$ 34,364</u>	<u>\$ 0</u>	<u>\$ 1,050,745</u>	<u>\$ 149,040</u>

Accrued interest and fees payable on the note payable as of December 31, 2016, is \$103,593 and interest expensed is \$26,885.

NOTE 8 - AMENDMENT ONE

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 entity's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

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.

Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts. Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property, sales, fund transfers, damage awards, and fund reserves.

The Amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

Except for bond refinancing at lower interest rates or adding employees to existing pension plans, the Amendment specifically prohibits the creation of multiple-fiscal year debt or other financial obligations without voter approval or irrevocable pledging present cash reserves for all future payments.

The Amendment requires that Emergency Reserves be established. These reserves must be at least 3 percent of Fiscal Year Spending (excluding bonded debt service). Emergency reserves have been presented as a reservation of fund balance in the General Fund. The entity is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations in the amendment's language in order to determine its compliance.

NOTE 9– INTER-FUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between the District funds for the reimbursement of expenditures. Related inter-fund receivables and payables are classified as “due from the other fund” and “due to other fund” on the balance sheet and statement of net position and will be settled within one year.

Interfund receivables and payables at December 31, 2016 are as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
Water Activity Enterprise	General	<u>\$ 1,039</u>

UPPER ARKANSAS WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 10– COMMITMENTS AND CONTINGENT LIABILITIES

The District is committed to the lease of water from the Board of Water Works of Pueblo, Colorado at an annually determined per-acre-foot charge, with the contract terminating March 31, 2049.

NOTE 11 – RISK MANAGEMENT

The District carries commercial insurance for their risks. These risks are business interruption, property losses, natural disasters and injuries to employees. The District did not have any claims that exceeded coverage in the last three years.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

REQUIRED SUPPLEMENTARY INFORMATION

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL ON A BUDGETARY BASIS

GENERAL FUND

YEAR ENDED DECEMBER 31, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
TAXES	\$ 499,171	\$ 499,171	\$ 492,454	\$ (6,717)
MISCELLANEOUS	700	700	790	90
TOTAL REVENUES	499,871	499,871	493,244	(6,627)
EXPENDITURES				
GENERAL GOVERNMENT	639,871	639,871	436,107	203,764
REVENUES OVER (UNDER) EXPENDITURE	(140,000)	(140,000)	57,137	197,137
FUND BALANCE JANUARY 1	143,560	143,560	143,560	-
FUND BALANCE DECEMBER 31	\$ 3,560	\$ 3,560	\$ 200,697	\$ 197,137

OTHER SUPPLEMENTARY INFORMATION

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

BALANCE SHEET

GENERAL FUND

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CASH	\$ 205,960	\$ 147,782
TAXES RECEIVABLE	450,844	439,330
DUE FROM WATER ACTIVITY ENTERPRISE	1,039	1,217
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 657,843</u>	<u>\$ 588,329</u>
LIABILITIES		
ACCOUNTS PAYABLE	\$ 11,421	\$ 10,114
	<u> </u>	<u> </u>
DEFERRED INFLOWS OF RESOURCES		
DEFERRED REVENUES - PROPERTY TAXES	445,725	434,655
	<u> </u>	<u> </u>
FUND BALANCE		
RESTRICTED FOR EMERGENCIES - TABOR	13,000	13,600
UNASSIGNED	187,697	129,960
	<u> </u>	<u> </u>
TOTAL FUND BALANCE	<u>200,697</u>	<u>143,560</u>
TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 657,843</u>	<u>\$ 588,329</u>

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
REVENUES		
REAL PROPERTY TAXES	\$ 434,742	\$ 416,359
SPECIFIC OWNERSHIP	57,712	62,439
INTEREST ON SAVINGS	189	205
OTHER	601	492
TOTAL REVENUES	<u>493,244</u>	<u>479,495</u>
EXPENDITURES		
GENERAL GOVERNMENT		
ADVERTISING	6,818	5,077
AUTO	1,925	1,857
DUES AND SUBSCRIPTIONS	5,606	5,119
INSURANCE	28,231	25,827
LEGAL AND PROFESSIONAL	31,963	53,129
ACCOUNTING AND AUDIT	26,093	26,129
MEALS	2,374	554
OFFICE	14,338	14,181
PENSION	5,194	5,043
PAYROLL TAXES	13,106	12,095
TELEPHONE	6,640	4,993
TRAVEL	16,889	18,882
UTILITIES	6,495	7,304
REPAIRS AND MAINTENANCE	4,178	6,104
EQUIPMENT RENT	9,246	7,538
SALARIES	140,121	124,578
DIRECTORS FEES	31,200	31,000
TREASURERS FEES	15,272	13,422
ENGINEERING	25,302	45,358
EDUCATION	7,688	4,125
IT SERVICES	37,428	38,899
CAPITAL OUTLAY	-	2,403
TOTAL EXPENDITURES	<u>436,107</u>	<u>453,617</u>
REVENUES OVER EXPENDITURES	57,137	25,878
FUND BALANCE JANUARY 1	143,560	117,682
FUND BALANCE DECEMBER 31	<u>\$ 200,697</u>	<u>\$ 143,560</u>

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF NET POSITION

WATER ACTIVITY ENTERPRISE FUND

DECEMBER 31, 2016 AND 2015

	2016	2015
CURRENT ASSETS		
CASH & CASH EQUIVALENTS	\$ 1,179,631	\$ 898,975
ACCOUNTS RECEIVABLE	2,830	8,276
GRANT RECEIVABLE	52,775	4,347
WATER INVENTORY	85,227	132,042
PREPAID EXPENSES	145,338	72,031
TOTAL CURRENT ASSETS	<u>1,465,801</u>	<u>1,115,671</u>
CAPITAL ASSETS		
LAND	540,000	540,000
WATER SHARES AND RIGHTS	2,720,245	2,720,245
PROPERTY AND EQUIPMENT	2,052,111	2,052,111
DAMS	1,044,806	1,044,806
ACCUMULATED DEPRECIATION	(1,094,729)	(968,129)
CAPITAL ASSETS NET OF DEPRECIATION	<u>5,262,433</u>	<u>5,389,033</u>
TOTAL ASSETS	<u>\$ 6,728,234</u>	<u>\$ 6,504,704</u>
CURRENT LIABILITIES		
ACCOUNTS PAYABLE	\$ 11,904	\$ 6,888
ACCRUED EXPENSES	104,718	157,909
DUE TO GENERAL FUND	1,039	1,217
UNEARNED REVENUES - CURRENT	149,040	106,676
TOTAL CURRENT LIABILITIES	<u>266,701</u>	<u>272,690</u>
TERM LIABILITIES		
UNEARNED REVENUES	8,000	16,000
NOTE PAYABLE	893,705	893,705
TOTAL TERM LIABILITIES	<u>901,705</u>	<u>909,705</u>
TOTAL LIABILITIES	<u>1,168,406</u>	<u>1,182,395</u>
NET POSITION		
NET INVESTMENT IN CAPITAL ASSETS	4,368,728	4,495,328
UNRESTRICTED	1,191,100	826,981
TOTAL NET POSITION	<u>5,559,828</u>	<u>5,322,309</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,728,234</u>	<u>\$ 6,504,704</u>

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

WATER ACTIVITY ENTERPRISE FUND

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
SALE OF WATER	\$ 249,196	\$ 228,389
WELL PERMITS	5,700	9,200
MAINTENANCE FEES	633,471	594,916
APPLICATION FEES	11,495	9,865
STORAGE FEES	12,297	21,810
OWNERSHIP TRANSFER FEES	4,225	3,500
FUNDED WATER STUDIES REIMBURSEMENTS	3,550	12,993
TOTAL OPERATING REVENUES	919,934	880,673
OPERATING EXPENSES		
DEPRECIATION	126,600	124,514
INSURANCE - HEALTH	33,632	31,746
LEGAL AND PROFESSIONAL	28,012	37,157
REPAIRS AND MAINTENANCE	1,816	7,491
PENSION	18,574	18,033
SALARIES AND WAGES	235,809	207,137
PAYROLL TAXES	18,785	17,609
SUPPLIES	3,295	17,672
WATER STORAGE FEES & PURCHASE	106,878	138,029
FUNDED WATER STUDIES	3,077	16,789
SPECIAL USE FEES	20,414	20,212
WATER APPLICATIONS & ASSESSMENTS	3,332	2,719
WELL PERMITS	6,600	8,800
ENGINEERING	76,400	69,350
OTHER	327	679
TOTAL OPERATING EXPENSES	683,551	717,937
OPERATING INCOME	236,383	162,736
NONOPERATING REVENUES (EXPENSES)		
INTEREST EXPENSE	(26,885)	(26,811)
GRANTS	48,428	57,301
GRANT FUNDING COST	(48,428)	(33,750)
RENTAL INCOME	26,450	26,350
INTEREST INCOME	1,571	1,464
TOTAL NONOPERATING REVENUES (EXPENSES)	1,136	24,554
CHANGE IN NET POSITION	237,519	187,290
NET POSITION JANUARY 1	5,322,309	5,135,019
NET POSITION DECEMBER 31	\$ 5,559,828	\$ 5,322,309

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

STATEMENT OF CASH FLOWS

WATER ACTIVITY ENTERPRISE FUND

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
CASH RECEIVED FROM CUSTOMERS	\$ 925,380	\$ 874,150
CASH PAYMENTS TO OTHER SUPPLIERS OF GOODS OR SERVICES	(275,486)	(348,797)
CASH PAYMENTS TO EMPLOYEES FOR SERVICES	(306,800)	(274,525)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	343,094	250,828
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
RENTS RECEIVED	60,739	12,026
ADVANCES TO GENERAL FUND	(178)	1,217
CASH RECEIVED FROM GRANTS	-	65,272
CASH PAYMENTS ON GRANTS	(44,570)	(31,035)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	15,991	47,480
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
ACQUISITION OF CAPITAL ASSETS	-	(58,795)
INTEREST PAID	(80,000)	(80,000)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(80,000)	(138,795)
CASH FLOWS FROM INVESTING ACTIVITIES		
INTEREST ON INVESTMENTS	1,571	1,464
NET CHANGE IN CASH	280,656	160,977
CASH BEGINNING OF YEAR	898,975	737,998
CASH END OF YEAR	\$ 1,179,631	\$ 898,975
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME	\$ 236,383	\$ 162,736
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION	126,600	124,514
CHANGE IN ASSETS AND LIABILITIES		
ACCOUNTS RECEIVABLE	5,446	(6,523)
WATER INVENTORY	46,815	(9,114)
PREPAID EXPENSES	(73,307)	(2,396)
ACCOUNTS PAYABLE	1,157	(18,389)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 343,094	\$ 250,828

UPPER ARKANSAS WATER CONSERVANCY DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION -
BUDGET AND ACTUAL ON A BUDGETARY BASIS

WATER ACTIVITY ENTERPRISE FUND

YEAR ENDED DECEMBER 31, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
SALE OF WATER	\$ 276,500	\$ 276,500	\$ 249,196	\$ (27,304)
WELL PERMITS	4,000	4,000	5,700	1,700
MAINTENANCE FEES	710,900	710,900	633,471	(77,429)
APPLICATION FEES	5,000	5,000	11,495	6,495
STORAGE FEES	13,000	13,000	12,297	(703)
OWNERSHIP TRANSFER FEES	2,000	2,000	4,225	2,225
FUNDED WATER STUDIES REIMBURSEMENTS	31,900	31,900	3,550	(28,350)
RENTAL INCOME	19,000	19,000	26,450	7,450
LOAN PROCEEDS	54,000	54,000	-	(54,000)
GRANT	135,500	135,500	48,428	(87,072)
MISCELLANEOUS	2,000	2,000	1,571	(429)
TOTAL REVENUES	1,253,800	1,253,800	996,383	(257,417)
EXPENDITURES				
CAPITAL OUTLAY	1,789,730	1,789,730	-	1,789,730
INSURANCE - HEALTH	-	-	33,632	(33,632)
INTEREST	80,000	80,000	26,885	53,115
LEGAL AND PROFESSIONAL	45,000	45,000	28,012	16,988
REPAIRS AND MAINTENANCE	10,000	10,000	1,816	8,184
PENSION	18,572	18,572	18,574	(2)
SALARIES AND WAGES	232,176	232,176	235,809	(3,633)
PAYROLL TAXES	53,699	53,699	18,785	34,914
SUPPLIES	-	-	3,295	(3,295)
WATER STORAGE FEES & PURCHASE	72,823	72,823	106,878	(34,055)
FUNDED WATER STUDIES	237,000	237,000	3,077	233,923
SPECIAL USE FEES	-	-	20,414	(20,414)
WATER APPLICATIONS & ASSESSMENTS	-	-	3,332	(3,332)
WELL PERMITS	4,000	4,000	6,600	(2,600)
ENGINEERING	75,000	75,000	76,400	(1,400)
DEPRECIATION AND AMORTIZATION	120,000	120,000	126,600	(6,600)
GRANT FUNDING COST	10,000	10,000	48,428	(38,428)
OTHER	800	800	327	473
TOTAL EXPENDITURES	2,748,800	2,748,800	758,864	1,989,936
CHANGE IN NET POSITION	\$ (1,495,000)	\$ (1,495,000)	237,519	\$ 1,732,519
NET POSITION JANUARY 1			5,322,309	
NET POSITION DECEMBER 31			\$ 5,559,828	