

**UPPER YAMPA WATER
CONSERVANCY DISTRICT**

Financial Statements

December 31, 2016



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UPPER YAMPA WATER CONSERVANCY DISTRICT

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Activities and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Net Position – Budget and Actual	17



Independent Auditor's Report

Board of Directors
Upper Yampa Water Conservancy District
Steamboat Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the Upper Yampa Water Conservancy 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Yampa Water Conservancy District as of December 31, 2016, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the District's December 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 26, 2016. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-6 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 the 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 an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information consisting of the Enterprise Fund schedule of revenues, expenditures and changes in fund balance – budget and actual on page 17 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Catterson + Company, P.C.

Steamboat Springs, Colorado
July 26, 2017

UPPER YAMPA WATER CONSERVANCY DISTRICT
Management's Discussion and Analysis
December 31, 2016

The intent of management's discussion and analysis is to provide an overview and highlights of the financial and other activities of the Upper Yampa Water Conservancy District (the District) for the year ended December 31, 2016. Board members and readers are encouraged to read this section in conjunction with the accompanying audited financial statements. In addition to the accompanying audit it provides a report by the Manager of the activities of the District in 2016.

Overview of the District's Operations and Economic Factors

The District, formed in 1966, provides the legal authority to plan and construct water conservation projects in the Yampa River basin. The District includes most of Routt County and a small portion of Moffat County. It is governed by a board of nine directors appointed by the Court.

Yamcolo and Stagecoach Reservoirs represent two major water conservation projects originally constructed and operated by the District. The Five Pines Mesa Ditch is another District facility and is used to deliver water users contracted from the District's Yamcolo Reservoir and water from other sources as well. The District is actively seeking water from Steamboat Lake to enable a plan for augmentation and water contracts in the Elk River Valley. Payment of \$10,000 to Colorado Parks and Wildlife, managers of Steamboat Lake, was made in 2016 to initiate a 360 AF water lease from Steamboat Lake.

In 2016 the District prepared the 2017 budget. The budget was restructured into functions of the District. This was done in part to appropriately distribute the time that staff spends on various functions including each individual reservoir, the five-pine ditch, and further separating water and power expenses at Stagecoach Reservoir and power house. Knowledge of the income and expenses of the individual components will be important as contract extensions and possible renewals are considered by the Board. The audit is presented in this new format to facilitate Board discussion.

Items that were different than foreseen by the 2016 budget include the settlement of the dispute with the Stahl family regarding the Property Contribution Agreement (PCA) at Stagecoach Reservoir and the necessity of replacing the stem guides which operate the gates on the Stagecoach Dam.

A relatively dry summer monsoon season resulted in flows dropping below average through the City of Steamboat Springs. The Colorado Water Trust contracted for 264 AF of water and the city of Steamboat called for its 550 AF of contracted water. Yamcolo agricultural water and the exchange water was used extensively by irrigators in South Routt County in the 2016 season.

Revenue

Property tax revenues from a 1.82 mill levy on the taxable property of the District, generated \$2,190,826.

Overall water sales were \$566,531, as budgeted.

A new power contract with YVEA was in place. Power generation produced a total revenue of \$231,084 for the year, exceeding the \$160,000 long term average power revenue.

Expenditures

The District continued the development of its master plan and a “water rights master plan”. This was required for diligence cases and planning future projects. A diligence case requiring a water rights master plan and supporting engineering report were filed in May of 2016. Most of the \$158,875 expenditures in Water Resources Engineering expense has been for this purpose. Some financial resources have gone towards legal planning for this effort as well, and will continue in the coming year, depending upon opposition in the diligence cases.

A final settlement with the Stahl family was negotiated in early 2016. That settlement terminated the PCA removing all encumbrances on the District related to the Property Contribution Agreement (PCA). Of this settlement amount \$1,198,617 is considered a capital expense in 2016, essentially increasing the value of our assets by removal of the encumbrances on our facilities. For the release of the PCA \$1,198,617 was capitalized and taken from District reserves.

The Stem guide replacement was more extensive than originally estimated as the industrial dive team was able to reach the damaged locations. The decision was made, while the team was on site, to complete all the repairs parts were available for. This work cost \$107,790 which was 86,990 over the budgeted amount of 20,800.

Operation and Maintenance expenditures, and capital improvements for Stagecoach, Yamcolo, and the Five Pines Mesa Ditch continue to bring the facilities up to current operational standards.

Overview of the Financial Statements

The District’s financial statements comprise of two components: 1) Stand-alone Enterprise fund financial statements, and 2) Notes to the financial statements. This report also contains other supplementary information consisting of comparison of budget to actual non-US GAAP (U.S. Generally Accepted Accounting Principles) Budgetary basis.

Stand-alone Enterprise fund financial statements. These financial statements are designed to provide readers with a broad overview of the District in a manner similar to a private-sector business.

- The statement of net position presents information on all of the District’s assets and liabilities with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.
- The statement of revenues, expenses and changes in net position presents information showing how the District’s net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The statement of cash flows represents the information on the change in the District’s cash balances during the year segregated into operating, investing and financing categories.

Statement of Net Position

	2016	2015
<u>Assets:</u>		
Current assets	10,978,539	11,167,937
Capital assets, net	25,932,830	24,575,351
Other assets		
Total assets	<u>36,911,369</u>	<u>35,743,288</u>
<u>Liabilities:</u>		
Current liabilities	35,278	532,546
Non-current liabilities		
Total liabilities	<u>35,278</u>	<u>532,546</u>
<u>Deferred inflows of resources</u>		
<u>Net position:</u>		
Invested in capital, net of related debt	25,932,830	24,575,351
Restricted	419,734	419,734
Unrestricted	<u>10,523,527</u>	<u>10,215,657</u>
Total net position	<u>36,876,091</u>	<u>35,210,742</u>

Statement of Revenues, Expenses, and Changes in Fund Net Position

	2016	2015
Operating revenues	812,824	858,056
Expenses:		
Operating	468,043	653,190
Administrative	766,769	732,669
Depreciation	95,992	93,547
Total Operating Expenses	<u>1,330,804</u>	<u>1,479,406</u>
Income from operations	(517,980)	(621,350)
Non-operating income, net	<u>2,183,329</u>	<u>1,909,471</u>
Increase in net position before extraordinary item	1,665,349	1,288,121
Extraordinary Item		(447,863)
Change in net position	1,665,349	840,258

Budgetary Comparison

The District budgets for expenses on a non-GAAP basis whereby expenses include debt principal payments and capital outlay and excludes non-cash expenses of depreciation and amortization. In the case of revenue budgetary differences, water sales revenues were slightly higher than budgeted as explained above; power sales exceeded budgeted amounts and Property tax income was slightly below the budgeted figure. Other differences in budgetary expenses include:

- Yamcolo capital expenditures were lower than budgeted.
- Stagecoach capital expenditures were higher than budgeted.
- Yamcolo and Stagecoach operating expenses were lower than budgeted.
- All operating and administrative expenses were within budget.

Budgetary changes have not adversely affected the financial stability of the District.

The variations between the budgeted income and expenses enumerated above will have no deleterious effect on the liquidity of the District or its future obligations and services.

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

Kevin McBride, District Manager
Upper Yampa Water Conservancy District
PO Box 775529
Steamboat Springs, CO 80477
970-871-1035

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Net Position
December 31, 2016
(w with summarized financial information as of December 31, 2015)

	2016	2015
Assets:		
Current assets:		
Cash and cash equivalents	\$ 10,918,694	\$ 11,082,422
Due from other governments	14,425	1,996
Accounts receivable	4,976	53,984
Prepaid expenses	40,444	29,535
Total current assets	10,978,539	11,167,937
Noncurrent assets:		
Capital assets, net of accumulated depreciation	25,932,830	24,575,351
Total noncurrent assets	25,932,830	24,575,351
Total assets	36,911,369	35,743,288
Liabilities:		
Current liabilities:		
Accounts payable	31,701	63,578
Accrued expenses payable	3,577	21,105
Settlement liability	-	447,863
Total current liabilities	35,278	532,546
Total liabilities	35,278	532,546
Net Position:		
Net investment in capital assets	25,932,830	24,575,351
Restricted	419,734	419,734
Unrestricted	10,523,527	10,215,657
Total net position	\$ 36,876,091	\$ 35,210,742

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended December 31, 2016
(with summarized financial information for the year December 31, 2015)

	2016	2015
Operating Revenues:		
Water sales	\$ 566,531	\$ 630,538
Power revenues	231,084	192,997
Other income	15,209	34,521
	812,824	858,056
Operating Expenses:		
Facilities:		
Stagecoach reservoir - power generation	101,278	158,952
Stagecoach reservoir - water storage	243,911	250,297
Yamcolo reservoir	103,500	218,088
Stillwater ditch and reservoir	19,354	25,853
Administration	131,685	138,703
Board of directors	57,575	46,527
External affairs	53,720	53,190
Finance	94,901	85,131
Legal	194,578	257,603
Planning	185,117	144,707
Grants, scholarships and public information	49,193	6,808
Depreciation	95,992	93,547
	1,330,804	1,479,406
Total operating expenses		
	(517,980)	(621,350)
Operating income (loss)		
Non-operating Revenues (Expenses):		
Property taxes, net of collection fees	2,119,448	2,014,979
Interest income	63,881	31,115
Debt refunding gain	-	48,187
Interest expense	-	(184,810)
	2,183,329	1,909,471
Net non-operating revenues		
	1,665,349	1,288,121
Income before extraordinary item		
Extraordinary item	-	(447,863)
	1,665,349	840,258
Change in net position		
Net position, beginning of year	35,210,742	34,370,484
Net position, end of year	\$ 36,876,091	\$ 35,210,742

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2016
(with summarized financial information for the year December 31, 2015)

	2016	2015
Cash Flows From Operating Activities:		
Cash received from customers	\$ 846,623	\$ 815,490
Cash received from other sources	15,209	34,521
Cash payments to suppliers of goods or services	(859,878)	(1,045,754)
Cash payments to employees for services	(435,248)	(432,314)
	(433,294)	(628,057)
Cash Flows From Non-Capital Financing Activities:		
Property taxes, net of collection fees	2,107,019	2,015,879
Payment of settlement liability	(447,863)	-
	1,659,156	2,015,879
Cash Flows From Capital Financing Activities:		
Principal paid on capital debt	-	(4,640,000)
Interest paid on capital debt	-	(217,268)
Purchase of capital assets	(1,453,471)	(27,805)
	(1,453,471)	(4,885,073)
Cash Flows From Investing Activities:		
Interest received	63,881	31,115
	63,881	31,115
Net cash provided by investing activities	63,881	31,115
Net change in cash and cash equivalents	(163,728)	(3,466,136)
Cash and cash equivalents, beginning of year	11,082,422	14,548,558
Cash and cash equivalents, end of year	\$ 10,918,694	\$ 11,082,422
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by Activities:		
Operating income (loss)	\$ (517,980)	\$ (621,350)
Adjustments to reconcile operating income (loss) to		
net cash provided (used) by operating activities:		
Depreciation	95,992	93,547
(Increase) decrease in:		
Accounts receivable	49,008	(8,045)
Prepaid expenses	(10,909)	12,265
(Decrease) increase in:		
Accounts payable, net of capital amounts	(31,877)	(108,536)
Accrued expenses payable	(17,528)	4,062
	(433,294)	(628,057)
Net cash provided (used) by operating activities	\$ (433,294)	\$ (628,057)

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 1: Summary of Significant Accounting Policies

The Upper Yampa Water Conservancy District (the District) was established in 1966 by Colorado Revised Statutes (CRS) Title 37, Article 45 under the "Water Conservancy Act". The District was created to provide legal provisions for addressing water conservation issues in the Yampa Valley. The District stores water in two reservoirs, Stagecoach Reservoir and Yamcolo Reservoir, from which water is released to its ultimate users. The Stagecoach dam generates hydroelectric power that is sold to Yampa Valley Electric Association (YVEA). In addition, the Stagecoach Reservoir and dam includes a state recreation area for which the District pays the Colorado Division of Parks to operate.

The District's financial statements were prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of US GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The reporting entity consists of (a) the primary government, i.e., the District, and (b) organizations for which the District is financially accountable. The District does not have any component units for which it is financially accountable.

Measurement Focus and Basis of Accounting

The District operates as an enterprise and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Assets, Liabilities, and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, demand deposits, certificates of deposit with maturities less than one year, and highly liquid investment pool funds. Investments are stated at fair value.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by US GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments in the Colorado Government Liquid Trust (COLOTRUST), an external investment pool, are stated at share price which is substantially the same as fair value and are categorized as Level 1.

Accounts Receivable

Amounts due to the District from water storage and power sales are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible at December 31, 2016 and 2015. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Net Position (continued)

Capital Assets

Capital assets include land, reservoir and dam structures, hydro-electric plant, buildings and improvements, furniture and fixtures and equipment. Capital assets are defined by the District as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized.

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

	<u>Years</u>
Buildings and improvements	30 - 40
Furniture, fixtures and equipment	5 - 20

Non-depreciable capital assets of the District include its land, land improvements, reservoirs, and dams.

Operating and Non-Operating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Non-operating revenues and expenses are all those that do not meet the criteria described previously.

Property Taxes

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The Routt County Treasurer and Moffat County Treasurer collect property taxes and remit collections to the District on a monthly basis.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended December 31, 2015, from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 1: Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

Effective January 1, 2016, the District adopted the provisions of the following GASB Statements:

- GASB Statement No. 72, "*Fair Value Measurement and Application*." The effect of this adoption is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, and enhancing disclosures about fair value measurements.
- GASB Statement No. 77, "*Tax Abatement Disclosures*." The effect of this adoption is to improve disclosure of tax abatement information about (1) the District's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the District's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to the economic development or otherwise benefits the government or its citizens.

The District has not entered into any tax abatement agreements nor has any other government that reduces the District's tax revenues.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on capital debt are budgeted and recorded as expenditures.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District's Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District adopted a supplemental appropriation that increased capital expenditure appropriations by \$1,197,862 for the year ended December 31, 2016. The funds for the additional appropriation was available from the District's unrestricted net position.

Compliance

The District had no expenditures in excess of final appropriations for the year ended December 31, 2016.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 2: Stewardship, Compliance and Accountability (continued)

TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

Management believes that the District qualifies as an enterprise as defined by TABOR. Therefore, the provisions of TABOR are not applicable to the District.

In November 1999, voters passed a referendum that permanently lifted TABOR restrictions on the amount of revenue the District can collect and expend.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

Note 3: Detailed Notes on the Fund

Deposits

The carrying amount of the District's deposits at December 31, 2016 and 2015 was \$2,276,008 and \$2,173,918, respectively and bank balances were \$2,382,620 and \$2,218,769. Of the bank balances, \$1,450,000 and \$1,347,627 at December 31, 2016 and 2015, respectively, was covered by federal deposit insurance and \$932,620 and \$871,142, respectively, was uninsured but collateralized in accordance with provisions of the Colorado Public Deposit Protection Act (PDPA).

The 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 collateral 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 equal or exceed 102% of the aggregate uninsured deposits.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 3: Detailed Notes on the Fund (continued)

Investments

At December 31, 2016 and 2015, the District had \$8,627,106 and \$8,901,710, respectively, invested in COLOTRUST PLUS+ fund. COLOTRUST PLUS+ is a short-term money market fund organized in conformity with Part 7 of Article 75 of Title 24, CRS. The portfolio offers Colorado governmental entities a convenient and efficient means to pool their funds to take advantage of short-term investments and maximize net interest earnings. COLOTRUST PLUS+'s investment objective is to obtain as high a level of current income as is consistent with the preservation of capital and liquidity. The investment advisor for COLOTRUST PLUS+ is Public Trust Advisors LLC, (PTA), a Colorado-based investment adviser, registered with the SEC. The portfolio manager is responsible for making all of the investment decisions for the portfolio. Wells Fargo Bank, N.A. is custodian of the portfolio's securities and cash. COLOTRUST PLUS+ portfolio invests in U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits, the highest rated commercial paper, and highly-rated corporate bonds. The PLUS+ fund holds a 'AAAm' rating by Standard and Poor's.

The District's investments are subject to interest rate, credit risk, and concentration of credit risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District currently invests only in investment pools which may be redeemed at any time.

Capital Assets

Capital asset activity for the year ended December 31, 2016 is summarized below:

	December 31, 2015 Balance	Additions	Deletions	December 31, 2016 Balance
Stagecoach:				
Land, improvements and water rights	\$ 7,550,951	\$ 1,198,617	\$ -	\$ 8,749,568
Dam structure and equipment	9,844,044	112,672	-	9,956,716
Hydroelectric building and equipment	2,574,445	132,182	-	2,706,627
Park building and improvements	1,275,664	-	-	1,275,664
Yamcolo:				
Dam structure and equipment	6,426,907	-	-	6,426,907
Stillwater ditch	537,162	-	-	537,162
Equipment, vehicles and other	118,223	10,000	-	128,223
Total capital assets	28,327,396	1,453,471	-	29,780,867
Less: accumulated depreciation	(3,752,045)	(95,992)	-	(3,848,037)
Net capital assets	<u>\$ 24,575,351</u>	<u>\$ 1,357,479</u>	<u>\$ -</u>	<u>\$ 25,932,830</u>

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 3: Detailed Notes on the Fund (continued)

Capital Assets (continued)

Capital asset activity for the year ended December 31, 2015 is summarized below:

	December 31, 2014 Balance	Additions	Deletions	December 31, 2015 Balance
Stagecoach:				
Land, improvements and water rights	\$ 7,542,860	\$ 8,091	\$ -	\$ 7,550,951
Dam structure and equipment	9,844,044	-	-	9,844,044
Hydroelectric building and equipment	2,567,321	7,124	-	2,574,445
Park building and improvements	1,275,664	-	-	1,275,664
Yamcolo:				
Dam structure and equipment	6,426,907	-	-	6,426,907
Stillwater ditch	537,162	-	-	537,162
Equipment, vehicles and other	105,633	12,590	-	118,223
Total capital assets	28,299,591	27,805	-	28,327,396
Less: accumulated depreciation	(3,658,498)	(93,547)	-	(3,752,045)
Net capital assets	<u>\$ 24,641,093</u>	<u>\$ (65,742)</u>	<u>\$ -</u>	<u>\$ 24,575,351</u>

Stillwater Ditch Agreement

The District has entered into an Assignment of Stock and Water Delivery Agreement with the shareholders of the Stillwater Ditch and Reservoirs Company (the Company) whereby the shareholders assigned and transferred all shares in the Company and ownership of Gardner Park Reservoir to the District in exchange for the District's continued maintenance and repair of the Stillwater Ditch and delivery of water to the shareholders under certain upstream absolute water rights retained by the shareholders.

Restricted Net Position

The United States Army Corps of Engineers (ACOE) issued a permit to the District to raise the height of Stagecoach Reservoir Dam four feet inundating approximately 23.51 acres of jurisdictional wetlands. The permit requires the District to post financial assurances to ensure a high level of confidence that the District will complete the compensatory mitigation required by the permit. The District has appropriated \$419,734 for this purpose as of December 31, 2016. The legislative appropriation will terminate when the compensatory mitigation is completed and accepted by the ACOE.

Note 4: Other Information

Defined Contribution Plan

Certain full-time employees are covered under a 401(a) defined contribution pension plan. Under the terms of the plan, the District contributes at a rate of double the employee's retirement contribution not to exceed 6% of gross pay. Participants become fully vested within 3 years of participation in the plan. The plan can only be amended by the District's board of directors. District contributions to the plan were \$21,187 and \$20,291 for the years ended December 31, 2016 and 2015, respectively.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2016
(with summarized financial information as of and for the year ended December 31, 2015)

Note 4: Other Information (continued)

Commitments

State of Colorado

The District has entered into an agreement with the State of Colorado Department of Natural Resources, Division of Parks and Outdoor Recreation for the operation of the recreational facilities at Stagecoach Reservoir. Under the terms of the agreement the District has agreed to make an annual payment of \$35,000 to the State each December 31st through May 1, 2024.

Power Purchase Agreement

The District has entered into an agreement on October 30, 2015 to sell exclusively the hydroelectric energy generated by its Stagecoach facility to YVEA. The initial term is through December 31, 2025 and may be extended by either party for an additional 10 year period. The initial sales price is \$0.060 per kWh and is subject to annual adjustment beginning January 1, 2017.

Reservoir Agreements

Numerous governments, organizations and individuals have reservoir agreements with the District to purchase water in storage annually from the District. The agreement terms range from 2 to 30 years with the majority of contracts expiring between the years 2019 and 2041.

Contribution to Routt County, Colorado

The District has committed to contribute \$500,000 to Routt County, Colorado for construction costs for the reconstruction improvements to be made to Routt County Road #14 in the future.

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. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members. The District has not had losses of a material amount in any of the preceding three years.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

Contingencies

The District is involved in several items of pending litigation primarily involving defense of its water rights and opposition of applications for water rights that conflict with those of the District. While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on the District's financial position, cash flows, or results of operations.

Subsequent Events

The District has evaluated subsequent events through July 26, 2017, the date these financial statements were available to be issued.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Schedule of Revenues, Expenditures and Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance
Revenues:				
Property taxes	\$ 2,175,147	\$ 2,175,147	\$ 2,190,826	\$ 15,679
Water sales	583,477	583,477	566,531	(16,946)
Power revenues	228,412	228,412	231,084	2,672
Interest	16,800	16,800	63,881	47,081
Other income	7,701	7,701	15,209	7,508
Total revenues	<u>3,011,537</u>	<u>3,011,537</u>	<u>3,067,531</u>	<u>55,994</u>
Expenditures:				
Operating:				
Facilities:				
Stagecoach reservoir - power generation	265,861	265,861	101,278	164,583
Stagecoach reservoir - water storage	269,659	269,659	243,911	25,748
Yamcolo reservoir	158,749	158,749	103,500	55,249
Stillwater ditch and reservoir	53,338	53,338	19,354	33,984
Administration	179,566	179,566	131,685	47,881
Board of directors	71,168	71,168	57,575	13,593
External affairs	55,734	55,734	53,720	2,014
Finance	95,938	95,938	94,901	1,037
Legal	521,152	521,152	194,578	326,574
Planning	287,322	287,322	185,117	102,205
Grants, scholarships and public information	156,713	156,713	49,193	107,520
Treasurer fees	76,000	76,000	71,378	4,622
Capital outlay	15,000	1,212,862	1,453,471	(240,609)
Total expenditures	<u>2,206,200</u>	<u>3,404,062</u>	<u>2,759,661</u>	<u>644,401</u>
Change in net position - non-US GAAP basis	805,337	(392,525)	307,870	<u>\$ 700,395</u>
Adjustments to US GAAP basis:				
Capital outlay			1,453,471	
Depreciation			(95,992)	
Change in net position - US GAAP basis			<u>1,665,349</u>	
Net position, beginning of year	<u>35,210,742</u>	<u>35,210,742</u>	<u>35,210,742</u>	
Net position, end of year	<u>\$ 36,016,079</u>	<u>\$ 34,818,217</u>	<u>\$ 36,876,091</u>	