

LAKE DURANGO WATER AUTHORITY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2016



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Independent Auditor's Report



Board of Directors
Lake Durango Water Authority
Durango, Colorado

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Lake Durango Water Authority (the Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2016, and the changes in its financial position, and its cash flows 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 on pages 3 through 5 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Budgetary Basis) on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.
Grand Junction, Colorado

March 16, 2017

Management's Discussion and Analysis

LAKE DURANGO WATER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the year ended December 31, 2016

As management of the Lake Durango Water Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2016, with comparative information presented for the year ended December 31, 2015. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our basic financial statements to better understand the financial position of the Authority.

The Authority (formed in 2007) operates a water system that provides domestic water service to portions of western La Plata County in the State of Colorado. In July 2009, the Authority successfully purchased the assets of the Lake Durango Water Company (Water Company) and took over the operation of the water system. The Authority purchased assets totaling \$3,296,197 financed by a long-term loan from the Colorado Water Resources & Power Development Authority of \$2,000,000 and revenue bonds of \$500,000 as well as a water royalty agreement for approximately \$1,050,000.

The Authority has partnered with the La Plata West Water Authority, Southern Ute Tribe and Ute Mountain Ute Tribe to construct a pipeline to deliver water from Lake Nighthorse to Lake Durango Reservoir. The Authority is contributing \$3,000,000 to the project financed by a \$500,000 Colorado Water Conservation Board (CWCB) grant and a \$2,500,000 CWCB loan.

Financial Highlights

- In 2016 retail water sales were 10.1% greater than budgeted due to no water restrictions being in place. Bulk water sales were 3.2% greater than budgeted for the same reason.
- In 2016 water rates included an average 5% rate increase as recommended in the Red Oak Consulting Rate and Fee Study.
- In 2016 construction began on the raw water pipeline to deliver water from Lake Nighthorse to Lake Durango. During 2016 the Authority had capital asset additions of \$242,544 related to this project financed by CWCB grant funding of \$53,608 and \$188,936 of draws on the CWCB note payable.
- In 2015 retail water sales were 5% greater than budgeted due to the rescinding of restrictions put in place due to low reservoir level. Bulk water sales were 5% greater than budgeted for the same reason.
- In 2015 145 acre-feet of water was purchased using the Substitute Water Supply Program and previously changed Pine Ridge Ditch shares. The additional water allowed outside watering restrictions to be lifted for most of the summer.
- In 2015 water rates included an average 5% rate increase as recommended in the Red Oak Consulting Rate and Fee Study.
- In 2015 engineering and permitting for the raw water pipeline from Lake Nighthorse to Lake Durango was substantially completed.

Overview of the Financial Statements

The financial statements of the Authority are presented as a special purpose government engaged only in business-type activities – providing domestic water services to certain areas of La Plata County.

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases and decreases in Net Position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the Authority.

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the changes that have occurred during the year to the Authority's Net Position. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports the Authority's cash flows from operating, noncapital financing, capital, and investing activities.

FINANCIAL SUMMARY AND ANALYSIS

These financial statements distinguish functions of the Authority that will be principally supported by charges for services, grant resources, and other fees. The functions of the Authority include effective and economical operation of the Authority's services within the jurisdictional boundaries of the Authority. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

NET POSITION		2016	2015
ASSETS			
Current assets		\$ 651,971	\$ 558,678
Capital assets, net		4,149,004	4,068,767
Long-term accounts receivable		-	3,316
	<i>Total Assets</i>	<u>4,800,975</u>	<u>4,630,761</u>
LIABILITIES			
Current liabilities		261,970	217,087
Long-term liabilities		2,494,030	2,683,121
	<i>Total Liabilities</i>	<u>2,756,000</u>	<u>2,900,208</u>
NET POSITION			
Net investment in capital assets		1,483,251	1,198,801
Restricted for operations and maintenance		101,429	101,429
Unrestricted		460,295	430,323
	<i>Total Net Position</i>	<u>\$ 2,044,975</u>	<u>\$ 1,730,553</u>

The largest portion of the Authority's Net Position is the net investment in capital assets.

CHANGES IN NET POSITION		2016	2015
REVENUE			
Operating revenue		\$ 799,031	\$ 744,456
Non-operating revenue		177	89
Capital contributions		53,608	57,660
	<i>Total Revenue</i>	<u>852,816</u>	<u>802,205</u>
EXPENSES			
Operating expenses		494,043	509,396
Non-operating expenses		44,351	47,267
	<i>Total Expenses</i>	<u>538,394</u>	<u>556,663</u>
	<i>Change in Net Position</i>	<u>314,422</u>	<u>245,542</u>
Net Position - beginning of the year		<u>1,730,553</u>	<u>1,485,011</u>
Net Position - end of the year		<u>\$ 2,044,975</u>	<u>\$ 1,730,553</u>

Revenues

The Authority has two major revenue sources: (1) water sales and (2) fees. The Authority charges for domestic water used by the customers within its jurisdiction. Fees charged to the customers are pledged for debt reduction payments and payments for the royalty agreement with the former owner.

Expenses

The Authority's major expenses consist of salaries and employee benefits, office and administrative, chemicals and supplies, professional fees, depreciation, and repairs and maintenance.

The overall financial position of the Authority has increased. There were no water restrictions resulting in more income than projected.

BUDGETARY HIGHLIGHTS

The Authority prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay, in addition to operations and non-operating revenue and contributions.

- 2016 operating revenue was greater than budgeted primarily due to no water restrictions.
- 2016 repairs and maintenance was lower than budgeted due to less distribution system repairs than had been anticipated. Electric expense was lower than budget due to higher reservoir levels that enabled the use of the alternative feed line that does not require pumping.
- 2016 capital contributions were lower than budgeted due to delays in the bidding process for the construction of the raw water pipeline to deliver water from Lake Nighthorse to Lake Durango, which delayed construction expenditures and related grant funding the Authority is entitled to for a portion of the expenditures.

REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the Authority's finances. Questions regarding any information contained in this report or requests for additional financial information should be addressed to: Charles B. Smith, General Manager, Lake Durango Water Authority, P.O. Box 657, Durango, CO 81302 or call (970) 247-4062.

Financial Statements

LAKE DURANGO WATER AUTHORITY

STATEMENT OF NET POSITION

December 31, 2016

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 540,754
Accounts receivable	96,306
Grant receivable	14,911
	<u>651,971</u>
	<i>Total Current Assets</i>
Capital Assets	
Capital assets not being depreciated	1,847,155
Capital assets being depreciated, net	2,301,849
	<u>4,149,004</u>
	<i>Total Capital Assets, net</i>
	<i>Total Assets</i> <u>\$ 4,800,975</u>
LIABILITIES	
Current Liabilities	
Accounts payable	\$ 50,546
Accrued liabilities	23,759
Current portion of water royalty payable	43,593
Current portion of bonds payable	46,000
Current portion of notes payable	98,072
	<u>261,970</u>
	<i>Total Current Liabilities</i>
Long-term Liabilities	
Water royalty payable, net of current portion	505,956
Bonds payable, net of current portion	219,000
Notes payable, net of current portion	1,769,074
	<u>2,494,030</u>
	<i>Total Long-term Liabilities</i>
	<i>Total Liabilities</i> <u>2,756,000</u>
NET POSITION	
Net investment in capital assets	1,483,251
Restricted for operations and maintenance	101,429
Unrestricted	460,295
	<u>2,044,975</u>
	<i>Total Net Position</i> <u>\$ 2,044,975</u>

See accompanying notes.

LAKE DURANGO WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the year ended December 31, 2016

Operating Revenue		
Water sales and fees	\$	779,331
Other		19,700
		<u>19,700</u>
	<i>Total Operating Revenue</i>	<u>799,031</u>
Operating Expenses		
Salaries and benefits		224,480
Depreciation and amortization		83,590
Office and administrative		66,040
Professional and contractual services		55,717
Chemicals and supplies		34,444
Repairs and maintenance		14,913
Transportation		8,012
Water purchase		3,877
Other expenses		2,970
		<u>2,970</u>
	<i>Total Operating Expenses</i>	<u>494,043</u>
	<i>Operating Income</i>	<u>304,988</u>
Non-operating Revenue and (Expenses)		
Interest income		177
Interest expense		(44,351)
		<u>(44,351)</u>
	<i>Total Non-operating Revenue and (Expenses)</i>	<u>(44,174)</u>
	<i>Income Before Capital Contributions</i>	<u>260,814</u>
Capital Contributions		
Capital grants		53,608
		<u>53,608</u>
	<i>Total Capital Contributions</i>	<u>53,608</u>
	<i>Change in Net Position</i>	<u>\$ 314,422</u>
Net Position - beginning of the year	\$	1,730,553
Net Position - end of the year	\$	<u>2,044,975</u>

See accompanying notes.

LAKE DURANGO WATER AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

Cash Flows From Operating Activities

Cash received from customers	\$ 802,881
Cash paid to suppliers and others	(139,855)
Cash paid to employees for services	(224,480)
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	<u>438,546</u>

Cash Flows From Capital and Related Financing Activities

Proceeds from capital debt	188,936
Proceeds from capital grants	38,697
Purchase of capital assets	(395,228)
Principal paid on capital debt	(174,419)
Interest paid on capital debt	(17,616)
	<hr/>
<i>Net Cash Used by Capital and Related Financing Activities</i>	<u>(359,630)</u>

Net Increase in Cash and Cash Equivalents 78,916

Cash and Cash Equivalents - beginning of the year	<u>461,838</u>
Cash and Cash Equivalents - end of the year	<u>\$ 540,754</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 304,988
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	83,590
Changes in operating assets and liabilities:	
Accounts receivable	3,850
Accounts payable	46,118
	<hr/>
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 438,546</u>

Non-Cash Transactions:

Present value adjustment of water rights and water royalty payable	<u>\$ (217,788)</u>
Interest Capitalized - La Plata West Water Authority Project	<u>\$ 13,613</u>

See accompanying notes.

Notes to Financial Statements

LAKE DURANGO WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Durango Water Authority (the Authority) was formed on December 18, 2007 pursuant to a Memorandum of Agreement (the Agreement) dated July 17, 2007 by Durango West Metropolitan District No. 1 (Metro District), Durango West Metropolitan District No. 2 (Metro District), and La Plata County, Colorado (the County). The Authority is an independent political subdivision operating under the statutes governing water authorities of the State of Colorado and has its own governing board consisting of five members that are appointed by the establishing entities. One member is appointed by each Metro District and three are appointed by the County, including two retail customers and one independent person who is not a customer of the Authority. The Authority was established to allow for public ownership and operation of a water system that provides domestic water service to portions of western La Plata County.

Reporting Entity

The financial statements include only the Authority, as there are no component units required to be included in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

Basis of Accounting

For financial reporting purposes, the Authority is considered a special-purpose government engaged only in business-type activities. Accordingly, the Authority's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting, where revenues are recognized when earned and expenses are recorded when an obligation is incurred.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers cash deposits and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Authority had no cash equivalents at December 31, 2016.

Accounts Receivable

Accounts receivable consist of amounts due from various retail and bulk customers from water sales and acquisition fees. As of December 31, 2016, management believes all accounts receivable are fully collectible; therefore, no allowance for doubtful accounts has been recorded.

Grants

Grant revenue consists of funding provided to the Authority by various governmental agencies to assist the Authority in providing domestic water services. The Authority's grant funds are related to the financing of a capital project (see Note 5). Grant revenue is recorded when amounts become known and due to the Authority. Grant receivables are recorded when the capital project costs are incurred prior to the receipt of funds.

Capital Assets

Capital assets include assets with an estimated useful life of more than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related

capital assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated useful lives of 30 to 50 years for the water system, plant, and lines.

The cost of water rights includes acquisition cost, legal and engineering costs related to the development, and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

Net Position

The Authority's Net Position is classified as follows:

Restricted Net Position – Restricted expendable net position includes resources in which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents resources derived from general Authority revenues. The resources are used to conduct the Authority's operations.

Use of Restricted/Unrestricted Net Position – When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Authority's policy is to apply restricted net position first.

Classification of Revenue

The Authority has classified its revenues as either operating revenues, non-operating revenues, or capital contributions according to the following criteria:

Operating Revenue – Operating revenue generally results from providing services in connection with ongoing operations. The principal operating revenues of the Authority are charges to customers for water sales and water line service.

Non-operating Revenue – Non-operating revenue is that revenue that does not meet the definition of operating revenue. Non-operating revenue consists of interest income.

Capital Contributions – Grants received by the Authority earmarked for capital asset acquisition are classified as capital contributions and are reported separately from operating and non-operating revenues.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - BUDGETS

The Authority adheres to the following procedures in establishing its annual budget:

- A. The Authority files an annual budget in accordance with state law.
- B. The budget officer is required to submit a proposed budget to the Board of Directors (the Board) each year by October 15.
- C. Public hearings are conducted by the Board to obtain tap holder comments.
- D. Expenses may not legally exceed appropriations at the fund level. Board approval is required for changes in the budget.

- E. Budget appropriations lapse at the end of each year.
- F. The Authority adopts budgets on a modified accrual basis with the inclusion of depreciation.

Budgetary Basis of Accounting

While the Authority reports net position, results of operations and changes in net position on the basis of accounting principles generally accepted in the United State of America (U.S. GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Budgetary Basis) presented as supplemental information is presented on the budgetary basis to provide meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis budget are as follows:

	Operating and Non-operating Revenue	Operating and Non-operating (Expense)	Net Change
Budgetary basis	\$ 852,816	\$ (712,813)	\$ 140,003
Principal payments on debt	-	136,274	136,274
Water royalty payments	-	38,145	38,145
GAAP Basis	<u>\$ 852,816</u>	<u>\$ (538,394)</u>	<u>\$ 314,422</u>

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk – Deposits

The Colorado Public Deposit Protection Act (PDPA) governs the Authority’s deposits. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal deposit insurance (FDIC) on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to 102% of the uninsured deposits. The Colorado Division of Banking is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2016, the Authority’s cash deposits had carrying and bank balances as follows:

	Carrying Balance	Bank Balance
Cash in checking and money market accounts	<u>\$ 540,754</u>	<u>\$ 544,586</u>

The Authority maintains cash balances at local financial institutions which are insured by the FDIC up to \$250,000 per institution. At year-end \$500,000 of the Authority’s bank balance was covered by FDIC insurance and the remaining bank balance was covered by the PDPA.

NOTE 4 - CAPITAL ASSETS

In accordance with the Agreement, the Authority acquired the assets of Lake Durango Water Company on July 15, 2009 for a purchase price of \$3,296,197. The acquisition was financed by a long-term note payable and bonds payable as disclosed in Note 5. In addition, the Agreement requires the Authority to pay an additional consideration to the former owners of Lake Durango Water Company in the form of a water royalty based on water usage as disclosed in Note 5.

A summary of changes in capital assets follows:

	Beginning Balance	Additions	Adjustments/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land and land rights	\$ 602,463	\$ -	\$ -	\$ 602,463
Water rights	761,040	-	(217,788)	543,252
Construction in Process	370,089	331,351	-	701,440
<i>Total Capital Assets Not Being Depreciated</i>	<u>1,733,592</u>	<u>331,351</u>	<u>(217,788)</u>	<u>1,847,155</u>
Capital assets being depreciated:				
Water system – Source, plant and lines	2,755,629	13,290	-	2,768,919
Vehicles	19,797	36,974	-	56,771
<i>Total Capital Assets Being Depreciated</i>	<u>2,775,426</u>	<u>50,264</u>	<u>-</u>	<u>2,825,690</u>
Less: accumulated depreciation	<u>(440,251)</u>	<u>(83,590)</u>	<u>-</u>	<u>(523,841)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>2,335,175</u>	<u>(33,326)</u>	<u>-</u>	<u>2,301,849</u>
<i>Total Capital Assets, Net</i>	<u>\$ 4,068,767</u>	<u>\$ 298,025</u>	<u>\$ (217,788)</u>	<u>\$ 4,149,004</u>

Depreciation expense for the year ended December 31, 2016 was \$83,590.

Capitalization of Interest

Interest costs are capitalized as part of the historical cost of acquiring certain assets. To qualify for interest capitalization, assets must require a period of time before they are ready for their intended purpose. Total interest costs incurred for the year ended December 31, 2016 was \$57,964. Interest capitalized for the year ended December 31, 2016 was \$13,613. Gross interest costs incurred less interest costs capitalized for the year ended December 31, 2016 was \$44,351, as reported on the Statements of Revenues, Expenses and Changes in Net Position.

NOTE 5 - LONG-TERM LIABILITIES

Notes Payable

Notes payable consisted of the following at December 31, 2016:

Note payable to a state governmental entity, due in biannual installments of \$61,971 including interest at 2%, maturing in May 2029, collateralized by land, land rights and water system.	\$ 1,365,743
La Plata West Water Authority Project	<u>501,403</u>
<i>Total Notes Payable</i>	<u>1,867,146</u>
Less current portion	<u>(98,072)</u>
<i>Long-term Portion of Notes Payable</i>	<u>\$ 1,769,074</u>

The Authority's notes payable will mature as follows:

	Principal	Interest	Total
2017	\$ 98,072	\$ 25,870	\$ 123,942
2018	99,082	24,860	123,942
2019	101,073	22,869	123,942
2020	103,105	20,837	123,942
2021	105,177	18,765	123,942
Thereafter	<u>1,360,637</u>	<u>70,330</u>	<u>1,430,967</u>
	<u>\$ 1,867,146</u>	<u>\$ 183,531</u>	<u>\$ 2,050,677</u>

The note payable to the governmental entity includes covenants which the Authority is required to meet. The Authority believes it is in compliance with the covenant requirements as of December 31, 2016.

La Plata West Water Authority Project

In 2014 the Authority entered into an agreement to participate in the La Plata West Water Authority Project. This project is designed to bring water from Lake Nighthorse to Lake Durango. The project will add an additional 400 acre feet of water per year to the Authority's reserves. The project is financed through a loan of up to \$2,525,000 and a grant of \$500,000 funded by the Colorado Water Conservation Board (CWCB). Payments on the loan are not scheduled to begin until one year after the project is substantially complete, which is projected to occur in 2017. The loan agreement requires the establishment and funding of a debt service reserve fund when the first payment is due. Interest is accrued on the loan at a rate of 4% (see Note 4). As of December 31, 2016 the Authority has incurred project costs of \$701,440, of which \$501,403 were financed by drawing on the CWCB loan. This amount is included with long-term notes payable on the statement of net position. The remaining project costs are financed by the CWCB grant.

Bonds Payable

The Series 2009, Taxable Water Revenue Bonds (the Bonds), dated July 15, 2009, with interest of 8.35%, were refinanced during 2013 with an interest rate of 5%. The Bonds are serial bonds which mature in varying amounts through 2021. Interest is payable semiannually. The Bonds are subject to redemption prior to maturity, at the option of the Authority, as a whole or in part, on any date, upon payment of par and accrued interest, without redemption premium. The Bonds are subject to mandatory sinking fund redemption prior to the maturity date of such bonds, in part, by lot, upon payment of par and accrued interest, without redemption premium, on November 1 in the years and principal amounts set forth below. The Bonds are collateralized by a pledge of water revenues, net of all operating and maintenance expenses of the Authority as required by applicable bond ordinances. Annual principal and interest on the bonds are expected to require approximately 32% of such net revenues.

The Authority's bonds payable will mature as follows:

	Principal	Interest	Total
2017	\$ 46,000	\$ 13,250	\$ 59,250
2018	50,000	10,950	60,950
2019	54,000	8,450	62,450
2020	58,000	5,750	63,750
2021	57,000	2,850	59,850
	<u>\$ 265,000</u>	<u>\$ 41,250</u>	<u>\$ 306,250</u>

Changes in long-term notes and bonds for the year ended December 31, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Notes and bonds	\$ 2,079,484	\$ 188,936	\$ (136,274)	\$ 2,132,146	\$ 144,072
<i>Total Long Term Notes and Bonds</i>	<u>\$ 2,079,484</u>	<u>\$ 188,936</u>	<u>\$ (136,274)</u>	<u>\$ 2,132,146</u>	<u>\$ 144,072</u>

Water Royalty Payable

In accordance with the Agreement, additional consideration was given for the purchase of the assets of the Lake Durango Water Company in the form of a Water Royalty Agreement. Each July, the royalty payment is recalculated based on water usage for the previous year in accordance with the Water Royalty Agreement. Authority management estimates the present value of future royalty payments to be \$549,549. The amount estimated for payment in 2017 is \$43,593. The estimated amount has also been recorded as value given for

land and components of the water system and subsequent changes from recalculations each July result in increases or decreases to these assets.

NOTE 6 - WATER PURCHASE COMMITMENT

On December 15, 2016, with the consent of the Board, management executed a contract for the purchase of 200 acre feet of water depletions from the Animas La Plata Water Conservancy District (ALPWCD). The initial purchase of 50 acre feet of water depletions will close on March 31, 2017. Subsequent purchases of 25 acre feet of water depletions will occur in each successive year for six years on or before May 31 of each year. The Authority will pay \$3,000 per acre foot of depletion. The Authority shall also pay an administration fee to the ALPWCD of 3% on any amounts paid to the ALPWCD for the acquisition, including the per acre foot charge. The Authority shall pay the operating, maintenance, and replacement costs attributable to each portion of the acquisition under the agreement since the ALPWCD's first incremental purchase in 2013.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. During 2016, the Authority maintained commercial insurance for these risks of loss.

Supplemental Information

LAKE DURANGO WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION – BUDGET AND ACTUAL (Budgetary Basis)

For the year ended December 31, 2016

	Original and Final Budget	Actual	Variance - Favorable (Unfavorable)
Operating Revenue			
Water sales and fees	\$ 734,870	779,331	\$ 44,461
Other	13,700	19,700	6,000
<i>Total Operating Revenue</i>	<u>748,570</u>	<u>799,031</u>	<u>50,461</u>
Operating Expenses			
Salaries and benefits	222,820	224,480	(1,660)
Depreciation and amortization	76,000	83,590	(7,590)
Office and administrative	80,683	66,040	14,643
Professional and contractual services	77,336	55,717	21,619
Chemicals and supplies	45,650	34,444	11,206
Repairs and maintenance	28,000	14,913	13,087
Transportation	10,000	8,012	1,988
Water purchase	3,000	3,877	(877)
Ditch assessment	2,970	2,970	-
Contingency	15,000	-	15,000
<i>Total Operating Expenses</i>	<u>561,459</u>	<u>494,043</u>	<u>67,416</u>
<i>Operating Income, Budgetary Basis</i>	<u>187,111</u>	<u>304,988</u>	<u>117,877</u>
Non-operating Revenue and (Expenses)			
Interest income	95	177	82
Interest expense	(44,077)	(44,351)	(274)
Principal payments on debt	(137,216)	(136,274)	942
Royalty fees paid out	(35,721)	(38,145)	(2,424)
<i>Total Non-operating Revenue and (Expenses)</i>	<u>(216,919)</u>	<u>(218,593)</u>	<u>(1,674)</u>
<i>Income Before Capital Contributions</i>	<u>(29,808)</u>	<u>86,395</u>	<u>116,203</u>
Capital Contributions			
Capital grants	503,001	53,608	(449,393)
<i>Total Capital Contributions</i>	<u>503,001</u>	<u>53,608</u>	<u>(449,393)</u>
<i>Change in Net Position, Budgetary Basis</i>	473,193	140,003	(333,190)
Net Position - beginning of the year		<u>1,730,553</u>	
Net Position - end of the year, budgetary basis		<u>\$ 1,870,556</u>	