

**FOUNTAIN VALLEY AUTHORITY**  
(A Component Unit of the  
City of Colorado Springs, Colorado)

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended  
December 31, 2016 and 2015



**RECEIVED**

*By Justin L. Smith at 12:28 pm, Mar 07, 2017*

**FOUNTAIN VALLEY AUTHORITY**  
(A Component Unit of the  
City of Colorado Springs, Colorado)

TABLE OF CONTENTS  
As of and for the Years Ended December 31, 2016 and 2015

	<u>Page</u>
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Financial Statements	9
Notes to Financial Statements	
Note 1 – Financial Reporting Entity	14
Note 2 – Summary of Significant Accounting Policies	15
Note 3 – Deposits and Investments	18
Note 4 – Cash and Cash Equivalents	19
Note 5 – Prepaid Expenses	20
Note 6 – Capital Assets	21
Note 7 – Total Long-Term Debt	22
Note 8 – Net Position	25
Note 9 – Commitments	26
Note 10 – Contingencies and Claims	27



## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Fountain Valley Authority

We have audited the accompanying financial statements of Fountain Valley Authority, a component unit of the City of Colorado Springs, Colorado, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### **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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the of Fountain Valley Authority, as of December 31, 2016 and 2015, and the changes in financial position and 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 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.

*Hoelting & Company Inc.*

Colorado Springs, Colorado  
March 3, 2017

# FOUNTAIN VALLEY AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Years Ended December 31, 2016 and 2015  
(Unaudited)

### INTRODUCTION

The following Management's Discussion and Analysis serves as an introduction to the financial statements of Fountain Valley Authority ("Authority"). It is intended to be an objective and easily readable analysis of significant financial and operating activities and events for the fiscal years ended December 31, 2016 and 2015. It also provides an overview of the Authority's general financial condition and results of operations. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America as applied to units of local government and promulgated by the Governmental Accounting Standards Board.

The Authority is a water authority, political subdivision and a public corporation of the State of Colorado. It was formed primarily to 1) construct and operate a water treatment plant for the purpose of treating water for its customers, 2) operate a pipeline, the Fountain Valley Conduit, that conveys raw water from the Pueblo Reservoir and Dam in Pueblo, Colorado to the water treatment plant located approximately 17 miles south of Colorado Springs, Colorado, and treated water from the water treatment plant to the Authority's customers. The customers of the Authority, each of which owns and operates a water system or joint utility system, are the City of Colorado Springs, the City of Fountain, Security Water District, Stratmoor Hills Water District and Widefield Water and Sanitation District.

### FINANCIAL STATEMENTS

The Authority's annual report includes three financial statements with accompanying notes that are an integral part of these financial statements. The financial statements include: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position and 3) Statements of Cash Flows. These statements provide both long-term and short-term information about the overall status of the Authority. They are presented to demonstrate the extent the Authority has met its operating objectives efficiently and effectively using all the resources available and whether the Authority can continue to meet its objectives in the foreseeable future. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in accrual accounting. Comparative total data for the prior year has been presented in order to provide an understanding of changes in the Authority's financial position and operations.

**Statements of Net Position** - This statement reports net position as the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources as of the end of each fiscal year. Assets are separated into current and noncurrent categories and are reported in the order of liquidity. Deferred outflows of resources are the consumption of net assets in one period that are applicable to future periods. Liabilities are separated into current and noncurrent categories. Deferred inflows of resources are the acquisition of net assets that are applicable to future reporting periods. The components of net position are classified as net investment in capital assets, restricted or unrestricted.

**Statements of Revenues, Expenses and Changes in Net Position** - This statement measures the activities for the year and can be used to determine whether the rates, fees and other charges are adequate to recover expenses. All revenues and expenses are accounted for in this statement for the years ended December 31.

## FOUNTAIN VALLEY AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Years Ended December 31, 2016 and 2015  
(Unaudited)

**Statements of Cash Flows** - This statement reports all cash receipts and payments summarized by net changes in cash from operating, noncapital financing, capital and financing and investing activities for the years ended December 31. This statement is prepared using the direct method that reports gross cash receipts and payments and presents a reconciliation of operating income to net cash provided by operating activities. This statement also separately lists the financing and investing activities.

**Notes to Financial Statements** - Notes provide additional detailed information and required disclosure in support of the financial statements.

### CONDENSED FINANCIAL STATEMENTS

Condensed financial statements with comparative information as of December 31:

#### CONDENSED STATEMENTS OF NET POSITION

	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>Percent Variance</u>
		(in thousands)		
Assets				
Current	\$ 7,359	\$ 7,291	\$ 68	0.9%
Noncurrent:				
Other	2,253	2,230	23	1.0%
Capital Assets, net	<u>48,640</u>	<u>49,116</u>	<u>(476)</u>	-1.0%
Total Assets	<u>58,252</u>	<u>58,637</u>	<u>(385)</u>	-0.7%
Deferred Outflows of Resources	<u>198</u>	<u>265</u>	<u>(67)</u>	-25.3%
Total Assets and Deferred Outflows of Resources	<u>\$ 58,450</u>	<u>\$ 58,902</u>	<u>\$ (452)</u>	-0.8%
Liabilities				
Current	\$ 11,439	\$ 11,253	\$ 186	1.7%
Noncurrent	<u>33,308</u>	<u>39,510</u>	<u>(6,202)</u>	-15.7%
Total Liabilities	<u>44,747</u>	<u>50,763</u>	<u>(6,016)</u>	-11.9%
Net Position				
Net Investment in Capital Assets	9,745	4,263	5,482	128.6%
Restricted	2,253	2,230	23	1.0%
Unrestricted	<u>1,705</u>	<u>1,646</u>	<u>59</u>	3.6%
Total Net Position	<u>13,703</u>	<u>8,139</u>	<u>5,564</u>	68.4%
Total Liabilities and Net Position	<u>\$ 58,450</u>	<u>\$ 58,902</u>	<u>\$ (452)</u>	-0.8%

Note: Immaterial differences may occur due to rounding.

Capital assets, net decreased approximately \$476,000 or 1.0% from the prior year primarily due to an increase in accumulated depreciation of \$1.2 million, offset by an increase in plant in service of approximately \$648,000 and an increase in construction work in progress of approximately \$44,000. A reduction of approximately \$6.2 million or 15.7% in noncurrent liabilities was due to \$4.7 million of lower obligations under capital leases, along with decreases of \$869,000 for bond payments and \$606,000 for loan payments. As a result of these activities, net investment in capital assets increased approximately \$5.5 million or 128.6%.

## FOUNTAIN VALLEY AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS As of and for the Years Ended December 31, 2016 and 2015 (Unaudited)

#### **CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	2016	2015	Variance	Percent Variance
		(in thousands)		
Operating Revenues	\$ 11,783	\$ 11,576	\$ 207	1.8%
Operating Expenses	5,226	5,020	206	4.1%
Operating Income	6,557	6,556	1	0.0%
Nonoperating Revenues (Expenses), net	(993)	(1,209)	216	17.9%
Change in Net Position	5,564	5,347	217	4.1%
Net Position, January 1	8,139	2,792	5,347	191.5%
Net Position, December 31	<u>\$ 13,703</u>	<u>\$ 8,139</u>	<u>\$ 5,564</u>	68.4%

Note: Immaterial differences may occur due to rounding.

Operating revenues increased approximately \$207,000 or 1.8% primarily due to increased partner billing for operation and maintenance expense of \$199,000. Operating expenses increased approximately \$206,000 or 4.1% primarily due to increases in production and treatment expense of \$230,000 and administrative and general expense of \$33,000, offset by decreases in transmission and distribution expense of \$24,000, and purchased water for resale of approximately \$21,000.

Water conveyance increased by approximately 502.3 million gallons from the prior year.

Nonoperating revenues (expenses), which resulted in a net expense, decreased approximately \$216,000 or 17.9% which was primarily driven by decreased interest expense of \$164,000 and increased miscellaneous conveyance revenue of \$69,000.

#### **CAPITAL ASSETS AND TOTAL LONG-TERM DEBT**

Capital assets and total long-term debt with comparative information as of December 31:

##### **CAPITAL ASSETS**

	2016	2015	Variance	Percent Variance
		(in thousands)		
Plant in service	\$ 18,999	\$ 18,350	\$ 649	3.5%
Property under capital leases	72,618	72,618	-	0.0%
Construction work in progress	176	132	44	33.3%
Accumulated depreciation	(43,153)	(41,985)	(1,168)	-2.8%
Total Capital Assets (net of accumulated depreciation)	<u>\$ 48,640</u>	<u>\$ 49,115</u>	<u>\$ (475)</u>	-1.0%

Note: Immaterial differences may occur due to rounding.

Capital asset projects during the current year include improvements to facilities and infrastructure.

## FOUNTAIN VALLEY AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As of and for the Years Ended December 31, 2016 and 2015  
(Unaudited)

#### **TOTAL LONG-TERM DEBT**

	<u>2016</u>	<u>2015</u>	<u>Variance</u>	<u>Percent Variance</u>
		(in thousands)		
Refunding revenue bonds	\$ 2,664	\$ 3,518	\$ (854)	-24.3%
Long-term loans	3,296	3,881	(585)	-15.1%
Leases	33,133	37,719	(4,586)	-12.2%
Total Long-Term Debt	<u>\$ 39,093</u>	<u>\$ 45,118</u>	<u>\$ (6,025)</u>	-13.4%

Note: Immaterial differences may occur due to rounding.

#### **FINANCIAL HIGHLIGHTS AND OUTLOOK**

The Authority's overall financial position remains strong as of December 31, 2016 and for the year then ended. Operating revenues and expenses in 2017 are anticipated to be similar compared to 2016. The Authority continues to address expenditure requirements related to aging infrastructure.

#### **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, investors, creditors and other financial users with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the Accounting Department of Colorado Springs Utilities, P.O. Box 1103, Mail Code 929, Colorado Springs, CO 80947-0929.

**FOUNTAIN VALLEY AUTHORITY**

STATEMENTS OF NET POSITION

December 31, 2016 and 2015

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents-unrestricted	\$ 1,241,148	\$ 1,129,131
Accounts receivable	550,535	597,277
Inventories	160,903	149,700
Prepaid expenses	5,406,219	5,415,183
<b>Total Current Assets</b>	<b>7,358,805</b>	<b>7,291,291</b>
<b>Noncurrent Assets</b>		
Cash and cash equivalents-restricted	2,252,756	2,230,164
Capital assets:		
Land	65,147	65,147
Plant in service	91,551,861	90,903,712
Construction work in progress	176,086	132,188
Accumulated depreciation	(43,152,607)	(41,985,472)
Total Capital Assets (net of accumulated depreciation)	48,640,487	49,115,575
<b>Total Noncurrent Assets</b>	<b>50,893,243</b>	<b>51,345,739</b>
<b>Total Assets</b>	<b>58,252,048</b>	<b>58,637,030</b>
<b>Deferred Outflows of Resources</b>		
Loss on debt refunding	197,525	265,248
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 58,449,573</b>	<b>\$ 58,902,278</b>

The accompanying notes are an integral part of these statements.

**FOUNTAIN VALLEY AUTHORITY**

STATEMENTS OF NET POSITION

December 31, 2016 and 2015

	2016	2015
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 214,491	\$ 200,109
Accrued interest	86,439	92,097
Unearned revenue	5,352,751	5,352,751
Current maturities of bonds	835,000	820,000
Current portion of loans payable	606,353	584,306
Current portion of leases payable	4,343,537	4,203,830
<b>Total Current Liabilities</b>	<b>11,438,571</b>	<b>11,253,093</b>
<b>Noncurrent Liabilities</b>		
Loans payable	2,690,113	3,296,466
Capital leases payable	28,788,924	33,515,194
Revenue bonds, net of unamortized premiums	1,829,148	2,698,142
<b>Total Noncurrent Liabilities</b>	<b>33,308,185</b>	<b>39,509,802</b>
<b>Total Liabilities</b>	<b>44,746,756</b>	<b>50,762,895</b>
<b>Net Position</b>		
Net investment in capital assets	9,744,937	4,262,885
Restricted	2,252,756	2,230,164
Unrestricted	1,705,124	1,646,334
<b>Total Net Position</b>	<b>13,702,817</b>	<b>8,139,383</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 58,449,573</b>	<b>\$ 58,902,278</b>

The accompanying notes are an integral part of these statements.

## FOUNTAIN VALLEY AUTHORITY

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2016 and 2015

	2016	2015
<b>Operating Revenues</b>		
Conveyance charges	\$ 5,352,751	\$ 5,352,751
Water treatment charges	6,430,111	6,223,752
<b>Total Operating Revenues</b>	<b>11,782,862</b>	<b>11,576,503</b>
<b>Operating Expenses</b>		
Production and treatment	2,050,283	1,820,048
Purchased power, gas and water for resale	260,308	280,922
Transmission and distribution	454,702	479,170
Maintenance	504,793	523,796
Administration and general	789,134	755,778
Depreciation	1,167,135	1,160,112
<b>Total Operating Expenses</b>	<b>5,226,355</b>	<b>5,019,826</b>
<b>Operating Income</b>	<b>6,556,507</b>	<b>6,556,677</b>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	3,658	1,005
Other revenues	435,404	385,965
Interest expense	(1,432,135)	(1,596,439)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(993,073)</b>	<b>(1,209,469)</b>
<b>Change in Net Position</b>	<b>5,563,434</b>	<b>5,347,208</b>
<b>Total Net Position, January 1</b>	<b>8,139,383</b>	<b>2,792,175</b>
<b>Total Net Position, December 31</b>	<b>\$ 13,702,817</b>	<b>\$ 8,139,383</b>

The accompanying notes are an integral part of these statements.

## FOUNTAIN VALLEY AUTHORITY

### STATEMENTS OF CASH FLOWS Years Ended December 31, 2016 and 2015

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 11,829,604	\$ 11,857,466
Other cash receipts	52,614	70,440
Payments to suppliers	(4,047,792)	(4,084,008)
<b>Net Cash Provided by Operating Activities</b>	<b>7,834,426</b>	<b>7,843,898</b>
<b>Net Cash Used in Noncapital Financing Activities</b>	-	-
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital expenditures	(692,046)	(744,079)
Principal paid on capital lease	(4,343,536)	(4,203,830)
Interest paid on capital lease	(1,009,215)	(1,148,921)
Repayment of long-term debt	(1,404,306)	(1,378,343)
Interest payments on long-term debt	(254,428)	(289,478)
Proceeds from sale of assets	57	1,388
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(7,703,474)</b>	<b>(7,763,263)</b>
<b>Cash Flows from Investing Activities</b>		
Interest received on investments	3,657	1,005
<b>Net Cash Provided by Investing Activities</b>	<b>3,657</b>	<b>1,005</b>
<b>Increase in Cash and Cash Equivalents</b>	134,609	81,640
<b>Cash and Cash Equivalents, January 1</b>	3,359,295	3,277,655
<b>Cash and Cash Equivalents, December 31</b>	<b>\$ 3,493,904</b>	<b>\$ 3,359,295</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position:</b>		
Cash and cash equivalents	\$ 1,241,148	\$ 1,129,131
Restricted cash and cash equivalents	2,252,756	2,230,164
<b>Total Cash and Cash Equivalents</b>	<b>\$ 3,493,904</b>	<b>\$ 3,359,295</b>

The accompanying notes are an integral part of these statements.

**FOUNTAIN VALLEY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2016 and 2015

	2016	2015
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 6,556,507	\$ 6,556,677
Adjustments to operating income:		
Depreciation	1,167,135	1,160,112
Other revenue	52,614	70,440
(Increase) Decrease in Assets		
Accounts receivable	46,742	280,964
Inventories	(11,203)	(22,619)
Prepaid expenses	8,250	35,764
Increase (Decrease) in Liabilities		
Accounts payable	14,381	(237,440)
	<b>\$ 7,834,426</b>	<b>\$ 7,843,898</b>
<b>Noncash Investing, Capital and Related Financing Activities:</b>		
Adjustment of capital lease balance	\$ 382,733	\$ 314,137

The accompanying notes are an integral part of these statements.

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

#### NOTE 1 - FINANCIAL REPORTING ENTITY

Fountain Valley Authority ("Authority") is a water authority, political subdivision and a public corporation of the State of Colorado. It was formed July 10, 1979, pursuant to the constitution and to statutes of the State of Colorado. The City of Colorado Springs ("City"), the City of Fountain, Security Water District, Stratmoor Hills Water District and Widefield Water and Sanitation District represent the member governments and customers of the Authority. Each customer of the Authority owns and operates a water system or joint utility system.

The Authority is a component unit of the City. The accompanying financial statements present only the Authority. The financial statements do not purport to, and do not present the financial position of the City or other member governments of the Authority. The Authority has no component units.

The Authority was formed to finance, construct and operate a water treatment plant for the purpose of treating raw water received through the Fountain Valley Conduit ("Conduit") pursuant to the Conveyance Service Subcontract with the Southeastern Colorado Water Conservancy District ("District") and delivering such treated water to its customers. The water is delivered to the water treatment plant and then to the customers by means of the Conduit primarily pursuant to a contract dated July 10, 1979 between the United States Department of the Interior, Bureau of Reclamation ("Bureau") and the District for conveyance service from the Conduit.

The Authority treats the water delivered to the water treatment plant on behalf of the Authority's customers and charges its customers for that water treatment. In addition, the Authority charges its customers for services other than water treatment associated with 1) the Establishing Contract between the Bureau and the District, dated January 21, 1965, for repayment of reimbursable costs of the Fryingpan-Arkansas ("Fry-Ark") Project and 2) the Conveyance Service Contract dated August 22, 1985 between the Authority and the District for transfer of operations of the Conduit.

Most of the water delivered to the water treatment plant on behalf of the customers is Fry-Ark water purchased by the customers from the District. Fry-Ark water supplied by the District to the customers is billed through the Authority; the District pays the monies it receives from Fry-Ark water to the Bureau. Each customer's allocated share in the capacity of the Conduit is expressed in acre-feet and as a percentage, as set forth below (at full capacity):

	<u>Acre-Feet<sup>(1)</sup></u>	<u>Percentage</u>
City of Colorado Springs	14,353	71.41%
City of Fountain	2,000	9.95%
Security Water District	1,646	8.19%
Widefield Water and Sanitation District	1,500	7.46%
Stratmoor Hills Water District	601	2.99%
Total	<u>20,100</u>	<u>100.00%</u>

<sup>(1)</sup> 1 acre-foot = 325,851 gallons

The Authority is under the direction of a Board of Directors ("Board") or ("Directors") consisting of eight persons appointed by the member governments they represent for three year terms. Individuals may serve as Directors for consecutive terms without limit. The Establishing Contract specifies that the Board is made up of four

## **FOUNTAIN VALLEY AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended December 31, 2016 and 2015

members designated by the City, one designated by the City of Fountain, one designated by the Security Water District, one designated by the Stratmoor Hills Water District and one designated by the Widefield Water and Sanitation District.

Any action by the Authority requires the affirmative vote of no less than five Directors. In the event all of the members of the Authority are present and there is a tie vote on a matter being considered for action, the Establishing Contract provides that a "weighted vote" may be taken and each Director's vote will be given the proportion which "the total amount of water contributed to the Authority by the government appointing such Director divided by the number of Directors appointed by such government" bears to "the total amount of all water contributed to the Authority by all governments."

Colorado Springs Utilities ("Utilities"), created by the home rule charter of the City, consists of a water system and other systems designated in accordance with the charter of the City. The Authority and Utilities entered into a management agreement in which Utilities agreed to provide all necessary personnel for the operation and maintenance of the Conduit, its pumping stations and the water treatment plant. In addition, Utilities agreed to provide all of the services required for the operation and maintenance of the Conduit pursuant to the terms of the Conveyance Service Subcontract. All of the costs incurred by Utilities in providing the necessary personnel, equipment and facilities for the performance of the obligations assumed by Utilities are reimbursed by the Authority pursuant to billings by Utilities on a monthly basis.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***BASIS OF ACCOUNTING***

The Authority's accounting records are maintained and the accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as applied to units of local government and promulgated by the Governmental Accounting Standards Board ("GASB"). Consolidated financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Conveyance and water treatment charges are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

##### ***RECENT ACCOUNTING PRONOUNCEMENTS***

Management does not anticipate any standards issued or proposed by GASB will significantly impact the financial statements.

##### ***USE OF ESTIMATES***

The preparation of financial statements in conformity with U.S. GAAP 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 the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

## **FOUNTAIN VALLEY AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended December 31, 2016 and 2015

#### ***FINANCIAL STATEMENT PRESENTATION***

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the reporting entity's financial position and operations.

#### ***DEPOSITS AND INVESTMENTS***

For purposes of the Statements of Cash Flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition. Investment of funds is restricted by state statutes.

Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, repurchase agreements and local government investment pools. Investments are stated at fair value determined by quoted market prices.

#### ***RECEIVABLES AND PAYABLES***

Accounts receivable as of December 31, 2016 and 2015, include amounts due from customers and related parties. Accounts payable includes amounts payable to Utilities, a related party. Outstanding balances between the Authority and the City are reported as "Due to or Due from other City funds." Management does not believe an allowance for doubtful accounts is necessary at December 31, 2016 and 2015.

#### ***INVENTORIES AND PREPAID EXPENSES***

Inventories are valued at average cost. The cost of inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expense in the financial statements.

#### ***RESTRICTED ASSETS***

Authority's bond ordinances require the creation and funding of individual reserve funds, but allow the Authority to use surety bonds in lieu of a cash bond reserve fund. The bond ordinances require that monies be restricted in separate principal and interest retirement funds.

#### ***CAPITAL ASSETS***

Plant is stated at cost. For constructed plant, cost includes contracted services, direct labor and materials. The cost of additions to plant and replacement units of property in excess of \$5,000 are capitalized. Maintenance costs and replacement of minor items of property are charged to expense as incurred.

Depreciation is provided by the straight-line method based on estimated service lives of the various assets ranging from 1.75% to 16.67% per annum. The plant consists of a pipeline, pumping stations and storage reservoirs that originate at the Pueblo, Colorado reservoir and are used to convey water to and from the treatment plant.

## **FOUNTAIN VALLEY AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended December 31, 2016 and 2015

#### ***LOSS ON DEBT REFUNDING***

Utilities reports deferred charges on refunded debt as deferred outflows of resources in the Statements of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This difference in value is deferred and amortized over the remaining life of either the refunded debt or the replacement debt, whichever is shorter.

#### ***UNEARNED REVENUE***

The Authority receives payments for conveyance service in advance of rendering the service. This revenue is recognized as unearned revenue in the year of receipt.

#### ***LONG-TERM OBLIGATIONS***

Bond premiums and discounts are amortized over the life of the bond issues using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

#### ***CAPITAL LEASES PAYABLE***

Depreciation is provided by the straight line method based on estimated service lives of the various assets ranging from 1.0% to 10.0% per annum.

#### ***COMPENSATED ABSENCES PAYABLE***

Employees of Utilities operate and manage the water treatment plant, the conduit and associated pumping stations under an agreement with the Authority. The compensated absences payable for these employees is recorded as a liability by Utilities and not by the Authority. When these employees retire or terminate their employment with Utilities, the compensated absences payable would be paid by Utilities.

#### ***NET POSITION***

***Net Investment in Capital Assets*** - Represents capital assets net of accumulated depreciation and amortization and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Unspent related debt proceeds are not offset against net position.

***Restricted*** - Represents restrictions placed on net position use through external constraints imposed by creditors (such as through debt covenants), contributors, law or regulations of other governments, law through constitutional provisions or enabling legislation.

***Unrestricted*** - Represents the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

#### **REVENUES AND EXPENSES**

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's ongoing operation. The sole operating revenues of the fund are conveyance and water treatment charges. Operating expenses include source of supply, treatment, transmission, administration and depreciation expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

#### **NOTE 3 - DEPOSITS AND INVESTMENTS**

##### **DEPOSITS**

The Colorado Public Deposit Protection Act requires that financial institutions pledge a single institution pool of collateral against all the uninsured public deposits it holds and the market value of the securities in the pool is required to be in excess of 102% of the financial institution's total uninsured public deposits. The financial institutions in which the Authority has deposits at the end of the year are authorized.

As of December 31, 2016 and 2015, the carrying amount of the Authority's cash deposits was \$2,306,533 and \$2,174,516 and the bank balances were \$2,332,996 and \$2,179,455, respectively. A portion of the bank balance in the amount of \$2,082,996 and \$1,929,455, respectively was collateralized as required by Colorado Statutes.

##### **INVESTMENTS**

In accordance with the Authority's investment policy and Colorado Statutes, the Authority is authorized to invest in obligations of the United States and certain of its agencies; certain international agency securities; general obligations or revenue bonds of any state or local government of the United States; bankers acceptances of certain banks; certain commercial paper; local government investment pools; written repurchase agreements properly collateralized by certain authorized securities; certain money market funds; and or guaranteed investment contracts.

The Authority's investments are subject to interest, credit and custodial risk as described below.

**Interest Rate Risk** - The risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

**Credit Risk** - The risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment policy limits investments as described above. As of December 31, 2016, the Authority's investments in the money market mutual fund were rated "Aaa-mf" by Moody's Investor Services and "AAAm" by Standard & Poor's Financial Services.

**Custodial Credit Risk** - The risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of that counterparty. Of the Authority's \$1.2 million investment in the money market mutual fund, 100% of the underlying securities are held in the name of The Bank of New York Trust Company, N.A. not in the name of the Authority.

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

The Authority's investment balances as of December 31:

	2016		2015	
	Fair Value	Weighted Average Maturity (in years)	Fair Value	Weighted Average Maturity (in years)
Money Market Mutual Funds	\$ 1,187,371	0.14	\$ 1,184,779	0.12
Total Fair Value	\$ 1,187,371		\$ 1,184,779	
Portfolio Weighted Average Maturity		0.14		0.12

#### **NOTE 4 - CASH AND CASH EQUIVALENTS**

##### ***RECONCILIATION TO CASH AND CASH EQUIVALENTS***

The deposits and investments above reconcile to cash and cash equivalents reported on the Statements of Net Position as of December 31:

	2016		
	Current	Noncurrent	Total
Deposits and cash on hand	\$ 1,241,148	\$ 1,065,385	\$ 2,306,533
Cash management treasury funds	-	1,187,371	1,187,371
Total	\$ 1,241,148	\$ 2,252,756	\$ 3,493,904

  

	2015		
	Current	Noncurrent	Total
Deposits and cash on hand	\$ 1,129,131	\$ 1,045,385	\$ 2,174,516
Cash management treasury funds	-	1,184,779	1,184,779
Total	\$ 1,129,131	\$ 2,230,164	\$ 3,359,295

##### ***RESTRICTED CASH AND CASH EQUIVALENTS***

Summary of restricted cash and cash equivalents as of December 31:

	2016	2015
Emergency Reserve Fund	\$ 126,383	\$ 126,319
Replacement Reserve Fund	618,777	604,468
Bond funds:		
Principal and Interest Retirement Fund, Bonds	76,181	75,436
Operation and Maintenance Expense Reserve Fund	1,111,190	1,109,343
Principal and Interest Retirement Fund, Loans	320,225	314,598
Total Restricted Cash and Cash Equivalents	\$ 2,252,756	\$ 2,230,164

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

#### **EMERGENCY RESERVE AND REPLACEMENT RESERVE FUND**

The Authority is setting aside excess cash in an Emergency Reserve Fund and in a Replacement Reserve Fund. Under its bond covenants, the Authority is required to make \$14,000 annual deposits to the Replacement Reserve Fund. A \$14,000 deposit was made to the fund in January 2016.

#### **PRINCIPAL AND INTEREST RETIREMENT FUND, BONDS**

This trustee fund was established for the payment of principal and interest on the revenue bonds.

Any money remaining in the fund at year end shall be retained in the fund and additional monies shall be deposited in an amount necessary to accumulate and to provide for the next maturing installment of interest and principal on the Series 2013 Bonds.

#### **OPERATION AND MAINTENANCE EXPENSE RESERVE FUND**

This trustee fund was established to satisfy the requirements of the revenue bond resolution. Amounts in this fund shall be available as a reserve to meet unanticipated operation and maintenance expenses or to meet any deficiencies in the Principal and Interest Retirement Fund or the Bond Reserve Fund.

#### **PRINCIPAL AND INTEREST RETIREMENT FUND, LOANS**

This fund was established for the payment of the principal and interest on the loans with the Colorado Water Resources and Power Development Authority ("CWRPDA").

#### **NOTE 5 - PREPAID EXPENSES**

Summary of prepaid expenses as of December 31:

	2016	2015
Prepaid conveyance-principal	\$ 4,343,536	\$ 4,203,830
Prepaid conveyance-interest	1,009,215	1,148,921
Prepaid insurance	40,014	48,263
Prepaid interest	13,454	14,169
	<u>\$ 5,406,219</u>	<u>\$ 5,415,183</u>

Prepaid conveyance represents a payment on the capital lease obligation which is paid in December of the year prior to the year the payment is due.

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

#### NOTE 6 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 65,147	\$ -	\$ -	\$ 65,147
Construction work in progress	132,188	664,869	(620,971)	176,086
<b>Total Non-Depreciable Capital Assets</b>	<b>197,335</b>	<b>664,869</b>	<b>(620,971)</b>	<b>241,233</b>
<b>Depreciable Capital Assets</b>				
Fountain Valley Conduit	72,618,546	-	-	72,618,546
Water treatment plant	13,698,793	-	-	13,698,793
Vehicles	291,968	-	-	291,968
Office furniture and equipment	218,291	-	-	218,291
Other assets and equipment	4,076,114	648,149	-	4,724,263
<b>Total Depreciable Capital Assets</b>	<b>90,903,712</b>	<b>648,149</b>	<b>-</b>	<b>91,551,861</b>
Accumulated depreciation	(41,985,472)	(1,167,135)	-	(43,152,607)
<b>Total Plant in Service (net of accumulated depreciation)</b>	<b>48,918,240</b>	<b>(518,986)</b>	<b>-</b>	<b>48,399,254</b>
<b>Total Capital Assets (net of accumulated depreciation)</b>	<b>\$ 49,115,575</b>	<b>\$ 145,883</b>	<b>\$ (620,971)</b>	<b>\$ 48,640,487</b>

**FOUNTAIN VALLEY AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended December 31, 2016 and 2015

Capital assets activity for the year ended December 31, 2015:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
<b>Non-Depreciable Capital Assets</b>				
Land	\$ 65,147	\$ -	\$ -	\$ 65,147
Construction work in progress	1,621,589	17,342	(1,506,743)	132,188
<b>Total Non-Depreciable Capital Assets</b>	<u>1,686,736</u>	<u>17,342</u>	<u>(1,506,743)</u>	<u>197,335</u>
<b>Depreciable Capital Assets</b>				
Fountain Valley Conduit	71,232,066	1,386,480	-	72,618,546
Water treatment plant	12,950,373	789,222	(40,802)	13,698,793
Vehicles	291,968	-	-	291,968
Office furniture and equipment	218,291	-	-	218,291
Other assets and equipment	4,076,114	-	-	4,076,114
<b>Total Depreciable Capital Assets</b>	<u>88,768,812</u>	<u>2,175,702</u>	<u>(40,802)</u>	<u>90,903,712</u>
Accumulated depreciation	<u>(40,866,163)</u>	<u>(1,160,111)</u>	40,802	<u>(41,985,472)</u>
<b>Total Plant in Service (net of accumulated depreciation)</b>	<u>47,902,649</u>	<u>1,015,591</u>	-	<u>48,918,240</u>
<b>Total Capital Assets (net of accumulated depreciation)</b>	<u>\$ 49,589,385</u>	<u>\$ 1,032,933</u>	<u>\$ (1,506,743)</u>	<u>\$ 49,115,575</u>

**NOTE 7 - TOTAL LONG-TERM DEBT**

**REVENUE BONDS**

On August 22, 2013, the Authority issued \$5,255,000 of refunding revenue bonds to advance refund the Authority's outstanding Water Treatment Refunding Revenue Bonds, Series 2006. The Series 2013 Bond issue payments are due semi-annually from December 1, 2013 through December 1, 2019, with interest rates varying from 2.0% to 3.0%.

Summary of scheduled maturities for revenue bonds as of December 31, 2016:

December 31,	Principal Maturities	Interest
2017	\$ 835,000	\$ 68,600
2018	850,000	51,900
2019	880,000	26,400
Total	<u>\$ 2,565,000</u>	<u>\$ 146,900</u>

The Series 2013 Bond issue is to be repaid from and secured by a pledge of all net revenues (revenues after deducting operation and maintenance expenses, but excluding both revenues and expenses pursuant to the Conveyance Service Contract and Conveyance Service Subcontract). Bond principal and interest repayment and various reserve funds are being maintained pursuant to the bond indentures.

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

#### **LOANS PAYABLE**

On April 15, 2000, the Authority entered into a loan agreement with the CWRPDA in the amount of \$7,607,966 at an interest rate of 4.40%. This loan is payable semi-annually with the final payment due August 1, 2020. The proceeds of the loan were used to pay for the relocation and replacement of a portion of the Conduit.

On June 1, 2003, the Authority entered into a loan agreement with the CWRPDA in the amount of \$3,221,862 at an interest rate of 3.03%. This loan is payable semi-annually with the final payment due August 1, 2024. These funds were used to replace the motor controls at the Authority's pump stations.

These loans are to be repaid from and secured by a pledge of all net revenues (revenues after deducting operation and maintenance expenses, but excluding both revenues and expenses pursuant to the Conveyance Service Contract and Conveyance Service Subcontract).

Summary of combined scheduled maturities for the two loans as of December 31, 2016:

<u>December 31,</u>	<u>Principal Maturities</u>	<u>Interest</u>
2017	\$ 606,353	\$ 156,210
2018	617,315	139,540
2019	655,806	105,296
2020	694,174	59,704
2021	168,097	35,963
2022-2024	554,721	37,932
Total	<u>\$ 3,296,466</u>	<u>\$ 534,645</u>

#### **CAPITAL LEASE PAYABLE**

As part of the Fry-Ark Project, the Bureau agreed to construct the Conduit for the purpose of transporting raw water to the customers from the Pueblo Dam and Reservoir approximately 25 miles north to the site of the water treatment plant. From the water treatment plant the Bureau constructed an additional 13 miles of mainline and 10 miles of laterals to deliver treated water to the customers. Title to the Conduit is in the name of the United States and remains there until otherwise provided by Congress.

The customers agreed to repay the Bureau the reimbursable costs of constructing the Conduit over time, based on each customer's allocated share of the total conveyance capacity of the Conduit, through payment of a conveyance service charge. In the Conveyance Service Contract, the District agreed to charge the conveyance service charge to each customer, based on the conveyance service allocated to each customer (which equates to the customer's participation in the water treatment plant). In addition, in the Conveyance Service Subcontract, the customers agreed to pay a per-acre-foot conveyance service rate to convey non-Fry-Ark water through the Conduit, and to pay a water service charge for Fry-Ark water delivered to them by the District. Charges by the District to the customers are billed through the Authority; the District pays the monies it receives to the Bureau. The total minimum lease payment is due from customers in the year before payment is made to the District and is recorded as unearned revenue.

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

The Authority is required to reimburse actual construction costs of \$64,802,810 with interest over 40 years. The amount of capital lease payments from December 31, 1986 through December 31, 2025, varies annually with interest at 3.046% per annum. The Bureau's payout schedule is periodically credited for miscellaneous revenues derived from Fry-Ark excess capacity or exchange contracts executed after July 1, 2007 pursuant to Section 9115 of P.L. 111-11.

The assets acquired through the capital lease as of December 31:

	2016	2015
Asset:		
Fountain Valley Conduit		
Original Plant	\$ 64,802,810	\$ 64,802,810
Pipeline replacement	7,815,736	7,815,736
Less: Accumulated depreciation	(27,428,055)	(26,485,799)
Total	\$ 45,190,491	\$ 46,132,747

Summary of the current conveyance service charges:

Customer	Conveyance Service Rate per Acre-Foot
City of Colorado Springs	\$ 305.97
City of Fountain	185.60
Security Water District	168.90
Stratmoor Hills Water District	153.84
Widefield Water and Sanitation District	146.31

Summary of a schedule, by years, of future minimum lease payments under this capital lease, together with the present value of the net minimum lease payments, as of December 31, 2016:

December 31,	Amount
2017	\$ 5,352,752
2018	5,352,752
2019	5,352,752
2020	5,352,752
2021	5,352,752
2022-2024	10,521,192
Total Minimum Lease Payments	37,284,952
Less Amount Representing Interest	(4,152,491)
Present Value of Minimum Lease Payments	\$ 33,132,461

**FOUNTAIN VALLEY AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

**CHANGES IN LONG-TERM LIABILITIES**

Summary of changes in long-term liabilities as of December 31, 2016:

	Balance January 1, 2016	Additions	Reductions	Balance December 31, 2016	Due Within One Year
Revenue bonds	\$ 3,385,000	\$ -	\$ 820,000	\$ 2,565,000	\$ 835,000
Unamortized premium	133,142	-	33,994	99,148	-
	<u>3,518,142</u>	<u>-</u>	<u>853,994</u>	<u>2,664,148</u>	<u>835,000</u>
Loans payable	3,880,772	-	584,306	3,296,466	606,353
Capital leases payable	<u>37,719,024</u>	<u>-</u>	<u>4,586,563</u>	<u>33,132,461</u>	<u>4,343,537</u>
Total	<u>\$ 45,117,938</u>	<u>\$ -</u>	<u>\$ 6,024,863</u>	<u>\$ 39,093,075</u>	<u>\$ 5,784,890</u>

**NOTE 8 - NET POSITION**

Net position represents the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources as of the end of each fiscal year.

	2016	2015
Net Investment in Capital Assets:		
Net capital assets	\$ 48,640,487	\$ 49,115,575
Loss on debt refunding	197,525	265,248
Less:		
Revenue bonds payable	(2,664,148)	(3,518,142)
Loans payable	(3,296,466)	(3,880,772)
Capital leases payable	<u>(33,132,461)</u>	<u>(37,719,024)</u>
	<u>9,744,937</u>	<u>4,262,885</u>
Restricted:		
Restricted for emergencies	126,383	126,319
Restricted for replacements	618,776	604,468
Principal and interest retirement fund, loans	320,226	314,598
Debt service		
Principal and interest retirement fund	76,181	75,436
Operation and maintenance expense reserve fund	<u>1,111,190</u>	<u>1,109,343</u>
	<u>2,252,756</u>	<u>2,230,164</u>
Unrestricted:	<u>1,705,124</u>	<u>1,646,334</u>
Total Net Position	<u>\$ 13,702,817</u>	<u>\$ 8,139,383</u>

## FOUNTAIN VALLEY AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

Summary of the change in amounts invested in capital assets:

	2016	2015
Balance, beginning	\$ 4,262,885	\$ (992,337)
Change in capital assets	(475,089)	(473,810)
Change in related debt	5,957,141	5,729,032
Balance, ending	<u>\$ 9,744,937</u>	<u>\$ 4,262,885</u>

#### NOTE 9 - COMMITMENTS

##### **WATER TREATMENT CONTRACT**

The Authority treats the water delivered to the water treatment plant on behalf of the customers and charges its customers for water treatment under the terms of the Water Treatment Contract. The Authority is required to provide, and the customers are required to pay for the rights to water treatment.

**Purchase and Sale of Water Treatment and Treated Water** - The Authority agrees to treat and cause delivery of water to each customer. Each customer agrees to take all actions necessary under the Conveyance Service Contract and Conveyance Service Subcontract to cause delivery to the water treatment plant of all water to be conveyed through the Conduit. The Authority also agrees to treat additional raw water received through the Conduit on behalf of each customer.

**Rates** - Each customer agrees to pay to the Authority a water treatment availability charge, proportionate to its participation, for the right to receive water treatment. The water treatment availability charge is a "take or pay" charge, payable whether or not a customer requests and receives any treated water. The water treatment availability charge is set at a rate sufficient to 1) provide net revenues in each fiscal year which will equal 120% of such fiscal year's principal installments and interest on the outstanding bonds, taking into account as net revenues amounts on deposit in the Operation and Maintenance Expense Reserve Fund, and 2) pay annual plant costs (other than variable costs, comprising costs of chemicals and electricity directly related to water treatment). Variable costs are charged monthly to each customer receiving treated water based on each customer's proportion of treated and delivered water.

The water treatment availability charge and variable costs are billed to each customer on a monthly basis. These charges are in addition to the Conveyance Service Rates set forth in Note 7 - Total Long-Term Debt, Capital Lease Payable. These billings, together with the Operation and Maintenance Expense Reserve Fund of \$1,111,190, were in excess of the above requirement in both years 2016 and 2015.

Each customer covenants that it will establish, maintain and collect reasonable rates and charges for water service of its water system or combined utility system, which, together with other legally available funds of that customer, will enable it to pay all of its obligations to the Authority under the Water Treatment Contract and the Conveyance Service Subcontract. Customers are not subject to the jurisdiction of the Public Utilities Commission of the State of Colorado concerning rates, water quality, metering and other matters.

**Limited Obligations** - The obligations of each customer under the Water Treatment Contract are not general obligations of each customer and are not secured by a pledge of tax revenues, but are payable and enforceable solely and only from the revenues derived from the operation of the water system or combined utility of such customer.

## **FOUNTAIN VALLEY AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

As of and for the Years Ended December 31, 2016 and 2015

#### **NOTE 10 - CONTINGENCIES AND CLAIMS**

##### ***RISK MANAGEMENT***

Risk management oversight in evaluating the insurable risk of loss to protect the Authority's assets is provided by Utilities. Tort claims against the Authority and its officers are subject to the terms, conditions and limitations of the Colorado Governmental Immunity Act, Colorado Revised Statutes ("C.R.S.") 24-10-101 et seq., which generally limit such claims to the greater of \$350,000 per person and \$990,000 per occurrence. In addition, the Authority purchases insurance for public officials' liability, general, automobile, excess liability and physical damage coverage for buildings, contents, equipment and automobiles with varying deductibles and limits. The pipeline is self-insured. Settled claims have not exceeded insurance coverage during any of the last three fiscal years.

##### ***AMENDMENT TO COLORADO CONSTITUTION***

Colorado voters passed an amendment to the State Constitution, Article X, Section 20 ("Amendment"), which has several limitations, including raising revenue, spending abilities and other specific requirements of state and local governments. Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10.0% of their annual revenue in grants from all state and local governments combined, are excluded from the provisions of the Amendment. The Authority is of the opinion that it qualifies for this exclusion. The Amendment is complex and subject to judicial interpretation. The Authority believes it is in compliance with the requirements of the Amendment. However, the Authority has made certain interpretations of the Amendment's language in order to determine its compliance.

The Authority is a political subdivision of the State of Colorado separate from each member governments. As such, the Authority believes it is not subject to any limitations regarding raising revenue or spending abilities that are set forth in the Charter of the City.

##### ***LEGAL MATTERS***

The Authority is a political subdivision of the State of Colorado separate from each member governments. Tort claims against the Authority are subject to the terms, conditions and limitations provided by the Colorado Governmental Immunity Act, C.R.S. 24-10-101 et seq. No litigation was pending against the Authority as of December 31, 2016, and the Authority is not aware of any threatened claims or litigation that could be filed against the Authority.