

**RIO GRANDE WATER CONSERVATION
FINANCIAL STATEMENTS**

December 31, 2017

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Office of the State Auditor

August 16, 2018



**Wall,
Smith,
Bateman** Inc.

Certified Public Accountants

RIO GRANDE WATER CONSERVATION DISTRICT
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INDEPENDENT AUDITOR'S REPORT



Wall,
Smith,
Bateman Inc.

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Rio Grande Water Conservation District (the District) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Rio Grande Water Conservation District, as of December 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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Other Matters

Required Supplementary Information

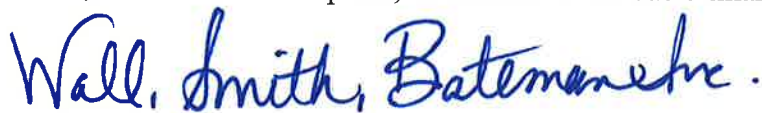
Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

Other Information

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

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



Wall, Smith, Bateman Inc.
Alamosa, Colorado

August 14, 2018

RIO GRANDE WATER CONSERVATION DISTRICT
BASIC FINANCIAL STATEMENTS

RIO GRANDE WATER CONSERVATION DISTRICT
STATEMENT OF NET POSITION
December 31, 2017

	Primary Government		Totals
	Governmental Activities	Business-Type Activities	
ASSETS			
Current Assets			
Cash	\$ 1,431,292	\$ 6,080,423	\$ 7,511,715
Restricted Assets:			
Cash - Bureau of Reclamation	49,689	-	49,689
Cash - Study Account	1,817,710	-	1,817,710
Property Taxes Receivable	1,207,178	-	1,207,178
Assessments Receivable, Net of Allowance for Uncollectable Accounts	-	4,428,876	4,428,876
Interfund Balances	41,713	(41,713)	-
Due From Other Governments	1,147	-	1,147
Interest Receivable	309	-	309
Prepaid Building Expenses	-	107,900	107,900
Prepaid Other	12,812	-	12,812
Total Current Assets	4,561,850	10,575,486	15,137,336
Capital Assets			
Land and Structures	5,967,541	-	5,967,541
Structures	2,315,890	-	2,315,890
Equipment and Vehicles	99,957	-	99,957
Office Furniture	129,045	-	129,045
Accumulated Depreciation	(439,141)	-	(439,141)
Total Capital Assets	8,073,292	-	8,073,292
TOTAL ASSETS	12,635,142	10,575,486	23,210,628
LIABILITIES			
Current Liabilities			
Accounts Payable	59,663	537,542	597,205
Unearned Revenue - Building Expense Reimbursement	107,900	-	107,900
Unearned Revenue - Bureau of Reclamation	4,796	-	4,796
Accrued Compensated Absences	7,644	-	7,644
Total Current Liabilities	180,003	537,542	717,545
Long-Term Liabilities			
Accrued Compensated Absences	24,917	-	24,917
Total Long-Term Liabilities	24,917	-	24,917
TOTAL LIABILITIES	204,920	537,542	742,462
DEFERRED INFLOWS OF RESOURCES - CURRENT			
Unavailable Revenue- Property Tax	1,207,178	-	1,207,178
NET POSITION			
Net Investment in Capital Assets	8,073,292	-	8,073,292
Restricted:			
Bureau of Reclamation	49,689	-	49,689
Tabor Reserve	32,807	-	32,807
Unrestricted	3,067,256	10,037,944	13,105,200
TOTAL NET POSITION	\$ 11,223,044	\$ 10,037,944	\$ 21,260,988

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

RIO GRANDE WATER CONSERVATION DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
					Primary Government	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 1,359,309	\$ -	\$ -	\$ -	\$ (1,359,309)	\$ -	\$ (1,359,309)
Conservation of Natural Resources	66,236	-	-	-	(66,236)	-	(66,236)
Bureau of Reclamation Contract	205,000	-	201,910	-	(3,090)	-	(3,090)
Total Governmental Activities	1,630,545	-	201,910	-	(1,428,635)	-	(1,428,635)
Business-Type Activities:							
Enterprise Fund	3,160,796	4,544,698	-	-	-	1,383,902	1,383,902
Total Business-Type Activities	3,160,796	4,544,698	-	-	-	1,383,902	1,383,902
Total Primary Government	\$ 4,791,341	\$ 4,544,698	\$ 201,910	\$ -	(1,428,635)	1,383,902	(44,733)
General Revenues:							
Taxes:							
General Property Taxes and SOT Taxes				1,326,860	-	-	1,326,860
District Overhead Reimbursements				5,318	-	-	5,318
Interest				6,933	22,492	-	29,425
Miscellaneous				56,442	-	-	56,442
Total General Revenues				1,395,553	22,492	-	1,418,045
Transfers				3,995,246	(3,995,246)	-	-
Change in Net Position				3,962,164	(2,588,852)	-	1,373,312
Net Position - Beginning				7,260,880	12,626,796	-	19,887,676
Net Position - Ending				\$ 11,223,044	\$ 10,037,944	\$ -	\$ 21,260,988

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

**RIO GRANDE WATER CONSERVATION DISTRICT
GOVERNMENTAL FUND
BALANCE SHEET**

For the Year Ended December 31, 2017

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 1,431,292
Restricted Assets:	
Cash - Bureau of Reclamation	49,689
Cash- Study Account	1,817,710
Property Taxes Receivable	1,207,178
Due From Other Funds	41,713
Due From Other Governments	1,147
Interest Receivable	309
Prepaid	12,812
TOTAL ASSETS	<u>\$ 4,561,850</u>
LIABILITIES	
Accounts Payable	59,663
Unearned Revenue - Building Expense Reimbursement	107,900
Unearned Revenue - Bureau of Reclamation	4,796
TOTAL LIABILITIES	<u>172,359</u>
DEFERRED INFLOWS OF RESOURCES - CURRENT	
Unavailable Revenue- Property Tax	<u>1,207,178</u>
FUND BALANCE	
Nonspendable:	
Prepaid Items	12,812
Restricted:	
Tabor Reserve	32,807
Committed:	
Water Study Account	1,817,710
Assigned:	
Designated for Subsequent Year Expenses	127,567
Unassigned	1,191,417
TOTAL FUND BALANCE	<u>3,182,313</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND FUND BALANCE	<u>\$ 4,561,850</u>

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

RIO GRANDE WATER CONSERVATION DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION
December 31, 2017

Total Governmental Fund Balances	\$ 3,182,313
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,073,292
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(32,561)</u>
Net Position of Governmental Activities	<u><u>\$ 11,223,044</u></u>

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

**RIO GRANDE WATER CONSERVATION DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
For the Year Ended December 31, 2017**

	GENERAL FUND
REVENUES	
Taxes	\$ 1,326,860
Intergovernmental Revenue	
Bureau of Reclamation (BOR)	201,910
Interest Earned on BOR Funds	30
Miscellaneous Revenue	
Interest Revenue	6,903
Other Revenue	61,760
TOTAL REVENUES	1,597,463
EXPENDITURES	
General Government	
Salaries and Fringe	550,195
Travel	18,750
Office Expense	90,385
Professional Services	408,897
Other General Government and Special Projects	228,658
Conservation of Natural Resources	66,236
Bureau of Reclamation Contract	205,000
Capital Outlay	4,003,818
TOTAL EXPENDITURES	5,571,939
Excess (Deficiency) of Revenues Over Expenditures	(3,974,476)
OTHER FINANCING SOURCES (USES)	
Transfer from Special Improvement Districts	3,995,246
Excess (Deficiency) of Revenues Over Expenditures	20,770
Fund Balance at Beginning of Year	3,161,543
Fund Balance at End of Year	\$ 3,182,313

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

**RIO GRANDE WATER CONSERVATION DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017**

Net change in fund balances - total governmental funds \$ 20,770

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

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

Fixed asset additions	4,000,000	
Depreciation expense	(60,712)	
	<u>3,939,288</u>	3,939,288

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

Change in compensated absences		<u>2,106</u>
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Change in net position of governmental funds		<u><u>\$ 3,962,164</u></u>
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RIO GRANDE WATER CONSERVATION DISTRICT
ENTERPRISE FUNDS
STATEMENT OF NET POSITION
December 31, 2017

	SPECIAL IMPROVEMENT DISTRICT #1 FUND
ASSETS	
Current Assets	
Cash	\$ 6,080,423
Assessments Receivable, Net of Allowance for Uncollectable Accounts	4,428,876
Prepaid Building Expenses	107,900
TOTAL ASSETS	\$ 10,617,199
 LIABILITIES AND FUND EQUITY	
 LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 537,542
Due to Rio Grande Water Conservation District	41,713
TOTAL LIABILITIES	579,255
 NET POSITION	
Unrestricted	10,037,944
 TOTAL NET POSITION	 10,037,944
 TOTAL LIABILITIES AND NET POSITION	 \$ 10,617,199

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

RIO GRANDE WATER CONSERVATION DISTRICT
ENTERPRISE FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended December 31, 2017

	SPECIAL IMPROVEMENT DISTRICT #1 FUND
OPERATING REVENUE	
Variable Fees	\$ 4,022,800
Administration Fees	268,661
CREP Fees	252,737
Contract Inclusion Fees	500
Total operating revenue	4,544,698
OPERATING EXPENSES	
Water Management Expenses	
Water Lease and Storage Expense	1,703,118
CREP	222,480
CREP - Incentive Fees	792,931
Administration	315,205
Professional Fees	127,062
Total operating expenses	3,160,796
Operating income (loss)	1,383,902
NONOPERATING REVENUE	
Interest Revenue	22,492
Income Before Operating Transfers	1,406,394
OPERATING TRANSFERS	
Transfer Out	(3,995,246)
Change in Net Position	(2,588,852)
Net Position at Beginning of Year	12,626,796
Net Position at End of Year	\$ 10,037,944

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

RIO GRANDE WATER CONSERVATION DISTRICT
ENTERPRISE FUND
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

	2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Administration, CREP, and Variable Fees	\$ 5,453,130
Cash Received from Miscellaneous Activities	500
Cash Payments for Water Management Expenses	(3,582,534)
Cash Payments for Professional Services	(177,430)
Cash Payments for Administration	(289,679)
	<u>1,403,987</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,403,987</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	
Reimbursement to General Fund for Property Purchase	(3,995,246)
	<u>(3,995,246)</u>
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(3,995,246)</u>
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	<u>-</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	
Interest income	22,492
	<u>22,492</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>22,492</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,568,767)
Cash and Cash Equivalents, Beginning of Year	<u>8,649,190</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,080,423</u>
OPERATING INCOME (LOSS)	<u>\$ 1,383,902</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Change in assets and Liabilities	
(Increase) Decrease in Accounts Receivable	908,932
(Increase) Decrease in Prepaid Building Expenses	(107,900)
(Increase) Decrease in Due From Other Governments	-
Increase (Decrease) in Accounts Payable related to Operating Activities	(743,231)
Increase (Decrease) in Due to RGWCD	(37,716)
	<u>(37,716)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 1,403,987</u>

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

REPORTING ENTITY

Primary Government

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

In October 2006, Subdistrict #1 was approved by the board and District Court, Water Division No. 3, State of Colorado. In 2010 the Court approved the Plan of Water Management of which the objective is to cause groundwater levels in the Unconfined Aquifer of the Closed Basin to recover, and then to maintain a sustainable irrigation water supply in the Unconfined Aquifer with due regard for the daily, seasonal, and longer term demands on the aquifer and to protect senior surface water rights and avoid interference with Colorado's obligations under the Rio Grande Compact. To achieve these goals, reducing and managing overall groundwater consumption is essential. Only the administrative fee can be used for reimbursement of formation costs. As the Subdistricts are formed and administrative fees are collected the District will formulate a plan to reimburse the General Fund. During 2016 and 2017, Subdistrict #2 and Subdistrict's 3 through 5 were formed respectively; however, the plan of water management has not yet been approved for Subdistrict's 2 through 5. During 2017, the general fund expended \$53,992 which will be reimbursed by Subdistrict 2 through administrative fees collected in the future. There is currently one additional Subdistrict being formed. Subdistricts are not independent entities, they are subdistricts of Rio Grande Water Conservation District, and the District is responsible for the operation of the Subdistricts.

Component Units

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

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

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the District. Mainly taxes and intergovernmental revenues support governmental activities and fees paid by water users support business type activities.

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

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

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

The District reports the following major governmental fund:

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

The District reports the following major enterprise fund:

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

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

Proprietary fund financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The District's only proprietary fund is the Special Improvement District #1 (Subdistrict), used to account for the

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

activities of the Subdistrict. Sources of revenue consist of administration fees, Conservation Reserve Enhancement Program (CREP) fees, and variable fees assessed on landowners within the Subdistrict.

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

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

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

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

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

Cash

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

Restricted Cash

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

Receivables/Payables To/From Other Funds

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

Prepaid Items

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

Capital Assets

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

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

<u>Assets</u>	<u>Years</u>
Structures	30-50
Equipment & Vehicles	5-10

Compensated Absences

Employees of the District are entitled to paid vacation depending on the length of service and other factors. The employees are also entitled to sick leave. Sick leave will vest according to a formula based on the sick leave hours that have been accumulated and the terms of termination. Accrued vacation and the vested portion of sick leave have been accrued in the amount of \$32,560 at December 31, 2017.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 each year. The taxes are payable in two installments on February 28 and June 15 or in full on April 30. The District's property taxes are collected by each of the five counties that comprise the District: Alamosa, Conejos, Mineral, Rio Grande, and Saguache. The respective county treasurers remit monthly receipts to the District; property tax revenue is recognized when received by the County Treasurer. The 2017 property tax levy due January 1, 2018, has been recorded as a receivable and a corresponding deferred inflow of resources in the financial statements.

Assessments – Special Improvement District #1

Assessments attach as an enforceable lien on property as of January 1 each year. The assessments are payable in two installments on February 28 and June 15 or in full on April 30. Only lands irrigated by groundwater and the pumping and use of groundwater on Subdistrict lands will be subject to assessment. There are three fees the Subdistrict #1 can assess; Administrative Fee, Conservation Reserve Enhancement Program (CREP) Fee, and the Variable Fee. Subdistrict #1 assessed a \$1.50 per irrigable acre Administrative Fee and a \$1.50 per irrigable acre CREP Fee. The Variable Fee is a calculation based on the surface water owned and groundwater pumped during 2017. Any excess groundwater from that calculation is charged \$75 per acre foot which is to generate sufficient funds to retire existing sources of groundwater consumption necessary to cause the groundwater system to recover to a historical sustainable level. The aforementioned fees are based on several variables and are subject to an appeals process by the landowner. The appeal can cause an adjustment to revenue.

Expenditures – Plan of Water Management

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

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

Deferred Inflows

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

Encumbrances

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

Net Position

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

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

Fund Balance

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

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

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

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

Use of Estimates

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

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

Formal budgetary integration is employed as a management control device for all funds of the District. All fund budgets are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). The total expenditures for each fund cannot exceed the budgeted amount unless a supplemental appropriation is adopted. The District adopted supplemental appropriations during 2017. All budget amounts presented reflect the original budget and the final amended budget if applicable.

NOTE 3 CASH AND DEPOSITS

Cash and Deposits

Colorado State Statutes govern the District's deposits of cash. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance (FDIC) on deposits held. The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories, determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized in accordance with the PDPA. PDPA allows the institution to create a single collateral pool for all public funds to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. All deposits in 2017 were in eligible public depositories, as defined by the Public Deposit Protection Act of 1989.

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of December 31, 2017, \$8,621,248 was exposed to custodial credit risk. Deposits exposed to credit risk are collateralized with securities held by the pledging financial institutions through PDPA.

NOTE 4 STUDY ACCOUNT

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

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

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

At December 31, 2017, the remaining balances of the award are as follows:

Cash in Bank	\$	163,683
Certificate of Deposit		<u>1,654,027</u>
	\$	<u><u>1,817,710</u></u>

During the year total interest earned on the account was \$3,496. There was one disbursement in the amount of \$8,926 for the year ended December 31, 2017.

NOTE 5 ASSESSMENTS RECEIVABLE, NET

Subdistrict #1 assessed fees upon approximately 165,506 irrigable acres within its boundaries in Alamosa, Rio Grande, Saguache Counties, and on the Colorado State Land Board on November 30, 2017. The Subdistrict is still refining the assessment computation and has estimated an uncollectible amount of \$0. Assessments receivable consist of the following fees:

Variable Fees	\$	3,928,270
Administrative Fees		250,303
CREP Fees		<u>250,303</u>
		<u><u>\$4,428,876</u></u>

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Receivables/Payables

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

Interfund receivable and payable balances at December 31, 2017 were as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Special Improvement District #1	\$ 41,713
		\$ 41,713

NOTE 7 CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017, was as follows:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017
GOVERNMENTAL ACTIVITIES				
Land	\$ 1,967,541	\$ 4,000,000	\$ -	\$ 5,967,541
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	1,967,541	4,000,000	-	5,967,541
Capital assets being depreciated				
Structures	2,315,890	-	-	2,315,890
Equipment and Vehicles	99,957	-	-	99,957
Office Furniture	129,045	-	-	129,045
Total capital assets being depreciated	2,544,892	-	-	2,544,892
Less accumulated depreciation for:				
Structures	256,396	42,030	-	298,426
Equipment and Vehicles	76,508	5,656	-	82,164
Office Furniture	45,523	13,028	-	58,551
Total accumulated depreciation	378,427	60,714	-	439,141
Total capital assets being depreciated, net	2,166,465	(60,714)	-	2,105,751
GOVERNMENTAL ACTIVITIES				
CAPITAL ASSETS, NET	\$ 4,134,006	\$ 3,939,286	\$ -	\$ 8,073,292

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

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

Governmental activities:	
General Government	\$ 60,714
Total depreciation expense – governmental activities	\$ 60,714

NOTE 8 LONG-TERM DEBT

Changes in Long-Term Debt

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Compensated Absences	\$ 34,667	\$ -	\$ 2,106	\$ 32,561	\$ 7,644
GOVERNMENTAL ACTIVITIES LONG-TERM DEBT	\$ 34,667	\$ -	\$ 2,106	\$ 32,561	\$ 7,644

NOTE 9 COOPERATIVE AGREEMENT WITH BUREAU OF RECLAMATION

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

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

Bureau of Reclamation Agreement Revenues as of December 31, 2017, are as follows:

(Receivable)/Unearned Revenue, beginning of year	\$ 42,087
Reimbursement and Advances	164,619
Interest Revenue	30
Earned Revenue	(201,940)
(Receivable)/Unearned Revenue, end of year	\$ 4,796

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

NOTE 10 PENSION

Defined Contribution Plan

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

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

The District contributed the required 6% of the compensation of each employee for 2017. Employees are not allowed to make contributions to the plan. For the year ended December 31, 2017, the District's contributions were calculated using the base salary amount of \$604,889 and the District and Special Improvement District #1 have recorded expenditures amounting to \$35,757 of which \$22,575 is recorded in the District, \$6,223 is recorded in the Special Improvement District #1, and the balance to the Bureau of Reclamation Contract.

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

Section 457 Plan Defined Contribution Plan

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

The plan permits the employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergencies. The District has no other liability other than to make the required monthly contributions.

NOTE 11 TABOR EMERGENCY RESERVE

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

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

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

RIO GRANDE WATER CONSERVATION DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
December 31, 2017

NOTE 12 RISK MANAGEMENT

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

RIO GRANDE WATER CONSERVATION DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

RIO GRANDE WATER CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended December 31, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
				POSITIVE
				(NEGATIVE)
REVENUES				
Taxes	\$ 1,319,850	1,319,850	\$ 1,326,860	\$ 7,010
Intergovernmental Revenue				
Bureau of Reclamation (BOR)	220,475	220,475	201,910	(18,565)
Interest Earned on BOR Funds	-	-	30	30
Miscellaneous Revenue				
Interest Revenue	7,530	7,530	6,903	(627)
Other Revenue	166,500	166,500	61,760	(104,740)
TOTAL REVENUES	1,714,355	1,714,355	1,597,463	(116,892)
EXPENDITURES				
General Government				
Salaries and Fringe	589,997	589,997	550,195	39,802
Travel	-	-	18,750	(18,750)
Supplies	-	-	90,385	(90,385)
Professional Services	652,700	652,700	408,897	243,803
Other General Government and Special Projects	151,900	151,900	228,658	(76,758)
Conservation of Natural Resources	45,000	4,045,000	4,070,054	(25,054)
Bureau of Reclamation Contract	220,475	220,475	205,000	15,475
TABOR Reserve	45,000	45,000	-	45,000
TOTAL EXPENDITURES	1,705,072	5,705,072	5,571,939	133,133
Excess (Deficiency) of Revenues over Expenditures	9,283	(3,990,717)	(3,974,476)	16,241
OTHER FINANCING SOURCES (USES)				
Transfer to Special Improvement District #2	(53,800)	(53,800)	-	53,800
Transfer from Special Improvement District #1	-	4,000,000	3,995,246	(4,754)
TOTAL OTHER FINANCING SOURCES (USES)	(53,800)	3,946,200	3,995,246	49,046
Excess (Deficiency) of Revenues over Expenditures	(44,517)	(44,517)	20,770	65,287
Fund Balance at Beginning of Year	3,088,693	3,088,693	3,161,543	72,850
Fund Balance at End of Year	\$ 3,044,176	\$ 3,044,176	\$ 3,182,313	\$ 138,137

Notes to Required Supplementary Information

The basis of budgeting is the same as GAAP.

This schedule is measured on the GAAP basis.

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

RIO GRANDE WATER CONSERVATION DISTRICT

SUPPLEMENTARY INFORMATION

RIO GRANDE WATER CONSERVATION DISTRICT
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL
SPECIAL IMPROVEMENT DISTRICT #1
For the Year Ended December 31, 2017

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH
	ORIGINAL	FINAL		FINAL BUDGET
				POSITIVE
				(NEGATIVE)
OPERATING REVENUE				
Variable Fees	\$ 4,783,632	\$ 4,783,632	\$ 4,022,800	\$ (760,832)
Administration Fees	292,270	292,270	268,661	(23,609)
CREP Fees	335,777	335,777	252,737	(83,040)
Inclusion Contract Fees	-	-	500	500
Total operating revenue	5,411,679	5,411,679	4,544,698	(866,981)
OPERATING EXPENSES				
Water Management Expenses				
Water Lease	11,906,636	7,906,636	1,703,118	6,203,518
CREP	-	-	222,480	(222,480)
CREP - Incentive Fees	-	-	792,931	(792,931)
Administration	441,596	441,596	315,205	126,391
Professional Fees	201,500	201,500	127,062	74,438
Total operating expenses	12,549,732	8,549,732	3,160,796	5,388,936
Operating income (loss)	(7,138,053)	(3,138,053)	1,383,902	4,521,955
NONOPERATING REVENUE				
Interest Revenue	-	-	22,492	22,492
Total nonoperating revenues	-	-	22,492	22,492
OPERATING TRANSFERS				
Transfer to General Fund	-	(4,000,000)	(3,995,246)	4,754
Change in Net Position - Budget Basis	(7,138,053)	(7,138,053)	(2,588,852)	4,549,201
Net Position at Beginning of Year	7,454,298	7,454,298	12,626,796	5,172,498
Net Position at End of Year	\$ 316,245	\$ 316,245	\$ 10,037,944	\$ 9,721,699

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