

**UPPER YAMPA WATER
CONSERVANCY DISTRICT**

Financial Statements

December 31, 2017

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June 14, 2018

UPPER YAMPA WATER CONSERVANCY DISTRICT

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Upper Yampa Water Conservancy District (the District), as of and for the year ended December 31, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Yampa Water Conservancy District as of December 31, 2017, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Financial Information

We have previously audited the District's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 26, 2017. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information consisting of the Enterprise Fund schedule of revenues, expenditures and changes in fund balance – budget and actual on page 16 is presented for purpose of additional analysis and is not a required part of the basic financial statements.

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

Catterson + Company, P.C.

Steamboat Springs, Colorado
May 21, 2018

UPPER YAMPA WATER CONSERVANCY DISTRICT
Management's Discussion and Analysis
December 31, 2017

The intent of management's discussion and analysis is to provide an overview and highlights of the financial and other activities of the Upper Yampa Water Conservancy District (the District) for the year ended December 31, 2017. Board members and readers are encouraged to read this section in conjunction with the accompanying audited financial statements. In addition to the accompanying audit it provides a report by the Manager of the activities of the District in 2017.

Overview of the District's Operations and Economic Factors

The District, formed in 1966, provides the legal authority to plan and construct water conservation projects in the Yampa River basin. The District's combined assets represent the largest single source of stored water available for the users in the Yampa Basin. The Yampa Basin is largely recognized as the river with the least amount of stored water, by percent of total flow, of all major river basins in the Colorado River system. The District includes most of Routt County and a small portion of Moffat County. It is governed by a Board of nine directors appointed by the Court.

Yamcolo (9,000 AF) and Stagecoach Reservoirs represent two major water conservation projects originally constructed and operated by the District. The Five Pines Mesa Ditch is another District facility and is used to deliver water contracted from the District's Yamcolo Reservoir and water from other decreed water sources.

The District's budget is structured into functions (Departments). It now appropriately estimates direct costs, for example the time that staff spends on each individual reservoir and ditch, and further separates water and power expenses at Stagecoach Reservoir. Knowledge of the income and expenses of the individual components will be important as contract extensions and possible renewals are considered by the Board. The audit is presented in this format to facilitate Board discussion.

In addition to the facilities described above, the District has contracted for 360 AF of water from Steamboat Lake to enable a plan for augmentation with water contracts for out of priority depletions in the Elk River Valley. Contracting for this water will likely occur in 2018 with a final decree entered for the Elk River augmentation plan.

A relatively dry hydrology continued in the 2017 water year with led to water contracting by the Colorado Water Trust for 1200 AF and decreased power production at the John Fetcher power house at Stagecoach Dam.

Revenue

Property tax revenues from a 1.82 mill levy on the taxable property of the District, generated \$2,102,602, net of \$70,180 of Treasurer Collection Fees.

Overall water sales were \$579,979, above the \$504,285 budgeted. Increased water sale revenues included a 2017 contract with Colorado Water Trust, the Yamcolo Irrigators Association contract which price was renegotiated to better reflect actual costs for Yamcolo reservoir.

Power generation produced a total revenue of \$185,472 for the year, below the \$228,412 budgeted. Power generation is a direct reflection of the strength of runoff in the Yampa River into Stagecoach. Flows continued to be below the long-term average in 2017.

Other revenues included those generated by the Stillwater Ditch and Reservoirs Company \$7,522, and interest income of \$122,297.

Expenditures

The District filed its “water rights master plan” diligence case (16CW3016). This diligence case requiring a water rights master plan and supporting engineering report were filed in May of 2017. Most of the \$55,700 expenditures in Water Resources Engineering expense has been for this purpose. Some financial resources have gone towards legal planning for this effort as well, and will continue in the coming year, depending upon opposition in the diligence cases.

Operation and Maintenance expenditures, and capital improvements for Stagecoach, Yamcolo, and the Five Pines Mesa Ditch continue to bring the facilities up to current operational standards. Total Operating Expenditures, for all of the District’s Facilities and Operations, and excluding tax collection fees, were \$1,136,319.

Overview of the Financial Statements

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

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

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

- The statement of cash flows represents the information on the change in the District's cash balances during the year segregated into operating, investing and financing categories.

The assets of the District exceeded its liabilities at December 31, 2017 by \$38,630,354. Of this amount, \$25,941,938 is invested in capital assets, net of related debt, \$419,734 is restricted and \$12,268,682 is unrestricted and available for future debt payments and capital improvements.

Statement of Net Assets

	2017	2016
<u>Assets:</u>		
Current assets	12,782,879	10,978,539
Capital assets, net	25,941,938	25,932,830
Other assets		
Total assets	<u>38,724,817</u>	<u>36,911,369</u>
<u>Liabilities:</u>		
Current liabilities	94,463	35,278
Non-current liabilities		
Total liabilities	<u>94,463</u>	<u>35,278</u>
<u>Deferred inflows of resources</u>		
<u>Net assets:</u>		
Invested in capital, net of related debt	25,941,938	25,932,830
Restricted	419,734	419,734
Unrestricted	12,268,672	10,523,527
Total net assets	<u>38,630,354</u>	<u>36,876,091</u>

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

	2017	2016
Operating revenues	772,789	812,824
Expenses:		
Operating	561,242	468,043
Administrative	575,077	766,769
Depreciation	106,807	95,992
Total Operating Expenses	<u>1,243,126</u>	<u>1,330,804</u>
Income from operations	(470,337)	(517,980)
Non-operating income, net	<u>2,224,600</u>	<u>2,183,329</u>
Change in net position	1,754,263	1,665,349

Budgetary Comparison

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

- Yamcolo capital expenditures were lower than budgeted; largely due to adjustments to the timeline of the Spillway Erosion Repair project, now to be taking place in the year 2018.
- Stagecoach capital expenditures were lower than budgeted; Concrete Repairs were postponed.
- Yamcolo and Stagecoach operating expenses were lower than budgeted.
- All operating and administrative expenses were within budget.

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

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

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

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UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Net Position
December 31, 2017
(with summarized financial information as of December 31, 2016)

	2017	2016
Assets:		
Current assets:		
Cash and cash equivalents	\$ 12,736,047	\$ 10,918,694
Due from other governments	2,478	14,425
Accounts receivable	13,568	4,976
Prepaid expenses	30,786	40,444
Total current assets	12,782,879	10,978,539
Noncurrent assets:		
Capital assets, net of accumulated depreciation	25,941,938	25,932,830
Total noncurrent assets	25,941,938	25,932,830
Total assets	38,724,817	36,911,369
Liabilities:		
Current liabilities:		
Accounts payable	81,262	31,701
Accrued expenses payable	13,201	3,577
Total current liabilities	94,463	35,278
Total liabilities	94,463	35,278
Net Position:		
Net investment in capital assets	25,941,938	25,932,830
Restricted	419,734	419,734
Unrestricted	12,268,682	10,523,527
Total net position	\$ 38,630,354	\$ 36,876,091

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended December 31, 2017
(with summarized financial information for the year December 31, 2016)

	2017	2016
Operating Revenues:		
Water sales	\$ 579,794	\$ 566,531
Power revenues	185,472	231,084
Other income	7,523	15,209
	772,789	812,824
Operating Expenses:		
Facilities:		
Stagecoach reservoir - power generation	180,845	101,278
Stagecoach reservoir - water storage	227,641	243,911
Yamcolo reservoir	127,624	103,500
Stillwater ditch and reservoir	25,134	19,354
Administration	127,512	131,685
Board of directors	49,330	57,575
External affairs	57,688	53,720
Finance	95,906	94,901
Legal	97,116	194,578
Planning	80,112	185,117
Grants, scholarships and public information	67,411	49,193
Depreciation	106,807	95,992
	1,243,126	1,330,804
Total operating expenses	1,243,126	1,330,804
Operating income (loss)	(470,337)	(517,980)
Non-operating Revenues (Expenses):		
Property taxes, net of collection fees	2,102,303	2,119,448
Interest income	122,297	63,881
	2,224,600	2,183,329
Net non-operating revenues	2,224,600	2,183,329
Change in net position	1,754,263	1,665,349
Net position, beginning of year	36,876,091	35,210,742
Net position, end of year	\$ 38,630,354	\$ 36,876,091

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Cash Flows
For the Year Ended December 31, 2017
(with summarized financial information for the year December 31, 2016)

	2017	2016
Cash Flows From Operating Activities:		
Cash received from customers	\$ 756,674	\$ 846,623
Cash received from other sources	7,523	15,209
Cash payments to suppliers of goods or services	(582,316)	(859,878)
Cash payments to employees for services	(485,160)	(435,248)
Net cash provided (used) by operating activities	(303,279)	(433,294)
Cash Flows From Non-Capital Financing Activities:		
Property taxes, net of collection fees	2,114,250	2,107,019
Payment of settlement liability	-	(447,863)
Net cash provided by non-capital financing activities	2,114,250	1,659,156
Cash Flows From Capital Financing Activities:		
Purchase of capital assets	(115,915)	(1,453,471)
Net cash provided (used) by capital financing activities	(115,915)	(1,453,471)
Cash Flows From Investing Activities:		
Interest received	122,297	63,881
Net cash provided by investing activities	122,297	63,881
Net change in cash and cash equivalents	1,817,353	(163,728)
Cash and cash equivalents, beginning of year	10,918,694	11,082,422
Cash and cash equivalents, end of year	\$ 12,736,047	\$ 10,918,694
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by Activities:		
Operating income (loss)	\$ (470,337)	\$ (517,980)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	106,807	95,992
(Increase) decrease in:		
Accounts receivable	(8,592)	49,008
Prepaid expenses	9,658	(10,909)
(Decrease) increase in:		
Accounts payable, net of capital amounts	49,561	(31,877)
Accrued expenses payable	9,624	(17,528)
Net cash provided (used) by operating activities	\$ (303,279)	\$ (433,294)

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of and for the year ended December 31, 2016)

Note 1: Summary of Significant Accounting Policies

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

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

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

Assets, Liabilities, and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District's investment in the Colorado Local Government Liquid Asset Trust (COLOTRUS) PLUS+ fund is measured at net asset value, equal to \$1.00 per share.

Accounts Receivable

Amounts due to the District from water storage and power sales are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible as of December 31, 2017 and 2016. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of and for the year ended December 31, 2016)

Note 1: Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Net Position (continued)

Capital Assets

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

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

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

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

Operating and Non-Operating Revenues and Expenses

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

Property Taxes

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

Use of Estimates

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

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended December 31, 2016 from which the summarized information was derived. Certain prior year amounts have been reclassified to conform to the current year presentation.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of and for the year ended December 31, 2016)

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

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

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

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

The District did not adopt any supplemental budget appropriations for the year ended December 31, 2017.

Compliance

The District had no expenditures in excess of final appropriations for the year ended December 31, 2017.

TABOR Amendment

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

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

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

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

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

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

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

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of and for the year ended December 31, 2016)

Note 3: Detailed Notes on the Fund

Deposits

The carrying amount of the District's deposits as of December 31, 2017 and 2016 was \$2,154,355 and \$2,276,008, respectively and bank balances were \$2,274,360 and \$2,382,620. Of the bank balances, \$1,390,405 and \$1,450,000 as of December 31, 2017 and 2016, respectively, was covered by federal deposit insurance and \$883,955 and \$932,600, respectively, was uninsured but collateralized in accordance with provisions of the Colorado Public Deposit Protection Act (PDPA).

The PDPA requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The collateral pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must equal or exceed 102% of the aggregate uninsured deposits.

Investments

As of December 31, 2017 and 2016, the District had \$10,558,390 and \$8,627,106, respectively, invested in the COLOTRUST PLUS+ fund. COLOTRUST PLUS+ is a short-term money market fund organized in conformity with Part 7 of Article 75 of Title 24, CRS. The portfolio offers Colorado governmental entities a convenient and efficient means to pool their funds to take advantage of short-term investments and maximize net interest earnings. COLOTRUST PLUS+'s investment objective is to obtain as high a level of current income as is consistent with the preservation of capital and liquidity. The investment advisor for COLOTRUST PLUS+ is Public Trust Advisors LLC, (PTA), a Colorado-based investment adviser, registered with the SEC. The portfolio manager is responsible for making all of the investment decisions for the portfolio. Wells Fargo Bank, N.A. is custodian of the portfolio's securities and cash. COLOTRUST PLUS+ portfolio invests in U.S. Treasury securities, federal instrumentality securities, agency securities, repurchase agreements, tri-party repurchase agreements, collateralized bank deposits, the highest rated commercial paper, and highly-rated corporate bonds. The weighted average maturity to reset is kept under 60 days. The COLOTRUST PLUS+ fund holds a 'AAAm' rating by Standard and Poor's.

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

Capital Assets

Capital asset activity for the year ended December 31, 2017 is summarized below:

	December 31, 2016			December 31, 2017
	Balance	Additions	Deletions	Balance
Stagecoach:				
Land, improvements and water rights	\$ 8,749,568	\$ -	\$ -	\$ 8,749,568
Dam structure and equipment	9,956,716	38,883	-	9,995,599
Hydroelectric building and equipment	2,706,627	27,052	-	2,733,679
Park building and improvements	1,273,474	-	-	1,273,474
Yamcolo:				
Dam structure and equipment	6,426,907	21,723	-	6,448,630
Stillwater ditch	537,162	-	-	537,162
Equipment, vehicles and other	130,413	28,257	-	158,670
Total capital assets	29,780,867	115,915	-	29,896,782
Less: accumulated depreciation	(3,848,037)	(106,807)	-	(3,954,844)
Net capital assets	<u>\$ 25,932,830</u>	<u>\$ 9,108</u>	<u>\$ -</u>	<u>\$ 25,941,938</u>

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of and for the year ended December 31, 2016)

Note 3: Detailed Notes on the Fund (continued)

Capital Assets (continued)

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

	December 31, 2015 Balance	Additions	Deletions	December 31, 2016 Balance
Stagecoach:				
Land, improvements and water rights	\$ 7,550,951	\$ 1,198,617	\$ -	\$ 8,749,568
Dam structure and equipment	9,844,044	112,672	-	9,956,716
Hydroelectric building and equipment	2,574,445	132,182	-	2,706,627
Park building and improvements	1,273,474	-	-	1,273,474
Yamcolo:				
Dam structure and equipment	6,426,907	-	-	6,426,907
Stillwater ditch	537,162	-	-	537,162
Equipment, vehicles and other	120,413	10,000	-	130,413
Total capital assets	28,327,396	1,453,471	-	29,780,867
Less: accumulated depreciation	(3,752,045)	(95,992)	-	(3,848,037)
Net capital assets	<u>\$ 24,575,351</u>	<u>\$ 1,357,479</u>	<u>\$ -</u>	<u>\$ 25,932,830</u>

Stillwater Ditch Agreement

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

Restricted Net Position

The United States Army Corps of Engineers (ACOE) issued a permit to the District to raise the height of Stagecoach Reservoir Dam four feet inundating approximately 23.51 acres of jurisdictional wetlands. The permit requires the District to post financial assurances to ensure a high level of confidence that the District will complete the compensatory mitigation required by the permit. The District has appropriated \$419,734 for this purpose as of December 31, 2017. The legislative appropriation will terminate when the compensatory mitigation is completed and accepted by the ACOE.

Note 4: Other Information

Defined Contribution Plan

Certain full-time employees are covered under a 401(a) defined contribution pension plan. Under the terms of the plan, the District contributes at a rate of double the employee's retirement contribution not to exceed 6% of gross pay. Participants become fully vested within 3 years of participation in the plan. The plan can only be amended by the District's board of directors. District contributions to the plan were \$23,806 and \$21,187 for the years ended December 31, 2017 and 2016, respectively.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2017
(with summarized financial information as of and for the year ended December 31, 2016)

Note 4: Other Information (continued)

Commitments

State of Colorado

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

Power Purchase Agreement

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

Reservoir Agreements

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

Contribution to Routt County, Colorado

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

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

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

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

Contingencies

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

Subsequent Events

The District has evaluated subsequent events through May 21, 2018, the date these financial statements were available to be issued.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Schedule of Revenues, Expenditures and Changes in Net Position - Budget and Actual
For the Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance
Revenues:			
Property taxes	\$ 2,186,182	\$ 2,172,483	\$ (13,699)
Water sales	504,285	579,794	75,509
Power revenues	228,412	185,472	(42,940)
Interest	46,500	122,297	75,797
Other income	7,523	7,523	-
Total revenues	<u>2,972,902</u>	<u>3,067,569</u>	<u>94,667</u>
Expenditures:			
Operating:			
Facilities:			
Stagecoach reservoir - power generation	214,977	180,845	34,132
Stagecoach reservoir - water storage	260,403	227,641	32,762
Yamcolo reservoir	137,768	127,624	10,144
Stillwater ditch and reservoir	54,268	25,134	29,134
Administration	188,942	127,512	61,430
Board of directors	72,794	49,330	23,464
External affairs	57,529	57,688	(159)
Finance	99,308	95,906	3,402
Legal	121,987	97,116	24,871
Planning	138,178	80,112	58,066
Grants, scholarships and public information	185,966	67,411	118,555
Treasurer fees	73,991	70,180	3,811
Capital outlay	<u>255,500</u>	<u>115,915</u>	<u>139,585</u>
Total expenditures	<u>1,861,611</u>	<u>1,322,414</u>	<u>539,197</u>
Change in net position - non-US GAAP basis	1,111,291	1,745,155	<u>\$ 633,864</u>
Adjustments to US GAAP basis:			
Capital outlay		115,915	
Depreciation		<u>(106,807)</u>	
Change in net position - US GAAP basis		1,754,263	
Net position, beginning of year	<u>36,876,091</u>	<u>36,876,091</u>	
Net position, end of year	<u>\$ 37,987,382</u>	<u>\$ 38,630,354</u>	