

LA PLATA WEST WATER AUTHORITY
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2017 and 2016

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Office of the State Auditor

June 28, 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 7, 2018

To the Board of Directors
La Plata West Water Authority**Report on the Financial Statements**

We have audited the accompanying statements of net position of La Plata West Water Authority as of December 31, 2017 and 2016, the related statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements for the years then ended.

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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 financial position of La Plata West Water Authority as of December 31, 2017 and 2016, and the changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

June 7, 2018
La Plata West Water Authority
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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audits 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise La Plata West Water Authority's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental schedule 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 supplemental schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

 Beckstead & Co., LLC

LA PLATA WEST WATER AUTHORITY

Management's Discussion and Analysis

Year Ended December 31, 2017

This management's discussion and analysis of the La Plata West Water Authority's financial statements provides an overview of the Authority's financial activities for the year ended December 31, 2017 compared to 2016. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. It should be read in conjunction with the basic financial statements and notes to enhance the reader's understanding of the Authority's overall financial performance.

Basic Financial Statements

This annual report consists of management's discussion and analysis, the basic financial statements and supplementary information. The basic financial statements include the following:

Statement of Net Position

Statement of Revenues, Expenses and Changes in Net Position

Statement of Cash Flows

Notes to the Financial Statements

These statements report information about the Authority as a whole and include all its assets, liabilities, revenues, expenses and cash flow from various financial activities. Notes to the financial statements consist of information that is necessary to a user's understanding of the basic financial statements.

Following the basic financial statements is required supplemental information that consists of a schedule of expenses that compares budget to actual expenses incurred for the year ended December 31, 2017.

Business of the Authority

The Authority is an independent political subdivision operating under the statutes governing water authorities of the State of Colorado that was formed under an Establishment Agreement dated November 30, 2007. It began operations in January 2008.

The Authority intends to continue a long history of work to develop a domestic water system in rural southwest La Plata County. The proposed water system may also serve the Southern Ute Indian Tribe and the Ute Mountain Ute Tribe.

Water Intake Structure

In July, 2009, the Authority completed construction of a water intake structure at Lake Nighthorse which was funded by grants of \$1,100,000 from the State of Colorado, \$69,000 from the Southwestern Water Conservation District, \$3,000,000 from the Southern Ute Indian Tribe (SUIT) and \$1,500,000 from the Ute Mountain Ute Tribe (UMUT).

The Authority entered into an agreement with the Ute Tribes during 2013 that specifies ownership of the intake structure is to be proportional to the funding provided by the entities in prior years for the construction of the intake structure. As a result, the intake structure is owned 52.9% by the SUIT, 26.5% by the UMUT, and 20.6% by the Authority. The costs incurred by the Ute Tribes of \$4,341,802 for the construction had previously been recorded as a capital asset and contribution income by the Authority, and a prior period adjustment as of

December 31, 2013 had been recorded to remove this amount from capital assets and net position on the Authority's financial statements.

Remaining Phases of the Water System

During 2013 and 2014, The Authority, the Ute Tribes and Lake Durango Water Authority (LDWA) entered into agreements whereby the Authority will supervise the construction of raw water pipelines between the intake structure and Lake Durango. The pipelines will provide access for the Authority and LDWA to water for domestic use with the portion of the pipelines being funded by the Ute Tribes providing for long-term capacity for Tribal use. The Ute Tribes and LDWA committed \$2,000,000 and \$2,800,000, respectively, toward this project. Construction of the pipelines began late fall of 2016 with an expected completion date of October 2018.

The Authority expects that Phase 1, the pipeline construction for the domestic water system for rural southwest La Plata County will begin in August 2018 and remaining phases taking a several years to complete. LPWWA has received funding approval from U.S.D.A. Rural Development. The project has gone out to bid with bid opening scheduled for June 27th.

Authority-Wide Financial Analysis

A comparison to the prior year is provided below. This section will discuss and analyze significant differences.

A condensed version of the comparison for 2016 and 2017 of the Statement of Net Position follows:		
	2016	2017
ASSETS		
Current Assets	\$514,888	\$915,309
Non-Current	\$4,975,837	\$5,742,024
Total Assets	<u>\$5,490,725</u>	<u>\$6,657,333</u>
LIABILITIES		
Current Liabilities	\$727,829	\$1,116,161
Non-Current Liabilities	\$2,980,287	\$1,996,409
Total Liabilities	<u>\$3,708,116</u>	<u>\$3,112,570</u>
Net Investment in Capital Assets	\$1,994,643	\$3,744,588
Unrestricted	(\$212,034)	(\$199,825)
Total Net Position	<u>\$1,782,609</u>	<u>\$3,544,763</u>
Total liabilities & net position	<u>\$5,490,725</u>	<u>\$6,657,333</u>

A condensed version of comparison for Statement of Revenues, Expenses & Changes in Net Position		
	2016	2017
Raw water pipeline usage	\$0	\$120,000
Operating expenses	\$15,035	\$17,441
Operating Loss	(\$15,035)	\$102,559
Non-operating Revenues (Expenses)		
Grants & contribution income	\$569,406	\$1,533,720
Other income-interest	2318	125875
Non-operating revenues	\$571,724	\$1,659,595
Change in Net Position	\$556,689	\$1,762,154
Net Position at Beginning of Year	\$1,225,920	\$1,782,609
Net Position at End of Year	\$1,782,609	\$3,544,763

Capital Assets and Long-Term Debt

2016 marked the year LPWWA began supervising the construction of raw water pipelines between the intake structure and Lake Durango. The construction was met with some delays, including wildlife migration, Eagle nesting and rock blasting. LPWWA receive a \$500,000 grant to up-size an 8” pipeline segment to a 16” pipeline that will improve the capacity for our domestic project in the near term. This project is near completion with all the pipeline installed, road and an Intake Structure building completed. A seven-day pump test will commence within a week.

Progress for the Phase 1 project of the domestic pipeline: This project has gone out to bid. At a recent pre-bid conference there were approximately 12 companies represented. A very hopefully indicator of good bid selection. The USDA funding requires LPWWA to use Subscriber contributions to be spent first. LPWWA has secured and opened the construction loan for the project with First National Bank of Durango. These funds will be used once subscriber’s contribution have been spent. Once we have spent the construction loan funds USDA then pays the construction loan off. Last available to us will be the USDA grant funds. The project cost is estimated at \$4,426,000. There are \$1,162,000 in Subscriber contributions, \$2,754,000 in loan, and \$510,000 in USDA Grant funds. USDA funds will be in Federal monies which will require a ‘Single Audit’ in the year(s) in which we spend over \$750,000 of those funds, or as soon as USDA pays off the construction loan from First National Bank of Durango.

Future Operations

The Authority expects that it will take several years to construct all remaining phases of the domestic water system. Funding for operating expenses will come from small grants, contributions and income from the sale of water. We look to the future for a water treatment plant and a possible ‘water dock station’ to help serve the community, if it is determined feasible and noncompetitive to selling taps, our main objective.

Financial Contact

The Authority’s financial statements are designed to present users (citizens, customers, investors, and creditors) with a general overview of the District’s finances and to demonstrate the Authority’s accountability. If you have questions about the report or need additional financial, information, please contact Mardi Gebhardt, PO Box 631, Durango, CO 81302.

La Plata West Water Authority
STATEMENTS OF NET POSITION

December 31,

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	317,895	\$ 114,625
Prepaid expenses	-	2,042
Receivables		
Lake Durango Water Authority	78,624	49,983
Unbilled project costs	518,790	348,238
Total current assets	915,309	514,888
Non-Current		
Restricted cash - water tap deposits	228,974	232,355
Restricted cash - water tap subscriptions	1,205,403	1,161,382
Restricted cash - project funds held for others	562,759	1,582,584
Water tap subscriptions receivable	300	4,873
Water intake and distribution system	3,744,588	1,994,643
Total non-current assets	5,742,024	4,975,837
Total assets	\$6,657,333	\$5,490,725
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	\$ 657,740	\$ 420,159
Retainage payable	160,797	39,438
Grant revenue received in advance	21,529	50,632
Accrued interest on note payable	33,345	157,600
Bonding company settlement due to others	182,750	-
Note payable	60,000	60,000
Total current liabilities	1,116,161	727,829
Non-current liabilities		
Cash held for others, project funds	562,936	1,582,584
Water tap deposits	225,978	233,355
Water tap subscriptions	1,207,495	1,164,348
Total non-current liabilities	1,996,409	2,980,287
Total liabilities	3,112,570	3,708,116
Net Position		
Net investment in capital assets	3,744,588	1,994,643
Unrestricted	(199,825)	(212,034)
Total net position	3,544,763	1,782,609
Total liabilities and net position	\$6,657,333	\$5,490,725

The accompanying notes are an integral part of these statements.

La Plata West Water Authority

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended December 31,

	2017	2016
Operating Revenue		
Raw water pipeline usage	\$ 120,000	\$ -
Operating Expenses		
Professional fees	8,607	8,915
Insurance expense	4,376	1,752
Computer and internet expense	2,707	2,515
Other expenses	1,751	1,853
Operating expenses	17,441	15,035
Operating income (loss)	102,559	(15,035)
Non-operating Revenues (Expenses)		
Grants and contribution income	1,533,720	569,406
Forgiveness of interest owed	120,550	-
Interest income	1,346	973
Other income	3,979	1,345
Non-operating revenues	1,659,595	571,724
Change in net position	1,762,154	556,689
Net position at beginning of year	1,782,609	1,225,920
Net position at end of year	\$ 3,544,763	\$ 1,782,609

The accompanying notes are an integral part of these statements.

La Plata West Water Authority

STATEMENTS OF CASH FLOWS

For the year ended December 31,

	2017	2016
Cash Flows from Operating Activities		
Operating cash receipts	\$ 120,000	\$ -
Cash paid to suppliers	(14,670)	(15,446)
Net Cash Provided (Used) by Operating Activities	<u>105,330</u>	<u>(15,446)</u>
Cash Flows from Capital and Related Financing Activities		
Grants and contribution received	1,475,976	539,478
Project funds disbursed on behalf of others	(1,019,648)	(274,712)
Water tap deposits	(7,377)	(2,625)
Water tap subscriptions	47,720	195,026
Purchases of capital assets	(1,562,286)	(539,854)
Proceeds from bonding company	182,750	-
Interest paid	(3,705)	-
Other	3,979	1,345
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(882,591)</u>	<u>(81,342)</u>
Cash Flows from Investing Activities		
Interest income	1,346	973
Net Cash Provided (Used) by Investing Activities	<u>1,346</u>	<u>973</u>
Net Increase (Decrease) in Cash	<u>(775,915)</u>	<u>(95,815)</u>
Cash at beginning of year	3,090,946	3,186,761
Cash at end of year	<u>\$ 2,315,031</u>	<u>\$ 3,090,946</u>
Reconciliation to amounts reported on the Statement of Net Position:		
Cash and cash equivalents	\$ 317,895	\$ 114,625
Restricted cash - water tap deposits	228,974	232,355
Restricted cash - water tap subscriptions	1,205,403	1,161,382
Restricted cash - project funds held for others	562,759	1,582,584
	<u>\$ 2,315,031</u>	<u>\$ 3,090,946</u>
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities		
Operating loss	\$ 102,559	(15,035)
Change in accounts payable and prepaid expenses, net of capital activity	2,771	(411)
Net Cash Provided (Used) by Operating Activities	<u>\$ 105,330</u>	<u>\$ (15,446)</u>
Noncash Investing and Financing Activities:		
Accounts payable incurred for capital activities	657,118	420,266

The accompanying notes are an integral part of these statements.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A – DEFINITION OF REPORTING ENTITY

The La Plata West Water Authority (the “Authority”) was formed under an Establishment Agreement dated November 30, 2007 by the Animas La Plata Conservancy District and the La Plata Water Conservancy District. The Authority is an independent political subdivision operating under the statutes governing water authorities of the State of Colorado and has its own governing board members, a majority of which are appointed by the contracting parties to the Establishment Agreement.

The mission of the Authority is to continue a long history of work to develop a domestic water system in rural southwest La Plata County. The proposed water system may also serve the Southern Ute Indian Tribe, the Ute Mountain Ute Tribe, and northern San Juan County in New Mexico. In July of 2009, the Authority completed construction of the raw water intake structure at Lake Nighthorse Reservoir and that is the first phase of construction of the system.

The Authority is not financially accountable for any other organization, nor is the Authority a component unit of any other primary governmental entity.

The Authority follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization’s elected governing body as the basic criterion for including a possible component governmental organization in a primary government’s legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization’s governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency. Based upon these criteria, no entities were found to be includable within the reporting unit of the Authority.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the Authority’s significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units accounted for as proprietary enterprise funds. The enterprise fund is used since the Authority’s powers are related to those operated in a manner similar to a private business enterprise where net income and capital maintenance are appropriate determinations of accountability.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The more significant accounting policies of the Authority are described as follows:

Proprietary Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority's operations are accounted for as one enterprise fund.

Basis of Accounting

The Authority's records are maintained on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the liability is incurred. Expenditures for property, plant and equipment are shown as increases in assets.

Budgets and Budgetary Accounting

The Authority's Board follows these procedures in establishing the budget for the year:

1. In accordance with State statutes, prior to October 15, the Treasurer submits to the Board of Directors a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means to finance them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The state statutes require more detailed line item budgets be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for budgetary purposes is at the fund level.
2. Public hearings are conducted to obtain public comment.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The Treasurer is required to present a monthly report to the Board of Directors explaining any variance from the approved budget.
5. State statutes require the adoption of a summary budget for proprietary funds.
6. Appropriations lapse at the end of each calendar year.
7. The Authority's Board may authorize supplemental appropriations during the year.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deposits and Investments

Colorado law authorizes the Authority to invest in obligations of the United States, State of Colorado, Colorado counties and school districts, repurchase agreements, financial institutions, and local government investment pools. House bill 1056 expanded the list of investments that are legal for local governments.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents.

Capital Assets

Capital assets are valued at historical cost.

Depreciation of the water intake structure and pipelines will be charged to operating expenses over its useful life when it is placed in service using the straight line method. The Authority anticipates that it will be several years before the water system becomes operational.

Estimates

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

Restricted Resources

It is the Authority's policy to use restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

NOTE C – CASH AND INVESTMENTS

Cash is stated at cost, which approximates fair value, and consists of cash in the Authority's checking accounts. The differences between the carrying amount and the bank balances are due to outstanding checks and deposits not yet processed by the bank.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C – CASH AND INVESTMENTS – CONTINUED

The balance in the accounts at December 31, 2017 and 2016 is as follows:

	<u>Carrying Amount</u>	<u>Insured Bank Balance</u>	<u>Collateralized Bank Balance</u>
2017			
Cash and equivalents	\$ 317,895	\$ 370,000	\$ 130,274
Restricted cash	1,997,136	130,000	1,867,636
2016			
Cash and equivalents	\$ 114,625	\$ 83,513	\$ -
Restricted cash	2,976,321	282,258	2,725,674

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories, the eligibility of which is determined by state regulators. Amounts deposited in excess of the federal insurance level must be collateralized. The eligible collateral is determined by the PDPA. The PDPA allows the institution to create a single collateral pool for all public funds. The market value of the collateral must be at least 102% of the aggregate uninsured deposits.

Pledged collateral must be held in joint custody of the bank and the PDPA in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledged collateral cannot be released unless approval is obtained by the banking commission.

Restricted cash held at December 31 includes \$228,974 (2017) and \$232,355 (2016) of water tap deposits collected from projected water system users. These amounts will be applied to the users' water tap charge when the system installs taps for those users or will be returned to the users if it is not deemed feasible to complete that portion of the system. Additionally, \$1,205,403 (2017) and \$1,161,382 (2016) of water tap subscriptions have been received at December 31. These amounts will be applied to the users' purchase of their water tap of the current proposed system. \$562,759 (2017) and \$1,582,584 (2016) of restricted cash represents funds held for the Southern Ute Indian Tribe and the Ute Mountain Ute Tribe to fund their portion of the construction of the pipeline known as the 210 Pipeline. See Note H – Other Information for further details.

Investments

The Authority has adopted Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosure (GASB 40) which took effect January 1, 2005. GASB 40 established and modified disclosure requirements related to investment risks including credit risk, custodial risk, interest rate risk and foreign currency risk.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE C – CASH AND INVESTMENTS – CONTINUED

Colorado state statutes authorize the Authority to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenues bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds and guaranteed investment contracts. All investments must be held by the Authority, in their name, or in custody of a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The Authority's deposits are either covered by depository insurance or collateralized under the Colorado Public Deposit Protection Act and are therefore not deemed to be exposed to custodial credit risk. The Authority did not hold any investments at year end.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Authority places no limit on the amount the Authority may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At year end, the Authority did not hold any investments.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE D – TAX SPENDING AND DEBT LIMITATIONS

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 Authority does not have the authority to levy taxes and currently its sources of revenue are from contributions, grants, and interest income. Because the Authority is not a “district” as defined in the amendment, it is not subject to the limitations of Article X, Section 20 of the State Constitution.

NOTE E – CAPITAL ASSETS

A summary of changes in capital assets is as follows:

2017	Beginning Balance	Additions	Adjustments Deletions	Ending Balance
Water Intake Structure	\$1,068,767	\$ -	\$ -	\$1,068,767
Pipeline Construction in Progress	868,180	1,749,945	-	2,618,125
Access Road Design	57,696	-	-	57,696
	<u>\$1,994,643</u>	<u>\$1,749,945</u>	<u>\$ -</u>	<u>\$3,744,588</u>
2016	Beginning Balance	Additions	Adjustments Deletions	Ending Balance
Water Intake Structure	\$1,068,767	\$ -	\$ -	\$1,068,767
Pipeline Construction in Progress	328,326	539,854	-	868,180
Access Road Design	57,696	-	-	57,696
	<u>\$1,454,789</u>	<u>\$ 539,854</u>	<u>\$ -</u>	<u>\$1,994,643</u>

The 3.3 acres of land on which the water intake structure is located is owned by the United States of America. On October 21, 2008, the Authority entered into a license agreement with the United States of America by and through the Bureau of Reclamation that provides for use of this land for twenty-five years. The agreement may be renewed for consideration based on a reappraisal at the time by the United States of America. The cost of the agreement was \$42,411. This amount is included in the cost of the water intake structure.

In July of 2009, the raw water intake structure was completed but will not be placed into service until the water system becomes operational.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE F – NOTE PAYABLE

There were no changes in debt outstanding during 2017 and 2016. The balance of the Southwestern Water Conservation District (SWWCD) note payable was \$60,000 at the beginning and ending of each of the years ended December 31, 2017 and 2016.

On February 9, 2010, the Authority received a funding commitment from SWWCD to assist with the Authority's funding application to the U.S. Department of Agriculture – Rural Utilities Service (USDA-RUS). As further described in Note H, the non-recourse loan bears no interest and is to be repaid upon completion of the project.

NOTE G – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees, or acts of God.

The Authority has elected to participate in the Colorado Special District Property and Liability Pool (the Pool) which is sponsored by the Special District Association of Colorado. The Pool provides property and general liability, automobile physical damage and liability, public official's liability and machinery coverage to its members. Members of the Pool are required to make additional surplus contributions. Any excess funds which, the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula. During the year ended December 31, 2017 the Pool made no distributions to the Authority.

Condensed financial statement data for the Colorado Special Districts Property and Liability Pool as of December 31, 2016 (the most recent information available) is as follows:

Assets	<u>\$52,645,796</u>
Liabilities	<u>\$28,757,242</u>
Surplus	<u>23,888,554</u>
	<u>\$52,645,796</u>
Revenues	\$19,338,769
Expenses	<u>14,100,230</u>
Net Income (Loss)	<u>\$ 5,238,539</u>

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE H – OTHER INFORMATION

Ute Tribe Agreements:

The Authority has entered into agreements dated September 18, 2008, October 14, 2008, August 13, 2013, and September 9, 2014 with the Southern Ute Indian Tribe (SUIT) and the Ute Mountain Ute Tribe (UMUT). These agreements specify construction funding and ownership of the intake structure at Lake Nighthorse Reservoir. The ownership of the intake structure is proportional to the funding provided by the three entities. The intake structure is owned 52.9% by the SUIT, 26.5% by the UMUT, and 20.6% by the Authority. The carrying amount of the intake structure in the Authority's financial statements reflects the portion of the costs borne by the Authority. The Authority's costs were funded primarily through grant funding received from the Colorado Water Conservation Board. Construction of a pipeline segment known as the 210 Pipeline which will run from the intake structure to the intersection of County Road 210 commenced in 2016. The Authority will fund \$1,500,000 and the SUIT and the UMUT will each contribute \$1,000,000 of the costs of this pipeline. This segment will be owned by the Authority, the SUIT, and the UMUT in the same percentages as the intake structure.

Lake Durango Water Authority Agreement:

The Authority has entered into an agreement dated March 4, 2014 with the Lake Durango Water Authority (LDWA). The agreement indicates that grant funding will be obtained by LDWA to fund the Authority's portion of the costs related to the 210 Pipeline referenced in the Ute Tribe Agreements section above.

Pursuant to the agreement, LDWA will also provide funding for the construction of the pipeline segment known as the 125 Pipeline which will run from County Road 210 cross country to County Road 125. The 125 Pipeline will be owned by the Authority unless the SUIT and / or the UMUT elect to participate in the funding and ownership of construction of this pipeline.

The agreement also provides that LDWA will provide funding for the construction of the pipeline segment known as the Lake Durango Pipeline. This pipeline runs from County Road 125 to Lake Durango. This pipeline segment will be owned by LDWA.

As provided in the agreement, the Authority and LDWA will assign a portion of the capacity of the water transported through the lines that they own to the other party. LDWA will also allocate 23 Acre Feet of storage capacity in Lake Durango to the Authority.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE H – OTHER INFORMATION – CONTINUED

Water Tap Deposits:

The Authority has obtained water tap commitments from property owners in the anticipated service area to demonstrate community commitment. A tap commitment deposit of \$500 per tap was required from each property owner. Deposits received are reflected as restricted cash and water tap commitment deposits on the accompanying Statement of Net Position. The tap commitment agreement with the property owners indicates that the deposits will be refunded if the system is determined not to be financially feasible or the location of a water tap is determined not to be in the service area. Interest earned on the deposits is available to fund the Authority's operating expenses.

Water Tap Subscriptions:

The Authority has obtained water tap subscriptions from property owners in the anticipated service area of the first phase. These funds are for the purpose of users purchasing their water tap in the system. These water tap subscriptions are reflected as restricted cash and water tap subscriptions receivable with a corresponding liability of water tap subscriptions.

Debt and accrued interest obligations:

On June 2, 2010, the Authority obtained a \$60,000 non-interest bearing, non-recourse loan from SWWCD to be used to assist in funding the USDA-RUS application costs. The loan is to be repaid from amounts that will be billed to the system's users along with the water user fees. If funding to complete the project is not obtained, the Authority expects the loan principal will be forgiven by SWWCD. The loan was granted subject to obtaining matching funding from the Colorado Water Resources and Power Development Authority. During 2017, the CWRPDA forgave \$120,550 of the accrued interest costs on the interim construction loan.

SUPPLEMENTAL INFORMATION

La Plata West Water Authority

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31,

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures Reported on the GAAP Basis</u>	<u>Adjustments to Budgetary Basis</u>	<u>Expenditures on the Budgetary Basis</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
2017						
Total expenditures	\$ 7,693,662	\$ 7,693,662	\$ 17,441	\$ 1,562,286	\$ 1,579,727	\$ 6,113,935
2016						
Total expenditures	\$ 8,584,582	\$ 8,584,582	\$ 15,035	\$ 539,854	\$ 554,889	\$ 8,029,693

Adjustments to budgetary basis are comprised of principal reductions on long-term debt and capital expenditures.