

**UPPER YAMPA WATER CONSERVANCY DISTRICT
STEAMBOAT SPRINGS, COLORADO**

**FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORT**

**For the Year Ended
DECEMBER 31, 2019**

UPPER YAMPA WATER CONSERVANCY DISTRICT

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FINANCIAL SECTION

UPPER YAMPA WATER CONSERVANCY DISTRICT
Management's Discussion and Analysis
December 31, 2019

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, 2019. 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 2019.

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 (9,621 AF) and Stagecoach (36,439 AF) Reservoirs represent the primary water conservation projects 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. 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. Combined, these resources are the largest amount of stored water managed by any single entity in the Yampa River Basin.

The District's budget is structured into functions (Departments). It 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 facilities are important for both current contractual obligations and future financial planning purposes.

The 2018/19 water year began with a better than average snowpack and a very late runoff. The higher than average runoff led to more power generation than average. Water use out of the reservoirs was initially less than average due to the late runoff. Though, since the District's contracts are "take or pay" (essentially a payment for storage rather than release), this did not impact revenues. A lack of summer precipitation did lead to the release of water to both the City of Steamboat Springs and Tri-state late in the summer.

The significant activities for the 2019 year included the pursuit of permitting of a project firming the filling of Stagecoach Reservoir during drought periods, moving the District's office from Mount Werner Water to Mountain Valley Bank, the negotiations of many of the District's water contracts, and work surrounding the new Strategic Plan and Board Governance Documents. The permitting of a project is a major undertaking with respect to staff time and financial resources. This effort was paused late in the year due to announcements from operators of both coal fired power stations that

they would be discontinuing operations in the future. This changes assumptions in the District's planning, both water and financial. Undoubtedly, this will be a topic for the District going forward.

The District's move to the new office was disruptive but very successful. Costs were detailed in past BOD meetings and the remodeling costs are largely included in future rent payments spread over five years.

Negotiation of water contracts included discussions of cost calculations pertinent to existing contracts and discussions around new contracts for water. Besides significant staff time, significant legal expenditures were related to this item. These activities are not complete.

The Consensus Building Institute (CBI), particularly Ryan Golten, facilitated development of the District's recently adopted Strategic Plan and Governance Manual. Much staff and Board time was expended here as well as expenditures to both the legal and public information budgets. Implementation of the strategic plan will drive future District activities, and budgets.

Revenue

Property tax revenues from a 1.82 mill levy on the taxable property of the District generated \$2,341,123, net of \$74,607 of Treasurer Collection Fees.

Overall water sales were \$554,821, above the \$536,554 budgeted. Increased water sale revenues resulted from a contract with Ski & Resort Corporation executed after the budget was drafted, and price of water contracts negotiated during 2019. A decrease in water price from Yamcolo sales is due to a reduction in price negotiated with the Yamcolo Irrigators Association. The net was the positive income as discussed above.

Power generation produced a total revenue of \$234,324 for the year, above the \$200,000 budgeted. Power generation is a direct reflection of the strength of runoff in the Yampa River into Stagecoach.

Other revenues included those generated by the Stillwater Ditch and Reservoirs Company \$7,965, interest income of \$327,104, and the sale of a vehicle for \$4,000.

Expenditures

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 the District's Facilities and Operations, and excluding tax collection fees, were \$1,545,844.

By department these were approximately:

Facilities \$595,000

Administration \$184,000

Board of Directors \$72,000

External Affairs \$71,000

Finance \$112,000

Legal \$126,000

Planning \$205,000

Public information \$182,000

Treasurer fees added another \$75,000 to expenses in 2019.

Capital expenditures totaled \$213,752.

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 position presents information on all the District's assets and liabilities with the difference reported as net position. Over time, changes in net position 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 position presents information showing how the District's net position changed during the year. All changes in net position 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, 2019 by \$42,269,334. Of this amount, \$26,256,423 is invested in capital assets, net of related debt, \$524,734 is restricted and \$15,488,177 is unrestricted and available for future debt payments and capital improvements.

Statement of Net Position

	2019	2018
ASSETS		
Current and Other Assets	\$ 18,595,573	\$ 16,754,283
Net Capital Assets	26,256,423	26,169,428
Total Assets	<u>44,851,996</u>	<u>42,923,711</u>
LIABILITIES		
Current Liabilities	86,097	190,680
Deferred Inflows	2,496,565	2,284,084
Total Liabilities	<u>2,582,662</u>	<u>2,474,764</u>
NET POSITION		
Net Investment in Capital Assets	26,256,423	26,169,428
Restricted Net Position	524,734	518,850
Unrestricted Net Position	15,488,177	13,760,677
TOTAL NET POSITION	<u>\$ 42,269,334</u>	<u>\$ 40,448,955</u>

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

	2019	2018
Revenues		
Operating Revenues	\$ 801,110	\$ 773,196
Other Income(Expense)	2,691,871	2,458,172
Total Revenues	<u>3,492,981</u>	<u>3,231,368</u>
Expenses		
Operating Expenses	1,672,602	1,412,767
Change in Net Position	1,820,379	1,818,601
Net Position - Beginning	40,448,955	38,630,354
Net Position - Ending	<u>\$ 42,269,334</u>	<u>\$ 40,448,955</u>

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 and interest revenues were higher the budgeted figure.

Capital projects expenditures were all within budgeted amounts.

	<u>Balance 12/31/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/19</u>
Capital assets not being depreciated:				
Stagecoach:				
Land and water rights	\$ 4,933,709	\$ -	\$ -	\$ 4,933,709
Silver Creek:				
Land	<u>255,797</u>	<u>-</u>	<u>-</u>	<u>255,797</u>
Total capital assets not being depreciated	<u>5,189,506</u>	<u>-</u>	<u>-</u>	<u>5,189,506</u>
Capital assets being depreciated:				
Stagecoach:				
Land improvements	1,410,619	-	-	1,410,619
Dam structure and equipment	12,490,880	17,535	-	12,508,415
Hydroelectric building and equipment	2,435,778	8,327	-	2,444,105
Park building and improvements	1,273,474	-	-	1,273,474
Yamcolo:				
Dam structure and equipment	6,751,167	54,242	-	6,805,409
Stillwater Ditch	530,653	-	-	530,653
Equipment, vehicles and other	<u>153,469</u>	<u>133,648</u>	<u>(15,000)</u>	<u>272,117</u>
Total capital assets being depreciated	<u>25,046,040</u>	<u>213,752</u>	<u>(15,000)</u>	<u>25,244,792</u>
Less: accumulated depreciation	<u>(4,066,118)</u>	<u>(126,757)</u>	<u>15,000</u>	<u>(4,177,875)</u>
Net capital assets	<u>\$ 26,169,428</u>	<u>\$ 86,995</u>	<u>\$ -</u>	<u>\$ 26,256,423</u>

See Note 4 for additional information on the capital assets.

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.

Mayberry & Company, LLC

Certified Public Accountants

Member of the American Institute of Certified Public Accountants
Governmental Audit Quality Center
and Private Company Practice Section

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

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Upper Yampa Water Conservancy District as of and for the year ended December 31, 2019, and the related notes to the financial statements which collectively comprise the basic financial statements of Upper Yampa Water Conservancy District, 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 the 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 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 of 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

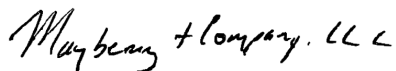
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Upper Yampa Water Conservancy District as of December 31, 2019, and the changes in financial position and, cash flows, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information – Management Discussion and Analysis*

Accounting principles generally accepted in the United States of America require that the management, discussion and analysis on pages M1-M5 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The budgetary comparison schedule listed as other supplementary information page 16 is presented for purposes of additional analysis and are not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Englewood, Colorado
June 5, 2020

BASIC FINANCIAL STATEMENTS

UPPER YAMPA WATER CONSERVANCY DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2019

	<u>Total</u>
	<u>2019</u>
ASSETS AND DEFERRED OUTFLOWS	
ASSETS	
Current Assets	
Cash and Investments	
Cash	\$ 2,473,540
Investments	13,557,894
Receivables	
Property Tax Receivable	2,496,565
Cash with Fiscal Agent	12,494
Accounts Receivable	21,660
Prepaid Expenses	33,420
Total Current Assets	<u>18,595,573</u>
Noncurrent Assets	
Capital Assets not being depreciated	5,189,506
Capital Assets being depreciated	25,244,792
Accumulated Depreciation	<u>(4,177,875)</u>
Total Noncurrent Assets	26,256,423
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 44,851,996</u>
LIABILITIES, DEFERRED INFLOWS AND NET POSITION	
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 80,380
Accrued Liabilities	<u>5,717</u>
TOTAL LIABILITIES	<u>86,097</u>
DEFERRED INFLOWS OF FINANCIAL RESOURCES	
Deferred Property Taxes	<u>2,496,565</u>
NET POSITION	
Net Investment in Capital Assets	26,256,423
Restricted Net Position	
Wetland Mitigation	419,734
Emergency Reserve	105,000
Unrestricted Net Position	<u>15,488,177</u>
TOTAL NET POSITION	42,269,334
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	<u>\$ 44,851,996</u>

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

UPPER YAMPA WATER CONSERVANCY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Total</u>
	<u>2019</u>
Operating Revenues	
Water Sales	\$ 554,821
Power Sales	234,324
Charges for Services	11,965
Total Revenues	<u>801,110</u>
Operating Expenses	
Stagecoach Reservoir - Power Generation	214,868
Stagecoach Reservoir - Water Storage	220,348
Yamcolo Reservoir	125,183
Stillwater Ditch and Reservoir	34,520
Administration	184,032
Board of Directors	71,720
External Affairs	70,807
Finance	111,594
Legal	125,521
Planning	205,229
Grants, Scholarships and Public Information	182,023
Depreciation Expense	126,757
Total Expenditures	<u>1,672,602</u>
Operating Income (Loss)	<u>(871,492)</u>
Other Income (Expense)	
Tax Revenue, net of treasurer fees	2,341,123
Intergovernmental Revenue	23,644
Investment Earnings	327,104
Total Other Income (Expense)	<u>2,691,871</u>
Change in Net Position	1,820,379
Net Position, Beginning	<u>40,448,955</u>
Net Position, Ending	<u>\$ 42,269,334</u>

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

UPPER YAMPA WATER CONSERVANCY DISTRICT

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Total</u>
	<u>2019</u>
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 793,902
Cash Paid to Suppliers	(1,093,690)
Cash Paid to Employees	(557,872)
Net Cash Provided by Operating Activities	<u>(857,660)</u>
Cash Flows From Capital and Related Financing Activities:	
Intergovernmental Revenues	23,644
Acquisition of Capital Assets	(213,752)
Cash Flows Used by Capital and Related Financing Activities	<u>(190,108)</u>
Cash Flows (Uses) From Noncapital Financing Activities:	
Other Revenues (Expense)	10
Tax Revenue	2,328,629
Net Cash Provided (Used) by Noncapital Financing Activities	<u>2,328,639</u>
Cash Flows (Uses) From Investing Activities:	
Interest Received	<u>327,104</u>
Net Increase (Decrease) in Cash	1,607,975
Cash - Beginning	<u>14,423,459</u>
Cash - Ending	<u><u>\$ 16,031,434</u></u>
Cash	\$ 2,473,540
Investments	<u>13,557,894</u>
Total	<u><u>\$ 16,031,434</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Used for Operating Activities:	
Operating Income (Loss)	<u>\$ (871,492)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Depreciation Expense	126,757
Changes in Assets and Liabilities Related to Operations:	
(Increase) Decrease in:	
Accounts Receivable	(7,208)
Prepaid Expenses	(1,132)
(Increase) Decrease in:	
Accounts Payable	(98,504)
Accrued Liabilities	<u>(6,081)</u>
Total Adjustments	<u>13,832</u>
Net Cash Used for Operating Activities	<u><u>\$ (857,660)</u></u>

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

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Upper Yampa Water Conservancy District (the "District") was established in 1966 by court decree under the Colorado Revised Statutes (CRS) Title 37, Article 45, known as 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 which the District pays the Colorado Division of Parks to operate.

The District's financial statements were prepared in accordance with U.S. generally accepted accounting principles 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 District applies the criteria set forth in GASB Codification Section 2100: Defining the Financial Reporting Entity, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials' accountability to their constituents, and the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units.

The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to: fiscal dependency, imposition of will, legal standing, and the primary recipient of services. Based on these criteria, the District has no includable component units. The District is also not included in the financial statements of any other entity.

Basic Financial Statements

As a special purpose government, basic financial statements are presented at the activity level.

Activity level financial statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position, the Statement of Change in Fund Net Position, and the Statement of Cash Flows.

As a special purpose government, the District has only one fund, an enterprise/proprietary fund which is also considered its business type activity. The District does not present any other fund or activity information.

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, Deferred Inflows of Resources 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.

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, 2019. 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.

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:

Buildings and improvements	30 – 40 years
Furniture, fixtures and equipment	5 – 20 years

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

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Accrued Compensated Absences

Employees may accrue up to 30 days vacation annually with a maximum carryover of 5 days to the next fiscal year. Sick leave is accumulated at a rate of 8 hours per month with a maximum accrual of 90 days. Sick leave is not paid upon termination. Leave balances were not deemed material for accrual at year end.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist solely of unavailable revenues from property taxes.

Equity

Equity is classified as net position and may be displayed in three components:

- Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets." This net position is available for future operations or distributions.

It is the District's policy to fund operations through the most restricted available equity first.

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.

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.
- The District does not utilize encumbrance accounting and all appropriations lapse at year end.

The District did not adopt any supplemental budget appropriations for the year ended December 31, 2019.

Compliance

The District did not have expenditures in excess of appropriations for the year ended December 31, 2019.

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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. The District has reserved \$105,000 of the December 31, 2019 fund net position for this purpose.

On November 2, 1999, the voters of the District authorized the District to collect and retain all revenues without the limitations of TABOR and C.R.S §29-1-301(1)(a).

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.

NOTE 3: CASH AND INVESTMENTS

For the financial statement presentation, cash and investment balances are comprised of and allocated as follows:

Cash Deposits	\$ 2,473,540
Investments	13,557,894
Total Cash and Investments	<u>\$ 16,031,434</u>

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 3: CASH AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The District's deposit policy is in accordance with CRS 11-10.5-101, The Colorado Public Deposit Protection Act (PDPA), which governs the investment of public funds. PDPA requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels (\$250,000) must be collateralized by eligible collateral as determined by the PDPA. The financial institution is allowed to create a single collateral pool for all public funds held. The 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 be at least equal to 102% of the uninsured deposits. The institution's internal records identify collateral by depositor and as such, these deposits are considered uninsured but collateralized. The State Regulatory Commissions for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. At December 31, 2019, all of the District's deposits as shown below were insured by federal depository insurance or secured by PDPA and are therefore not deemed to be exposed to custodial credit risk.

	<u>Bank Balance</u>	<u>Carrying Balance</u>
FDIC Insured	\$ 1,200,000	\$ 1,200,000
Collateralized under PDPA (Not held in District's name)	1,334,738	1,258,060
Cash on hand	-	15,480
Total Cash	<u>\$ 2,534,738</u>	<u>\$ 2,473,540</u>

Investments

As of December 31, 2019, the District had invested \$13,557,894, 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, a Colorado-based investment advisor, 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 portfolio's weighted average maturity to reset is kept under 60 days, which helps to enhance liquidity and limits market price exposure. The COLOTRUST PLUS+ fund holds a 'AAAm' rating by Standard and Poor's.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2019

NOTE 3: CASH AND INVESTMENTS (Continued)

Credit Risk

Colorado statutes specify which instruments units of local government may invest, which include:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of the U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The District does not have an investment policy that would further limit its investment choices.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk

Colorado Statutes require that no investment may have a maturity in excess of five years from the date of purchase. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, other than those contained in the statutes. The District's investment portfolio contains no investments that exceed that limitation.

Custodial Credit Risk – Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of December 31, 2019, the District's custodial credit risk is related to the investments in Colotrust.

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.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Notes to Financial Statements
December 31, 2019

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 is summarized below:

	<u>Balance</u> <u>12/31/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/19</u>
Capital assets not being depreciated:				
Stagecoach:				
Land and water rights	\$ 4,933,709	\$ -	\$ -	\$ 4,933,709
Silver Creek:				
Land	<u>255,797</u>	<u>-</u>	<u>-</u>	<u>255,797</u>
Total capital assets not being depreciated	<u>5,189,506</u>	<u>-</u>	<u>-</u>	<u>5,189,506</u>
Capital assets being depreciated:				
Stagecoach:				
Land improvements	1,410,619	-	-	1,410,619
Dam structure and equipment	12,490,880	17,535	-	12,508,415
Hydroelectric building and equipment	2,435,778	8,327	-	2,444,105
Park building and improvements	1,273,474	-	-	1,273,474
Yamcolo:				
Dam structure and equipment	6,751,167	54,242	-	6,805,409
Stillwater Ditch	530,653	-	-	530,653
Equipment, vehicles and other	<u>153,469</u>	<u>133,648</u>	<u>(15,000)</u>	<u>272,117</u>
Total capital assets being depreciated	<u>25,046,040</u>	<u>213,752</u>	<u>(15,000)</u>	<u>25,244,792</u>
Less: accumulated depreciation	<u>(4,066,118)</u>	<u>(126,757)</u>	<u>15,000</u>	<u>(4,177,875)</u>
Net capital assets	<u>\$ 26,169,428</u>	<u>\$ 86,995</u>	<u>\$ -</u>	<u>\$ 26,256,423</u>

NOTE 5: EMPLOYEE RETIREMENT PLANS

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 \$31,458 for the year ended December 31, 2019.

NOTE 6: RESTRICTED NET POSTION

The United States Army Corps of Engineers (ACOE) issued a permit associated with the raise in height of Stagecoach Reservoir Dam, by 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, 2019. The legislative appropriation will terminate when the compensatory mitigation is completed and accepted by the ACOE.

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 7: COMMITMENTS, CONTINGENCIES AND AGREEMENTS

Commitments

Power Purchase Agreement

The District 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. The sales price during the year ended December 31, 2019 was \$0.060 per kWh.

Reservoir Agreements

Numerous governments, organizations and individuals have reservoir agreements with the District to purchase water in storage annually from the District. Various governments, organizations, and individuals have water contracts from the District for annual delivery of stored raw water from Stagecoach and Yamcolo Reservoirs. Some of these contracts are for the life of the Reservoirs. Others are for a fixed term, several of which expired in 2019 and were in the process of being renewed at the end of 2019.

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.

State of Colorado Stagecoach Reservoir Operating Subsidy

The District has entered into a twenty-year lease agreement with the State of Colorado for the State to manage recreational use of District owned assets at Stagecoach Reservoir. The lease period is from May 1, 2004 through May 1, 2024. In exchange for the State managing the recreation areas and completing improvements and replacement of existing recreation facilities pursuant to the Master Plan, the District will annually provide the lessor of \$35,000 or the amount of State funded improvements plus \$10,000 in the form of an operating subsidy to the State. This payment is due by December 31 of each year of the lease. The State is allowed to carryover excess improvement costs annually to meet subsequent years' obligations. The maximum amount that the District is liable for in operating subsidies is \$700,000 over the twenty-year period.

UPPER YAMPA WATER CONSERVANCY DISTRICT

Notes to Financial Statements

December 31, 2019

NOTE 7: COMMITMENTS, CONTINGENCIES AND AGREEMENTS (Continued)

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.

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.

NOTE 8: PARTICIPATION IN PUBLIC ENTITY RISK POOL

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.

OTHER SUPPLEMENTARY INFORMATION

UPPER YAMPA WATER CONSERVANCY DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019		Variance with Final Budget
	Final Budget	Actual	
Operating Revenues			
Water Sales	\$ 536,554	\$ 554,821	\$ 18,267
Power Sales	200,000	234,324	34,324
Charges for Services	7,965	11,965	4,000
Total Revenues	<u>744,519</u>	<u>801,110</u>	<u>56,591</u>
Operating Expenses			
Stagecoach Reservoir - Power Generation	248,954	214,868	34,086
Stagecoach Reservoir - Water Storage	266,927	220,348	46,579
Yamcolo Reservoir	144,594	125,183	19,411
Stillwater Ditch and Reservoir	45,065	34,520	10,545
Administration	203,198	184,032	19,166
Board of Directors	83,105	71,720	11,385
External Affairs	129,754	70,807	58,947
Finance	132,880	111,594	21,286
Legal	178,567	125,521	53,046
Planning	432,927	205,229	227,698
Grants, Scholarships and Public Information	257,588	182,023	75,565
Other Capital Outlay	445,000	213,752	231,248
Total Expenditures	<u>2,568,559</u>	<u>1,759,597</u>	<u>808,962</u>
Operating Income (Loss)	<u>(1,824,040)</u>	<u>(958,487)</u>	<u>865,553</u>
Other Income (Expense)			
Tax Revenue, net of treasurer fees	2,210,298	2,341,123	130,825
Intergovernmental Revenue	-	23,644	23,644
Investment Earnings	284,500	327,104	42,604
Change in Net Position (Budget Basis)	<u>\$ 670,758</u>	<u>1,733,384</u>	<u>\$ 1,062,626</u>
Budget to GAAP Reconciliation			
Depreciation Expense		(126,757)	
Capital Outlay		213,752	
Change in Net Position - GAAP Basis		1,820,379	
Net Position, Beginning		<u>40,448,955</u>	
Net Position, Ending		<u>\$ 42,269,334</u>	

See accompanying Independent Auditors' Report.