

# **Lake Durango Water Authority**

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**Annual Financial Report**

**December 31, 2019**

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## Independent Auditor's Report

Members of the Board of Directors  
Lake Durango Water Authority

We have audited the accompanying financial statements of Lake Durango Water Authority as of and for the year ended December 31, 2019 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 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 control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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

## **Other-Matters**

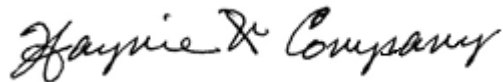
### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Durango Water Authority's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information as listed in the table of contents 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.



Littleton, Colorado  
June 18, 2020

## **Lake Durango Water Authority Management's Discussion and Analysis**

As management of the Lake Durango Water Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the year ended December 31, 2019, with comparative information presented for the year ended December 31, 2018. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our basic financial statements to better understand the financial position of the Authority.

The Authority (formed in 2007) operates a water system that provides domestic water service to portions of western La Plata County in the State of Colorado. In July 2009, the Authority successfully purchased the assets of the Lake Durango Water Company (Water Company) and took over the operation of the water system. The Authority purchased assets totaling \$3,296,197 financed by a long-term loan from the Colorado Water Resources & Power Development Authority of \$2,000,000 and revenue bonds of \$500,000 as well as a water royalty agreement for approximately \$1,050,000.

The Authority has partnered with the La Plata West Water Authority, Southern Ute Tribe and Ute Mountain Ute Tribe to construct a pipeline to deliver water from Lake Nighthorse to Lake Durango Reservoir. The Authority is contributing \$3,000,000 to the project financed by a \$500,000 Colorado Water Conservation Board (CWCB) grant and a \$2,500,000 CWCB loan. The Authority has purchased 100 acre-feet depletions equal to 200 acre-feet supply of ALP Project Water from the Animas La Plata Water Conservancy District and is in Agreement to purchase an additional 100 acre-feet depletions between 2020 and 2023. The pipeline project was substantially completed in December 2018 and the Authority is now able to pump to Lake Durango as necessary.

During 2018, La Plata County lifted a tap sale moratorium that had been in place at the time that the Authority took over operations of the Water Company.

### **Financial Highlights**

- In 2019 retail water sales were in line with budgeted expectations. Bulk water sales were 23% lower than budgeted due to decreased water consumption.
- In 2019 water rates were unchanged.
- In 2019 there were 6 new taps sold.

### **Overview of the Financial Statements**

The financial statements of the Authority are presented as a special purpose government engaged only in business-type activities – providing domestic water services to certain areas of La Plata County.

## Lake Durango Water Authority Management's Discussion and Analysis

The *Statement of Net Position* presents information on all of the Authority's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases and decreases in Net Position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Nonfinancial factors should also be considered to assess the overall position of the Authority.

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the changes that have occurred during the year to the Authority's Net Position. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* reports the Authority's cash flows from operating, noncapital financing, capital, and investing activities.

### FINANCIAL SUMMARY AND ANALYSIS

These financial statements distinguish functions of the Authority that will be principally supported by charges for services, grant resources, and other fees. The functions of the Authority include effective and economical operation of the Authority's services within the jurisdictional boundaries of the Authority. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets	\$ 673,413	\$ 1,125,996
Capital assets, net	<u>6,879,449</u>	<u>6,747,383</u>
<i>Total assets</i>	<u>7,552,862</u>	<u>7,873,379</u>
<b>Liabilities</b>		
Current liabilities	256,960	523,686
Long-term liabilities	<u>3,898,783</u>	<u>4,153,322</u>
<i>Total liabilities</i>	<u>4,155,743</u>	<u>4,677,008</u>
<b>Net Position</b>		
Net investment in capital assets	2,759,923	2,394,464
Restricted for operations and maintenance	137,609	128,516
Unrestricted	<u>499,587</u>	<u>673,391</u>
<i>Total net position</i>	<u>\$ 3,397,119</u>	<u>\$ 3,196,371</u>

The largest portion of the Authority's Net Position is the net investment in capital assets.

## Lake Durango Water Authority Management's Discussion and Analysis

	2019	2018
<b>Revenue</b>		
Operating Revenue	\$898,903	\$ 939,789
Non-operating revenue	66,515	190,197
Capital contributions	<u>          -</u>	<u>104,291</u>
<i>Total Revenue</i>	<u>965,418</u>	<u>1,234,277</u>
<b>Expenses</b>		
Operating expenses	633,138	594,725
Non-operating expenses	<u>131,532</u>	<u>35,067</u>
<i>Total Expenses</i>	<u>764,670</u>	<u>629,792</u>
<i>Change in Net Position</i>	200,748	604,485
<b>Net Position</b> -beginning of year	<u>3,196,371</u>	<u>2,591,886</u>
<b>Net Position</b> – end of year	<u>\$ 3,397,119</u>	<u>\$ 3,196,371</u>

### Revenues

The Authority has two major revenue sources: (1) water sales and (2) fees. Fees include Acquisition and Capital Improvement Fee, Water Royalty Fee, and Tap Sale Fee. The Authority charges for domestic water used by the customers within its jurisdiction. Fees charged to the customers are pledged for debt reduction payments, capital improvements, and payments for the royalty agreement with the former owner.

### Expenses

The Authority's major expenses consist of salaries and employee benefits, office and administrative, chemicals and supplies, professional fees, depreciation, and repairs and maintenance.

The overall financial position of the Authority has increased.

### BUDGETARY HIGHLIGHTS

The Authority prepares its budget on the modified accrual basis of accounting to recognize the fiscal impact of capital outlay, in addition to operations and non-operating revenue and contributions.

- 2019 operating revenue was lower than budgeted primarily due to decreased tap sales.
- 2019 repairs and maintenance and pipeline operating expense were lower than budgeted due to less distribution system repairs and expenses than had been anticipated. Chemicals and supplies were higher than budgeted due to accelerated purchase of replacement meters and radios.

# **Lake Durango Water Authority Management's Discussion and Analysis**

## **REQUESTS FOR INFORMATION**

This financial report is designed to give its readers a general overview of the Authority's finances. Questions regarding any information contained in this report or requests for additional financial information should be addressed to: Charles B. Smith, General Manager, Lake Durango Water Authority, P.O. Box 657, Durango, CO 81302 or call (970) 247-4062

## **Basic Financial Statements**

**Lake Durango Water Authority**  
**Statement of Net Position**  
**December 31, 2019**

	<b>2019</b>
<b>Assets</b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 505,119
Accounts receivable, net	145,294
Tap fees receivable	23,000
Total Current Assets	673,413
<b>Capital Assets:</b>	
Capital assets, not being depreciated	1,588,387
Capital assets being depreciated, net	5,291,062
Net Capital Assets	6,879,449
Total Assets	\$ 7,552,862
<b>Liabilities</b>	
<b>Current Liabilities:</b>	
Accounts payable	\$ 31,551
Accrued liabilities	4,666
Water royalty payable - current portion	59,638
Bonds payable - current portion	58,000
Notes payable - current portion	103,105
Total Current Liabilities	256,960
<b>Long-term Liabilities:</b>	
Water royalty payable	397,393
Bonds payable	57,000
Notes payable	3,444,390
Total Long-term Liabilities	3,898,783
<b>Net Position</b>	
Net investment in capital assets	2,759,923
Restricted for operations and maintenance	137,609
Unrestricted	499,587
Total Net Position	3,397,119
Total Liabilities and Net Position	\$ 7,552,862

**Lake Durango Water Authority**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Year Ended December 31, 2019**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenue:</b>		
Water sales and fees	\$ 869,266	\$ 917,538
Other revenue	<u>29,637</u>	<u>22,251</u>
Total Operating Revenue	<u>898,903</u>	<u>939,789</u>
<b>Operating Expenses:</b>		
Salaries and benefits	283,044	274,046
Chemicals and supplies	79,900	82,612
Depreciation and amortization	82,704	80,663
Office and administrative	68,588	69,384
Professional and contractual services	82,521	62,776
Repairs and maintenance	17,343	14,122
Transportation	9,456	8,152
Other expenses	<u>9,582</u>	<u>2,970</u>
Total Operating Expenses	<u>633,138</u>	<u>594,725</u>
Operating Income (Loss)	<u>265,765</u>	<u>345,064</u>
<b>Non-operating Revenue and Expenses:</b>		
Tap sales	64,073	189,000
Interest income	2,442	1,197
Interest expense	<u>(131,532)</u>	<u>(35,067)</u>
Net Non-operating Revenues and Expenses	<u>(65,017)</u>	<u>259,421</u>
<b>Net Income (Loss)</b>	200,748	604,485
<b>Net Position —beginning of year</b>	<u>3,196,371</u>	<u>2,591,886</u>
<b>Net Position —end of year</b>	<u>\$ 3,397,119</u>	<u>\$ 3,196,371</u>

The accompanying notes are an integral part of these statements.

**Lake Durango Water Authority**  
**Statements of Cash Flows**  
**For the Year Ended December 31, 2019**

	<b>2019</b>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 866,999
Cash paid to suppliers for goods and services	(545,159)
Cash paid to employees for services	(283,044)
Net Cash From Operating Activities	38,796
Cash Flows from Capital and Related Financing Activities:	
Proceeds from capital debt	25,000
Purchase of capital assets	(283,173)
Principal paid on capital debt	(200,093)
Interest paid on capital debt	(131,532)
Net Cash From Capital and Related Financing Activities	(589,798)
Cash Flows from Investing Activities:	
Tap fees received	73,973
Interest income received	2,442
Net Cash From Investing Activities	76,415
<b>Net Change in Cash and Cash Equivalents</b>	(474,587)
Cash and Cash Equivalents—beginning of year	979,706
Cash and Cash Equivalents—end of year	\$ 505,119
<b>Reconciliation of Net Operating Income to</b>	
<b>Net Cash From Operating Activities:</b>	
Operating income (loss)	\$ 265,765
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	82,704
Changes in assets and liabilities:	
Accounts receivable	(31,904)
Accounts payable	(128,013)
Accrued liabilities	(149,756)
Total Adjustments	(226,969)
<b>Net Cash From Operating Activities</b>	<b>\$ 38,796</b>
<b>Non-cash transactions</b>	
Present value adjustment of water rights and water royalty payable	(13,776)

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

# Lake Durango Water Authority

## Notes to Basic Financial Statements

### December 31, 2019

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#### 1. Organization

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##### **Organization**

Lake Durango Water Authority (the Authority) was formed on December 18, 2007 pursuant to a Memorandum of Agreement (the Agreement) dated July 17, 2007 by Durango West Metropolitan District No. 1 (Metro District), Durango West Metropolitan District No. 2 (Metro District), and La Plata County, Colorado (the County). 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 consisting of five members that are appointed by the establishing entities. One member is appointed by each Metro District and three are appointed by the County, including two retail customers and one independent person who is not a customer of the Authority. The Authority was established to allow for public ownership and operation of a water system that provides domestic water service to portions of western La Plata County.

##### **Reporting Entity**

The financial statements include only the Authority, as there are no component units required to be included in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

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#### 2. Significant Accounting Policies

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##### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Authority uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District's fund is classified as an enterprise fund type. 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 of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on

**Lake Durango Water Authority**  
**Notes to Basic Financial Statements**  
**December 31, 2019 (continued)**

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**2. Summary of Significant Accounting Policies (continued)**

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capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the unrestricted resources as they are needed.

The District reports all activity in one enterprise fund which is a proprietary fund type.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Authority considers cash deposits and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Authority had no cash equivalents at December 31, 2019.

**Accounts Receivable**

Accounts receivable consist of amounts due from various retail and bulk customers from water sales, tap sales, and acquisition fees. They are stated net of an allowance for doubtful accounts. As of December 31, 2019, management believes all accounts receivable are fully collectible; therefore, no allowance for doubtful accounts has been recorded.

**Grants**

Grant revenue consists of funding provided to the Authority by various governmental agencies to assist the Authority in providing domestic water services. Grant revenue is recorded when amounts become known and due to the Authority. Grant receivables are recorded when the capital project costs are incurred prior to the receipt of funds. There was no grant revenue received in 2019.

**Capital Assets**

Capital assets include assets with an estimated useful life of more than one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation expense has been computed using the straight-line method over the estimated useful lives of 30 to 50 years for the water system, plant, and lines.

The cost of water rights includes acquisition cost, legal and engineering costs related to the development, and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

**Net Position**

The Authority's Net Position is classified as follows:

# Lake Durango Water Authority

## Notes to Basic Financial Statements

### December 31, 2019 (continued)

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#### 2. Summary of Significant Accounting Policies (continued)

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Restricted Net Position – Restricted expendable net position includes resources in which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted Net Position – Unrestricted net position represents resources derived from general Authority revenues. The resources are used to conduct the Authority's operations.

Use of Restricted/Unrestricted Net Position – When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Authority's policy is to apply restricted net position first.

#### **Use of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **New Accounting Pronouncements**

The GASB issued statement No. 89 Accounting for Interest Cost Incurred before the End of a Construction Period to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The Authority has early adopted this statement effective for the period ending December 31, 2019.

#### **Budgets**

The Authority adheres to the following procedures in establishing its annual budget:

- B.** The Authority files an annual budget in accordance with state law.
- C.** The budget officer is required to submit a proposed budget to the Board of Directors (the Board) each year by October 15.
- D.** Public hearings are conducted by the Board to obtain tap holder comments.
- E.** Expenses may not legally exceed appropriations at the fund level. Board approval is required for changes in the budget.
- F.** Budget appropriations lapse at the end of each year.
- G.** The Authority adopts budgets on a modified accrual basis with the inclusion of depreciation.

**Lake Durango Water Authority**  
**Notes to Basic Financial Statements**  
**December 31, 2019 (continued)**

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**2. Summary of Significant Accounting Policies (continued)**

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Budgetary Basis of Accounting

While the Authority reports net position, results of operations and changes in net position on the basis of accounting principles generally accepted in the United State of America (U.S. GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and disbursements. The Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Budgetary Basis) presented as supplemental information is presented on the budgetary basis to provide meaningful comparison of actual results with the budget.

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**3. Cash and Investments**

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Custodial Credit Risk – Deposits

The Colorado Public Deposit Protection Act (PDPA) governs the Authority’s deposits. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal deposit insurance (FDIC) on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to 102% of the uninsured deposits. The Colorado Division of Banking is 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, the Authority had carrying balances and bank balances as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>
Cash in checking and money market accounts	\$ <u>505,119</u>	\$ <u>583,836</u>

The Authority maintains cash balances at local financial institutions which are insured by the FDIC up to \$250,000 per institution. At year-end \$500,000 of the Authority’s bank balance was covered by FDIC insurance and the remaining bank balance was covered by the PDPA.

**Lake Durango Water Authority**  
**Notes to Basic Financial Statements**  
**December 31, 2019 (continued)**

**4. Capital Assets**

In accordance with the Agreement, the Authority acquired the assets of Lake Durango Water Company on July 15, 2009 for a purchase price of \$3,296,197. The acquisition was financed by a long-term note payable and bonds payable as disclosed in Note 5.

In addition, the Agreement requires the Authority to pay an additional consideration to the former owners of Lake Durango Water Company in the form of a water royalty based on water usage as disclosed in Note 5.

A summary of changes in capital assets follows:

	<b>Balance December 31, 2018</b>	<b>Additions/ (Deletions)</b>	<b>Adjustments/ Transfers</b>	<b>Balance December 31, 2019</b>
Capital assets, not being depreciated:				
Land and land rights	\$ 602,463	\$ -	\$ -	\$ 602,463
Water rights	954,619	-	(13,776)	940,843
Construction in progress	-	45,081	-	45,081
<i>Total capital assets, not being depreciated</i>	<u>1,557,082</u>	<u>45,081</u>	<u>(13,776)</u>	<u>1,588,387</u>
Capital assets, being depreciated:				
ALP Pipeline	2,981,475	64,216	(54,627)	2,991,064
Water system - Source, plant & lines	2,835,688	62,734	-	2,898,422
Vehicles	62,521	111,142	(19,797)	153,866
<i>Total capital assets, being depreciated</i>	<u>5,879,684</u>	<u>238,092</u>	<u>(74,424)</u>	<u>6,043,352</u>
Less accumulated depreciation:	<u>(689,383)</u>	<u>(82,704)</u>	<u>19,797</u>	<u>(752,290)</u>
<i>Total capital assets, being depreciated, net</i>	<u>5,190,301</u>	<u>155,388</u>	<u>(54,627)</u>	<u>5,291,062</u>
<i>Capital assets, net</i>	<u>\$ 6,747,383</u>	<u>\$ 200,469</u>	<u>\$ (68,403)</u>	<u>\$ 6,879,449</u>

Depreciation expense for the year ended December 31, 2019 was \$82,704.

**Lake Durango Water Authority**  
**Notes to Basic Financial Statements**  
**December 31, 2019 (continued)**

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**5. Long-Term Liabilities**

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Notes payable consisted of the following at December 31, 2019:

Note payable to a state governmental entity, due in biannual installments of \$61,971 including interest at 2%, maturing in May 2029, collateralized by the source of repayment (Net Revenue).	\$ 1,067,516
La Plata West Water Authority Project	<u>2,479,979</u>
<i>Total Notes Payable</i>	<u>3,547,495</u>
Less current portion	<u>(103,105)</u>
<i>Long-term Portion of Notes Payable</i>	<u>\$ 3,444,390</u>

The Authority's notes payable will mature as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 103,105	\$ 20,837	\$ 123,942
2021	151,999	117,964	269,963
2022	155,986	113,977	269,963
2023	160,090	109,873	269,963
2024	164,336	105,647	269,983
Thereafter	<u>2,811,979</u>	<u>1,396,268</u>	<u>4,208,247</u>
	<u>\$ 3,547,495</u>	<u>\$ 1,864,566</u>	<u>\$ 5,412,061</u>

The note payable to the governmental entity includes covenants which the Authority is required to meet. The Authority believes it is in compliance with the covenant requirements as of December 31, 2019.

**La Plata West Water Authority Project**

In 2014 the Authority entered into an agreement to participate in the La Plata West Water Authority Project. This project is designed to bring water from Lake Nighthorse to Lake Durango. The project will add an additional 400 acre feet of water per year to the Authority's reserves. The project is financed through a loan of up to \$2,525,000 and a grant of \$500,000 funded by the Colorado Water Conservation Board (CWCB) and is secured by water revenue. Payments on the loan are not scheduled to begin until one year after the project is substantially complete, which occurred on January 1, 2019. The loan agreement requires the establishment and funding of a debt service reserve fund when the first payment is due. Interest is accrued on the loan at a rate of 4% and was capitalized during the construction period which ended in 2018. The Authority incurred total project costs of \$2,981,475, reflected in the total capital assets balance of which \$2,500,000 were

**Lake Durango Water Authority**  
**Notes to Basic Financial Statements**  
**December 31, 2019 (continued)**

**6. Long-Term Liabilities (continued)**

financed by drawing on the CWCB loan. This amount is included with long-term notes payable on the statement of net position. The remaining project costs are financed by the CWCB grant. As of December 31, 2019, the loan balance was \$2,479,979.

**Bonds Payable**

The Series 2009, Taxable Water Revenue Bonds (the Bonds), dated July 15, 2009, with interest of 8.35%, were refinanced during 2013 with an interest rate of 5%. The Bonds are serial bonds which mature in varying amounts through 2021. Interest is payable semiannually. The Bonds are subject to redemption prior to maturity, at the option of the Authority, as a whole or in part, on any date, upon payment of par and accrued interest, without redemption premium. The Bonds are subject to mandatory sinking fund redemption prior to the maturity date of such bonds, in part, by lot, upon payment of par and accrued interest, without redemption premium, on November 1 in the years and principal amounts set forth below. The Bonds are collateralized by a pledge of water revenues, net of all operating and maintenance expenses of the Authority as required by applicable bond ordinances. Annual principal and interest on the bonds are expected to require approximately 18% of such net revenues.

The Authority's bonds payable will mature as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 58,000	\$ 5,750	\$ 63,750
2021	57,000	2,820	59,820
	<u>\$ 115,000</u>	<u>\$ 8,570</u>	<u>\$ 123,570</u>

Changes in long-term notes and bonds for the year ended December 31, 2019 was as follows:

	<u>Balance at December 31, 2018</u>	<u>Additions</u>	<u>Payment</u>	<u>Balance at December 31, 2019</u>	<u>Due Within One Year</u>
Notes and bonds	\$ 3,837,588	\$ 25,000	\$ (200,093)	\$ 3,662,495	\$ 161,105
Total	<u>\$ 3,837,588</u>	<u>\$ 25,000</u>	<u>\$ (200,093)</u>	<u>\$ 3,662,495</u>	<u>\$ 161,105</u>

**Water Royalty Payable**

In accordance with the Agreement, additional consideration was given for the purchase of the assets of the Lake Durango Water Company in the form of a Water Royalty Agreement. Each July, the royalty payment is recalculated based on water usage for the previous year in accordance with the Water Royalty Agreement. Authority management

# **Lake Durango Water Authority**

## **Notes to Basic Financial Statements**

### **December 31, 2019 (continued)**

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#### **7. Water Purchase Agreement**

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estimated the 2020 payment at \$59,638. The estimated amount has also been recorded as value given for land and components of the water system and subsequent changes from recalculations each July result in increases or decreases to these assets.

On December 15, 2016, with the consent of the Board of Directors, management entered into a non-binding letter of intent for the purchase of 200 acre feet of water depletions from the Animas La Plata Water Conservancy District (ALPWCD). The initial purchase of 50 acre feet of water depletions occurred on March 31, 2017. Subsequent purchases of 25 acre feet of water depletions will occur in the proceeding years on or before May 31 of each year. During 2018, there was an additional 50 acre feet purchased at the cost of \$164,574. The intended 2019 purchase of 25 acres occurred at the end of 2018 in addition to the 25 acre feet purchase earlier in the year. LDWA will pay \$3,000 per acre foot depletion. LDWA shall also pay an administration fee to the ALPWCD of 3% on any amounts paid to the ALPWCD for the acquisition, including the per acre foot charge. Finally, LDWA shall pay the operating, maintenance, and replacement costs attributable to each portion of the acquisition under the agreement since the ALPWCD's first incremental purchase in 2013.

#### **8. Tax, Spending and Debt Limitations**

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In November 1992, voters passed an amendment to the Constitution of the State of Colorado, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment does not apply to the Authority because it does not have the power to levy taxes or hold elections. This determination has been confirmed by opinions of general and bond counsel for the Authority which have been accepted by the state agencies making loans to the Authority.

#### **9. Risk Management**

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The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. During 2019, the Authority maintained commercial insurance for these risks of loss.

**Lake Durango Water Authority**  
**Notes to Basic Financial Statements**  
**December 31, 2019 (continued)**

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**9. Subsequent Events**

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The District has evaluated subsequent events through June 18, 2020 the date that the financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which may negatively impact operations of the Authority. Other financial impacts could occur, though such potential impact is unknown at this time.

## **Supplementary Information**

**Lake Durango Water Authority**  
**Statement of Revenue, Expenditures and Changes in Funds Available**  
**Budget and Actual (Budgetary Basis)**  
**For the Year Ended December 31, 2019**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Operating Revenue</b>				
Water sales and fees	\$ 869,976	\$ 869,265	\$ 869,266	\$ 1
Tap sales	140,000	64,073	64,073	-
Other	<u>21,600</u>	<u>27,732</u>	<u>29,637</u>	<u>1,905</u>
Total Operating Revenue	<u>\$ 1,031,576</u>	<u>\$ 961,070</u>	<u>\$ 962,976</u>	<u>\$ 1,906</u>
<b>Operating Expenses:</b>				
Salaries and benefits	\$ 283,120	\$ 283,044	\$ 283,044	\$ -
Chemicals and supplies	70,450	80,233	79,900	333
Depreciation and amortization	95,000	82,704	82,704	-
Office and administrative	79,686	68,591	68,588	3
Professional and contractual services	71,705	73,774	82,521	(8,747)
Repairs and maintenance	32,000	17,343	17,343	-
Transportation	9,000	9,456	9,456	-
Ditch assessment	2,970	2,970	2,970	-
Contingency	10,000	-	-	-
Pipeline operating expense	17,720	17,720	-	17,720
GIS expense	4,000	-	-	-
Other	<u>1,000</u>	<u>-</u>	<u>6,612</u>	<u>(6,612)</u>
Total Expenses	<u>\$ 676,651</u>	<u>\$ 635,835</u>	<u>\$ 633,138</u>	<u>\$ 2,697</u>
Total Operating Income	354,925	325,235	329,838	4,603
<b>Non-operating Revenue and Expenses:</b>				
Other grants	50,000	-	-	-
Interest income	2,400	2,442	2,442	-
Interest expense	(33,360)	(131,531)	(131,532)	(1)
Principal payments on debt	(153,082)	(198,103)	(200,093)	(1,990)
Royalty fees paid out	<u>(53,181)</u>	<u>(59,524)</u>	<u>-</u>	<u>59,524</u>
Total Non-operating Revenues (Expenses)	<u>(187,223)</u>	<u>(386,716)</u>	<u>(329,183)</u>	<u>57,533</u>
Change in Net Position, Budgetary Basis	167,702	(61,481)	655	62,136
<b>Net Position - beginning of the year</b>	<u>899,898</u>	<u>857,884</u>	<u>3,196,371</u>	<u>2,296,473</u>
<b>Net Position - end of the year, budgetary basis</b>	<u>\$ 1,048,079</u>	<u>\$ 348,206</u>	<u>\$2,868,498</u>	<u>\$2,478,278</u>
<b>Reconciling differences between budgetary basis and generally accepted accounting principles (GAAP):</b>				
Principal payments on debt			<u>200,093</u>	
Net Income (GAAP Basis)			<u>\$ 200,748</u>	