

LA PLATA WEST WATER AUTHORITY
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT

December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

September 29, 2020

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, 2019 and 2018, 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 2018 audit in accordance with auditing standards generally accepted in the United States of America. We conducted our 2019 audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2019 and 2018, 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.

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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 schedule of expenses – budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020, on our consideration of La Plata West Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Plata West Water Authority's internal control over financial reporting and compliance.



LA PLATA WEST WATER AUTHORITY

Management's Discussion and Analysis Year Ended December 31, 2019

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, 2019 compared to 2018. 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, 2019.

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 began in November 2018 Phase 1, the pipeline construction for the domestic water system for rural southwest La Plata County. The remaining phases will take place over the next several years. LPWWA has received funding from U.S.D.A. Rural Development. The estimated project completion is October 2020.

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 2018 and 2019 of the Statement of Net Position follows:		
ASSETS	2018	2019
Current Assets	\$1,566,074	\$977,303
Non-Current	\$5,201,500	\$8,654,626
Total Assets	<u>\$6,767,574</u>	<u>\$9,631,929</u>
LIABILITIES		
Current Liabilities	\$990,369	\$814,283
Non-Current Liabilities	\$351,109	\$3,090,493
Total Liabilities	<u>\$1,341,478</u>	<u>\$3,904,776</u>
Net Investment in Capital Assets	\$4,846,312	\$5,559,687
Unrestricted	\$579,784	\$167,466
Total Net Position	<u>\$5,426,096</u>	<u>\$5,727,153</u>
Total liabilities & net position	<u><u>\$6,767,574</u></u>	<u><u>\$9,631,929</u></u>

A condensed version of comparison for Statement of Revenues, Expenses & Changes in Net Position		
	2018	2019
Raw Water Usage	\$0	\$0
Operating expenses	\$15,548	\$49,313
Operating Loss	(\$15,548)	(\$49,313)
Non-operating Revenues (Expenses)		
Grants & contribution income	\$509,237	\$216,330
Other income-interest	\$47,525	\$18,540
Non-operating revenues	\$556,762	\$234,870
Capital Contributions	\$1,340,119	\$115,500
Change in Net Position	\$1,881,333	\$301,057
Net Position at Beginning of Year	\$3,544,763	\$5,426,096
Net Position at End of Year	\$5,426,096	\$5,727,153

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 was substantial complete July 17, 2019 with all the pipeline installed, road and an Intake Structure building completed. A few outstanding construction repairs are slated to be completed in 2020 once a Memorandum of Agreement is completed by the Bureau of Reclamation and SHIPO.

Early in 2017 LPWWA submitted the Preliminary Engineering Report (PER) Pipeline for Phase 1, the Environmental Assessment (EA) and Cultural Study to USDA. A majority of the work we did in 2017 was to acquire easements from land owners, hire an attorney to develop required bond for our construction loan, find a bank or other institution to cover the construction loan and to develop a Right of Way map that corresponded to the easements. On March 30th 2017 we received our "Letter of Conditions" that we reviewed and accepted. We were to have concluded those conditions by August 30th but required an extension to Dec 30th, 2017 which was granted. The final acceptance for the LOC with Amendments to the March 30th, 2018 LOC was September 27, 2018. We broke ground with our new contractor for Phase 1 of the rural domestic water delivery system on November 5th, 2018. We restructured the basis of the construction project which now includes two separate contractors; one for the distribution pipeline and a second contract with a different contractor for the Water Storage Tank. This actual helped reduce the project costs, albeit the first bids were well over anticipated cost.

The final funding and budget from USDA include:

Applicant:	\$1,162,000
Loan #01:	\$2,754,000
Grant #02:	\$500,000
Grant #03:	<u>\$700,000</u>
	\$5,126,000

Our local bank; TBK Bank financed our ‘Construction Loan’ as the interim funding source. The first monies to be expended are the Applicant Contributions, then the construction loan of \$2,754,000. Costs needed for the project above that amount will come out of the grant funds. During December of 2019, the construction loan was spent, and USDA paid off the construction loan with TBK Bank as per the loan specifications. This fact concludes that Federal Funds in excess of \$750,000 qualifies LPWWA for a Single Audit.

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 the Base Rate Fee, water usage fee, small grants, and contributions. We look to the future for a water treatment plant. The Board of Directors is actively preparing and researching 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,

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 713,143	\$ 1,280,823
Receivables		
Customers	61,790	17,862
Lake Durango Water Authority	-	184,869
Grants	153,605	-
Other	-	657
Unbilled project costs	48,765	81,863
Total current assets	977,303	1,566,074
Non-Current		
Restricted cash - water tap deposits	184,650	186,682
Restricted cash - project funds held for others	156,289	168,506
Water intake and distribution system	8,313,687	4,846,312
Total non-current assets	8,654,626	5,201,500
Total assets	\$ 9,631,929	\$ 6,767,574
LIABILITIES AND NET POSITION		
Liabilities		
Current Liabilities		
Accounts payable	\$ 619,861	\$ 939,631
Retainage payable	158,354	21,098
Grant revenue received in advance	6,775	-
Accrued interest on note payable	29,293	29,640
Loan payable, current portion	-	-
Total current liabilities	814,283	990,369
Non-current liabilities		
Cash held for others, project funds	156,515	168,631
Water tap deposits	179,978	182,478
Loan payable	2,754,000	-
Total non-current liabilities	3,090,493	351,109
Total liabilities	3,904,776	1,341,478
Net Position		
Net investment in capital assets	5,559,687	4,846,312
Unrestricted	167,466	579,784
Total net position	5,727,153	5,426,096
Total liabilities and net position	\$ 9,631,929	\$ 6,767,574

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,

	2019	2018
Operating Revenue		
Raw water pipeline usage	\$ -	\$ -
Operating Expenses		
Professional fees	40,100	8,809
Insurance expense	1,806	4,078
Computer and internet expense	1,695	15
Operations and maintenance for raw water pipeline	2,390	-
Pipeline other operating expenses	1,008	-
Other expenses	2,314	2,646
Operating expenses	49,313	15,548
Operating income (loss)	(49,313)	(15,548)
Non-operating Revenues (Expenses)		
Grants and contribution income	216,330	509,237
Interest income	1,507	4,531
Interest expense	(3,405)	-
Operating expense reimbursements	929	-
Other income	19,509	42,994
Non-operating revenues	234,870	556,762
Change in net position before capital contributions	185,557	541,214
Capital Contributions	115,500	1,340,119
Change in net position	301,057	1,881,333
Net position at beginning of year	5,426,096	3,544,763
Net position at end of year	\$ 5,727,153	\$ 5,426,096

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,

	2019	2018
Cash Flows from Operating Activities		
Operating cash receipts	\$ -	\$ -
Cash paid to suppliers	(45,991)	(16,110)
Net Cash Provided (Used) by Operating Activities	(45,991)	(16,110)
Cash Flows from Capital and Related Financing Activities		
Grants and contribution received	254,369	381,463
Project funds disbursed on behalf of others	(12,116)	(394,305)
Water tap deposits	-	(1,000)
Water tap subscriptions	72,229	114,405
Proceeds from issuance of debt	2,754,000	-
Purchases of capital assets	(3,619,184)	(704,793)
Principal repayment of debt	-	(60,000)
Interest paid	(3,752)	(3,705)
Other	17,009	494
Net Cash Provided (Used) by Capital and Related Financing Activities	(537,445)	(667,441)
Cash Flows from Investing Activities		
Interest income	1,507	4,531
Net Cash Provided (Used) by Investing Activities	1,507	4,531
Net Increase (Decrease) in Cash	(581,929)	(679,020)
Cash at beginning of year	1,636,011	2,315,031
Cash at end of year	<u>\$ 1,054,082</u>	<u>\$ 1,636,011</u>
Reconciliation to amounts reported on the Statement of Net Position:		
Cash and cash equivalents	\$ 713,143	\$ 1,280,823
Restricted cash - water tap deposits	184,650	186,682
Restricted cash - project funds held for others	156,289	168,506
	<u>\$ 1,054,082</u>	<u>\$ 1,636,011</u>
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities		
Operating loss	\$ (49,313)	(15,548)
Reimbursement of operating expenses	\$ 929	-
Change in accounts payable and prepaid expenses, net of capital activity	2,393	(562)
Net Cash Provided (Used) by Operating Activities	<u>\$ (45,991)</u>	<u>\$ (16,110)</u>
Noncash Investing and Financing Activities:		
Accounts payable incurred for capital activities	617,408	939,571
Retainage payable incurred for capital activities	158,354	21,098
Water tap subscription liability transferred to capital contributions	-	1,213,076

The accompanying notes are an integral part of these statements.

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

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, 2019 and 2018

NOTE C – CASH AND INVESTMENTS – CONTINUED

The balance in the accounts at December 31, 2019 and 2018 is as follows:

	Carrying Amount	Insured Bank Balance	Collateralized Bank Balance
2019			
Cash and equivalents	\$ 713,143	\$ 277,754	\$ 397,575
Restricted cash	340,939	12,125	369,830
2018			
Cash and equivalents	\$ 1,280,823	\$ 494,373	\$ 786,315
Restricted cash	355,188	1,000	354,188

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 \$184,650 (2019) and \$186,682 (2018) 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. \$156,289 (2019) and \$168,506 (2018) 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, 2019 and 2018

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, 2019 and 2018

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:

2019	Beginning Balance	Additions	Adjustments Deletions	Ending Balance
Water Intake Structure	\$1,068,767	\$ -	\$ -	\$1,068,767
Pipeline Construction in Progress	3,719,849	3,467,375	-	7,187,224
Access Road Design	57,696	-	-	57,696
	<u>\$4,846,312</u>	<u>\$3,467,375</u>	<u>\$ -</u>	<u>\$8,313,687</u>
2018	Beginning Balance	Additions	Adjustments Deletions	Ending Balance
Water Intake Structure	\$1,068,767	\$ -	\$ -	\$1,068,767
Pipeline Construction in Progress	2,618,125	1,101,724	-	3,719,849
Access Road Design	57,696	-	-	57,696
	<u>\$3,744,588</u>	<u>\$1,101,724</u>	<u>\$ -</u>	<u>\$4,846,312</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, 2019 and 2018

NOTE F – NOTE PAYABLE

During 2019, the Authority received loan from the United States Department of Agriculture (USDA) to assist in the funding of the pipeline segment known as Phase I to deliver potable water to users. The loan is secured by the revenues of the Authority and bears interest at 2.375% per annum. An interest only payment is due on December 6, 2020. Monthly payments of \$9,336 commence on January 6, 2021 and continue until December 6, 2057. The following is a summary of notes payable activity for the years ended December 31, 2019 and 2018.

2019	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
USDA loan payable	\$ -	\$ 2,754,000	\$ -	\$ 2,754,000	\$ -
	<u>\$ -</u>	<u>\$ 2,754,000</u>	<u>\$ -</u>	<u>\$ 2,754,000</u>	<u>\$ -</u>
2018	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
SWCD loan payable	\$ 60,000	\$ -	\$ (60,000)	\$ -	\$ -
	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ (60,000)</u>	<u>\$ -</u>	<u>\$ -</u>

Future payments required by the loan are as follows:

	Principal	Interest	Total
2020	\$ -	\$ 65,408	\$ 65,408
2021	47,136	64,896	112,032
2022	48,266	63,766	112,032
2023	49,426	62,606	112,032
2024	50,614	61,418	112,032
2025-2029	271,890	288,270	560,160
2030-2034	306,135	254,025	560,160
2035-2039	344,692	215,468	560,160
2040-2044	388,112	172,048	560,160
2045-2049	436,995	123,165	560,160
2050-2054	492,037	68,123	560,160
2055-2057	318,697	11,603	330,300
	<u>\$ 2,754,000</u>	<u>\$ 1,450,796</u>	<u>\$ 4,204,796</u>

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 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, 2018 is as follows:

Assets	<u>\$ 63,918,422</u>
Liabilities	<u>\$ 39,345,647</u>
Surplus	<u>24,572,775</u>
	<u>\$ 63,918,422</u>
Revenues	\$ 21,881,889
Expenses	<u>22,973,705</u>
Net Income (Loss)	<u>\$ (1,091,816)</u>

La Plata West Water Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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 funded \$1,500,000 and the SUIT and the UMUT each contributed \$1,000,000 of the costs of this pipeline. This segment is 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, 2019 and 2018

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. During 2018, the Authority received funding approval to move forward with this phase of the project. The funds received through these subscriptions will be used for the Authority's required contribution to the system. As feasibility has been determined, these amounts are no longer shown as restricted cash at December 31, 2018. Previous to obtaining funding approval, these deposits were reflected as restricted in the financial statements.

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>
2019						
Total expenditures	\$ 4,133,560	\$ 4,133,560	\$ 52,718	\$ 3,619,184	\$ 3,671,902	\$ 461,658
2018						
Total expenditures	\$ 4,133,560	\$ 4,133,560	\$ 15,548	\$ 764,793	\$ 780,341	\$ 3,353,219

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

SINGLE AUDIT SECTION

La Plata West Water Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended December 31, 2019

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>2019 Amount of Award Expended</u>
U.S. DEPARTMENT OF AGRICULTURE		
Water and Waste Disposal Systems for Rural Communities Loan	10.760	\$ 2,720,219
Water and Waste Disposal Systems for Rural Communities Grant	10.760	<u>153,605</u>
Total U.S. Department of Commerce		<u>2,873,824</u>
Total expenditures of federal awards		<u>\$ 2,873,824</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of La Plata West Water Authority under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of La Plata West Water Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of La Plata West Water Authority.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting, except as noted in this paragraph. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures reported for the U.S. Department of Agriculture, CFDA number 10.760, exclude retainage on construction contracts. Retainage will be included as expenditures of federal awards in the year of payment.

INDIRECT DE MINIMIS COST RATE

The District does not receive reimbursement for indirect costs from the U.S. Department of Agriculture for CFDA number 10.760.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

September 29, 2020

Board of Directors
La Plata West Water Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of La Plata West Water Authority as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise La Plata West Water Authority's basic financial statements, and have issued our report thereon dated September 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the La Plata West Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of La Plata West Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of La Plata West Water Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questions costs as item number 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Plata West Water Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

La Plata West Water Authority's Response to Findings

La Plata West Water Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. La Plata West Water Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Beckstead & Co., LLC', is written in a cursive, stylized script.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

September 29, 2020

Board of Directors
La Plata West Water Authority

Report on Compliance for Each Major Federal Program

We have audited La Plata West Water Authority's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of La Plata West Water Authority's major federal programs for the year ended December 31, 2019. La Plata West Water Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of La Plata West Water Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about La Plata West Water Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of La Plata West Water Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, La Plata West Water Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of La Plata West Water Authority, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered La Plata West Water Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of La Plata West Water Authority's internal control over compliance.

September 29, 2020
La Plata West Water Authority
Page 2

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

 & Co., LLC

La Plata West Water Authority.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2019

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- | | | | | |
|---|---------------|-----|---------------|---------------|
| • Material weakness(es) identified | <u> X </u> | Yes | <u> </u> | No |
| • Significant deficiency(ies) identified | <u> </u> | Yes | <u> X </u> | None reported |
| • Noncompliance material to financial statements noted? | <u> </u> | Yes | <u> X </u> | No |

Federal Awards

Internal control over major programs:

- | | | | | |
|--|---------------|-----|--------------|---------------|
| • Material weakness(es) identified | <u> </u> | Yes | <u> X </u> | No |
| • Significant deficiency(ies) identified | <u> </u> | Yes | <u> X </u> | None reported |

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 Yes X No

Identification of major programs:

CFDA Number(s)

10.760

Name of Federal Program or Cluster

Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

La Plata West Water Authority

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding Number: 2019-001 Preparation of Financial Statements

Type of Finding: Material Weakness

Criteria: Preparation of financial statements in accordance with generally accepted accounting principles dictates that transactions be recorded in the period during which the product or service was received.

Condition: The financial statements prepared by the Authority did not include all costs of construction activity received during the period, but that were paid for subsequent to the audit period.

Context: During our audit, we noted that the Authority did not report the proper amount of construction costs due to improperly excluding certain costs incurred during the audit period that were paid in the subsequent audit period. Adjustments were required to record construction payables.

Cause: Authority personnel failed to record construction costs using dates of service instead of invoice dates.

Effect: Correction of the financial statements was required.

Questioned Costs: None

View of Responsible Officials: The District agrees with the finding and will implement corrective action. Please refer to the corrective action plan on page 28.

La Plata West Water Authority
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2019

There were no prior year findings.

CORRECTIVE ACTION PLAN



**La Plata West Water Authority
Corrective Action Plan for Findings and Recommendations
For the Year Ended December 31, 2019**

1. Finding -2018-001 Preparation of Financial Statements

Preparation of financial statements in accordance with generally accepted accounting principles dictates that transactions be recorded in the period during which the product or service was received.

Corrective Action Taken or Planned: All expenditures will be recorded in the future based on date of service to correctly account for construction costs and other expenditures.

End Data: annually in audit

Responding Person: Mardi Gebhardt, board president

A handwritten signature in purple ink that reads "Mardi Gebhardt".