

LAKE DURANGO WATER AUTHORITY

ANNUAL FINANCIAL STATEMENTS
And Independent Auditor's Report

DECEMBER 31, 2022 AND 2021




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Independent Auditor's Report

Members of the Board of Directors
Lake Durango Water Authority

Opinions

We have audited the accompanying financial statements of the business-type activities of Lake Durango Water Authority (the Authority) as of and for the years ended December 31, 2022 and 2021 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Lake Durango Water Authority, as of December 31, 2022 and 2021, and the respective 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Lake Durango Water Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Durango Water Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lake Durango Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Lake Durango Water Authority's ability to continue as a going concern for a reasonable period of time.

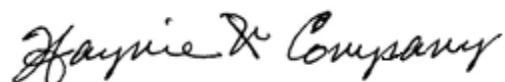
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Littleton, Colorado
September 26, 2023

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, 2022, with comparative information presented for the year ended December 31, 2021. 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 contributed \$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 150 acre-feet depletions equal to 300 acre-feet supply of ALP Project Water from the Animas La Plata Water Conservancy District and is in Agreement to purchase an additional 50 acre-feet depletions equal to 100 acre-feet supply. The pipeline project was completed in September 2020 and the Authority is now able to pump to Lake Durango as necessary.

In 2018, La Plata County resolved that the Authority has sufficient water supply for 1,817 taps.

Financial Highlights

- In 2022 operating revenues were 10% lower than prior year due to one month less of billings in base fees and acquisition fees during staff turnover.
- In 2022 water rates remained consistent with prior year while the new rate study was being completed.
- In 2022 there were 3 new taps sold and 1 ADU tap sold.
- In 2022 operating expenditures were 7% higher than prior year, attributed to increases in chemicals and supplies expense as well as contract services.

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.

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

Lake Durango Water Authority Management's Discussion and Analysis

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.

Assets	2022	2021
Current assets	\$ 737,791	\$ 735,512
Capital assets, net	<u>7,214,629</u>	<u>7,188,364</u>
<i>Total assets</i>	<u>7,952,420</u>	<u>7,923,876</u>
 Liabilities		
Current liabilities	324,979	336,721
Long-term liabilities	<u>3,216,974</u>	<u>3,427,886</u>
<i>Total liabilities</i>	<u>3,541,953</u>	<u>3,764,607</u>
 Net Position		
Net investment in capital assets	3,822,723	3,583,856
Restricted for operations and maintenance	170,928	159,755
Unrestricted	<u>416,816</u>	<u>415,658</u>
<i>Total net position</i>	<u>\$ 4,410,467</u>	<u>\$ 4,159,269</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

Revenue	2022	2021
Operating Revenue	\$ 1,017,410	\$ 1,126,672
Non-operating revenue	<u>120,190</u>	<u>124,588</u>
<i>Total Revenue</i>	<u>1,137,600</u>	<u>1,251,260</u>
Expenses		
Operating expenses	788,628	736,618
Non-operating expenses	<u>97,774</u>	<u>118,292</u>
<i>Total Expenses</i>	<u>886,402</u>	<u>854,910</u>
<i>Change in Net Position</i>	251,198	396,350
Net Position - beginning of year	<u>4,159,269</u>	<u>3,762,919</u>
Net Position – end of year	<u>\$ 4,410,467</u>	<u>\$ 4,159,269</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 Sales 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 accrual basis of accounting.

- In 2022 operating revenues were 8% lower than budgeted expectations due to less tap sales than anticipated.
- In 2022 operating expenditures were 5% lower than budgeted expectations, attributed to savings in royalty fees and salaries.

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: Matt Nesbit, 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
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets:		
Cash and cash equivalents	\$ 522,434	\$ 556,158
Accounts receivable, net	207,357	171,354
Tap fees receivable	8,000	8,000
Total Current Assets	737,791	735,512
Capital Assets:		
Capital assets, not being depreciated	1,822,168	1,736,548
Capital assets being depreciated, net	5,392,461	5,451,816
Net Capital Assets	7,214,629	7,188,364
Total Assets	\$ 7,952,420	\$ 7,923,876
Liabilities		
Current Liabilities:		
Accounts payable	\$ 147,799	\$ 157,851
Accrued liabilities	2,248	2,248
Water royalty payable - current portion	65,484	69,331
Notes payable - current portion	109,448	107,291
Total Current Liabilities	324,979	336,721
Long-term Liabilities:		
Water royalty payable	240,660	291,482
Notes payable	2,976,314	3,136,404
Total Long-term Liabilities	3,216,974	3,427,886
Net Position		
Net investment in capital assets	3,822,723	3,583,856
Restricted for operations and maintenance	170,928	159,755
Unrestricted	416,816	415,658
Total Net Position	4,410,467	4,159,269
Total Liabilities and Net Position	\$ 7,952,420	\$ 7,923,876

The accompanying notes are an integral part of these statements.

Lake Durango Water Authority
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues:		
Water sales and fees	\$ 999,274	\$ 1,101,609
Other revenue	18,136	25,063
Total Operating Revenues	1,017,410	1,126,672
Operating Expenses:		
Salaries and benefits	334,964	350,784
Chemicals and supplies	110,892	74,604
Depreciation and amortization	104,915	98,377
Office and administrative	35,613	33,568
Utilities	55,623	54,320
Professional and contractual services	65,303	46,079
Repairs and maintenance	32,839	34,664
Transportation	15,283	9,798
Other expenses	33,196	34,424
Total Operating Expenses	788,628	736,618
Operating Income	228,782	390,054
Non-operating Revenues and Expenses:		
Grant Revenue	43,200	41,800
Tap sales	76,950	82,763
Interest income	40	25
Interest expense	(112,030)	(118,292)
Gain on Insurance	14,256	-
Net Non-operating Revenues and Expenses	22,416	6,296
Change in Net Position	251,198	396,350
Net Position —beginning of year	4,159,269	3,762,919
Net Position —end of year	\$ 4,410,467	\$ 4,159,269

The accompanying notes are an integral part of these statements.

Lake Durango Water Authority
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Cash received from customers	\$ 981,407	\$1,121,875
Cash paid to suppliers for goods and services	(358,801)	(167,158)
Cash paid to employees for services	(334,964)	(350,784)
Net Cash From Operating Activities	287,642	603,933
Cash Flows from Capital and Related Financing Activities:		
Proceeds from capital grants	43,200	41,800
Purchase of capital assets	(171,593)	(330,799)
Principal paid on capital debt	(157,933)	(209,831)
Interest paid on capital debt	(112,030)	(118,292)
Net Cash From Capital and Related Financing Activities	(398,356)	(617,122)
Cash Flows from Investing Activities:		
Tap fees received	76,950	81,306
Interest income received	40	25
Net Cash From Investing Activities	76,990	81,331
Net Change in Cash and Cash Equivalents	(33,724)	68,142
Cash and Cash Equivalents—beginning of year	556,158	488,016
Cash and Cash Equivalents—end of year	\$ 522,434	\$ 556,158
Reconciliation of Net Operating Income to		
Net Cash From Operating Activities:		
Operating income	\$ 228,782	\$ 390,054
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	104,915	98,377
Changes in assets and liabilities:		
Accounts receivable	(36,003)	(4,797)
Accounts payable	(10,052)	122,659
Accrued liabilities	-	(2,360)
Total Adjustments	58,860	213,879
Net Cash From Operating Activities	\$ 287,642	\$ 603,933

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

Lake Durango Water Authority

Notes to Basic Financial Statements

December 31, 2022 and 2021

1. Organization

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.

2. Significant Accounting Policies

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 Authority'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, 2022 and 2021 (continued)

2. Summary of Significant Accounting Policies (continued)

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 Authority's policy to use restricted resources first and the unrestricted resources as they are needed.

The Authority 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, 2022 and 2021.

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, 2022 and 2021, management believes all accounts receivable are fully collectible; therefore, no allowance for doubtful accounts has been recorded.

Revenue Recognition

Revenues are recognized when earned. Metered water accounts are read and billed monthly on 30-day cycles. Unbilled water charges are accrued for the period of time from the last meter reading through year end and are included in receivables.

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 \$43,200 and \$41,800 in grant revenue received in 2022 and 2021, respectively.

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 25 to 60 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.

Lake Durango Water Authority

Notes to Basic Financial Statements

December 31, 2022 and 2021 (continued)

2. Summary of Significant Accounting Policies (continued)

Net Position

The Authority's Net Position is classified as follows:

Net Investment in Capital Assets – This category groups all capital assets into one component of net position. Accumulated depreciation of these assets and related debt balances reduce this category.

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.

Budgets

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

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

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.

Lake Durango Water Authority

Notes to Basic Financial Statements

December 31, 2022 and 2021 (continued)

2. Summary of Significant Accounting Policies (continued)

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.

3. Cash and Investments

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, 2022, the Authority had carrying balances and bank balances as follows:

	Carrying Balance	Bank Balance
Cash in checking and money market accounts	\$ 522,434	\$ 522,427

The Authority maintains cash balances at local financial institutions which are insured by the FDIC up to \$250,000 per institution. At year-end \$275,426 of the Authority’s bank balance was covered by FDIC insurance and the remaining bank balance was covered by the PDPA.

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 also disclosed in Note 5.

Lake Durango Water Authority
Notes to Basic Financial Statements
December 31, 2022 and 2021 (continued)

4. Capital Assets (continued)

A summary of changes in capital assets in 2022 are as follows:

	<u>Balance December 31, 2021</u>	<u>Additions/ (Deletions)</u>	<u>Adjustments/ Transfers</u>	<u>Balance December 31, 2022</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 603,293	\$ -	\$ -	\$ 603,293
Water rights	<u>1,133,255</u>	<u>85,620</u>	<u>-</u>	<u>1,218,875</u>
<i>Total capital assets, not being depreciated</i>	<u>1,736,548</u>	<u>85,620</u>	<u>-</u>	<u>1,822,168</u>
Capital assets, being depreciated:				
ALP Pipeline	2,991,066	-	-	2,991,066
Water system - Source, plant & lines	3,254,903	43,476	-	3,298,379
Vehicles	<u>154,808</u>	<u>29,285</u>	<u>(32,425)</u>	<u>151,668</u>
<i>Total capital assets, being depreciated</i>	<u>6,400,777</u>	<u>72,761</u>	<u>(32,425)</u>	<u>6,441,113</u>
Less accumulated depreciation:	<u>(948,961)</u>	<u>(104,915)</u>	<u>5,224</u>	<u>(1,048,652)</u>
<i>Total capital assets, being depreciated, net</i>	<u>5,451,816</u>	<u>(32,154)</u>	<u>(27,201)</u>	<u>5,392,461</u>
<i>Capital assets, net</i>	<u>\$ 7,188,364</u>	<u>\$ 53,466</u>	<u>\$ (27,201)</u>	<u>\$ 7,214,629</u>

Depreciation expense for the year ended December 31, 2022 was \$104,915.

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Lake Durango Water Authority
Notes to Basic Financial Statements
December 31, 2022 and 2021 (continued)

4. Capital Assets (continued)

A summary of changes in capital assets in 2021 are as follows:

	<u>Balance December 31, 2020</u>	<u>Additions/ (Deletions)</u>	<u>Adjustments/ Transfers</u>	<u>Balance December 31, 2021</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 602,463	\$ 830	\$ -	\$ 603,293
Water rights	1,048,602	84,653	-	1,133,255
Construction in progress	<u>65,845</u>	<u>1,864</u>	<u>(67,709)</u>	<u>-</u>
<i>Total capital assets, not being depreciated</i>	<u>1,716,910</u>	<u>87,347</u>	<u>(67,709)</u>	<u>1,736,548</u>
Capital assets, being depreciated:				
ALP Pipeline	2,991,064	2	-	2,991,066
Water system - Source, plant & lines	3,003,480	183,714	67,709	3,254,903
Vehicles	<u>154,808</u>	<u>-</u>	<u>-</u>	<u>154,808</u>
<i>Total capital assets, being depreciated</i>	<u>6,149,352</u>	<u>183,716</u>	<u>67,709</u>	<u>6,400,777</u>
Less accumulated depreciation:	<u>(850,584)</u>	<u>(98,377)</u>	<u>-</u>	<u>(948,961)</u>
<i>Total capital assets, being depreciated, net</i>	<u>5,298,768</u>	<u>85,339</u>	<u>67,709</u>	<u>5,451,816</u>
<i>Capital assets, net</i>	<u>\$ 7,015,678</u>	<u>\$ 172,686</u>	<u>\$ -</u>	<u>\$ 7,188,364</u>

Depreciation expense for the year ended December 31, 2021 was \$98,377.

5. Long-Term Liabilities

Notes payable consisted of the following at December 31, 2022:

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).	\$ 751,942
La Plata West Water Authority Project	<u>2,333,820</u>
<i>Total Notes Payable</i>	<u>3,085,762</u>
Less current portion	<u>(109,448)</u>
<i>Long-term Portion of Notes Payable</i>	<u>\$ 2,976,314</u>

Lake Durango Water Authority
Notes to Basic Financial Statements
December 31, 2022 and 2021 (continued)

5. Long-Term Liabilities (continued)

Notes payable consisted of the following at December 31, 2021:

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).	\$ 859,233
La Plata West Water Authority Project	<u>2,384,462</u>
<i>Total Notes Payable</i>	<u>3,243,695</u>
Less current portion	<u>(107,291)</u>
<i>Long-term Portion of Notes Payable</i>	<u>\$ 3,136,404</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>
2023	\$ 109,448	\$ 109,873	\$ 219,321
2024	164,316	105,647	269,963
2025	168,667	101,296	269,963
2026	173,147	96,816	269,963
2027	177,761	92,202	269,963
Thereafter	<u>2,292,423</u>	<u>1,827,985</u>	<u>4,120,408</u>
	<u>\$ 3,085,762</u>	<u>\$ 2,333,820</u>	<u>\$ 5,419,582</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, 2022.

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 were not scheduled to begin until one year after the project was 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 was 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 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, 2022, and 2021 the loan balance was \$2,333,820 and \$2,384,462, respectively.

Lake Durango Water Authority
Notes to Basic Financial Statements
December 31, 2022 and 2021 (continued)

5. Long-Term Liabilities (continued)

Changes in long-term notes and bonds for the year ended December 31, 2022 was as follows:

	Balance at December 31, 2021	Additions	Payment	Balance at December 31, 2022	Due Within One Year
Notes payable					
CWCB	\$ 2,384,462	\$ -	\$ (50,642)	\$ 2,333,820	\$ -
CWRPDA	859,233	-	(107,291)	751,942	109,448
Total	<u>\$ 3,243,695</u>	<u>\$ -</u>	<u>\$ (157,933)</u>	<u>\$ 3,085,762</u>	<u>\$ 109,448</u>

Changes in long-term notes and bonds for the year ended December 31, 2021 was as follows:

	Balance at December 31, 2020	Additions	Payment	Balance at December 31, 2021	Due Within One Year
Bonds payable	\$ 57,000	\$ -	\$ (57,000)	\$ -	\$ -
Total bonds payable	<u>57,000</u>	<u>-</u>	<u>(57,000)</u>	<u>-</u>	<u>-</u>
Notes payable					
CWCB	\$ 2,433,157	\$ -	\$ (48,695)	\$ 2,384,462	\$ -
CWRPDA	963,369	-	(104,136)	859,233	107,291
Total notes payable	<u>3,396,526</u>	<u>-</u>	<u>(152,831)</u>	<u>3,243,695</u>	<u>107,291</u>
Total	<u>\$ 3,453,526</u>	<u>\$ -</u>	<u>\$ (209,831)</u>	<u>\$ 3,243,695</u>	<u>\$ 107,291</u>

6. Water Purchase Agreement

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 estimated the 2023 payment at \$65,484. 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, the Board of Directors, signed a contract 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,

Lake Durango Water Authority

Notes to Basic Financial Statements

December 31, 2022 and 2021 (continued)

6. Water Purchase Agreement (continued)

2017 with additional purchases of 25 acre feet of water depletions scheduled for purchase of each subsequent year. The seventh and final purchase of 25 acre-feet of depletions were purchased in April 2022 for a total of 200 acre-feet of depletion and 200 acre-feet of storage.

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.

7. Tax, Spending and Debt Limitations

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.

8. Risk Management

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 2022 and 2021, the Authority maintained commercial insurance for these risks of loss.

9. Subsequent Events

The Authority has evaluated subsequent events through September 26, 2023 the date that the financial statements were available to be issued.

Supplementary Information

Lake Durango Water Authority
Statement of Revenues, Expenditures and Changes in Funds Available
Budget and Actual (Budgetary and GAAP Basis)
For the Year Ended December 31, 2022

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Water sales and fees	\$ 1,016,586	\$ 999,274	\$ (17,312)
Tap sales	117,760	76,950	(40,810)
Other	<u>56,000</u>	<u>18,136</u>	<u>(37,864)</u>
Total Operating Revenues	<u>\$ 1,190,346</u>	<u>\$1,094,360</u>	<u>\$ (95,986)</u>
Operating Expenses:			
Salaries and benefits	\$ 355,013	\$ 334,964	\$ 20,049
Chemicals and supplies	62,700	110,892	(48,192)
Depreciation and amortization	85,000	104,915	(19,915)
Office and administrative	34,483	35,613	(1,130)
Utilities	51,708	55,623	(3,915)
Professional and contractual services	64,675	65,303	(628)
Repairs and maintenance	25,500	32,839	(7,339)
Transportation	9,000	15,283	(6,283)
Ditch assessment	2,970	2,970	-
Contingency	20,000	-	20,000
Pipeline operating expense	40,778	30,226	10,552
Royalty Fees Paid Out	60,000	-	60,000
Rate Study	<u>15,000</u>	<u>-</u>	<u>15,000</u>
Total Expenses	<u>\$ 826,827</u>	<u>\$ 788,628</u>	<u>\$ 38,199</u>
Total Operating Income	363,519	305,732	(57,787)
Non-operating Revenue and Expenses:			
Other grants	117,058	43,200	(73,858)
Gain on disposal of Capital Assets	-	14,256	14,256
Interest income	750	40	(710)
Interest expense	<u>(114,143)</u>	<u>(112,030)</u>	<u>2,113</u>
Total Non-operating Revenues (Expenses)	3,665	(54,534)	(58,199)
Funds Available, Budgetary Basis	367,184	251,198	(115,986)
Funds Available - beginning of the year	<u>541,083</u>	<u>412,812</u>	<u>(128,271)</u>
Funds Available - end of the year, budgetary basis	<u>\$ 908,267</u>	<u>\$ 664,010</u>	<u>\$ (244,257)</u>