

LA PLATA ARCHULETA WATER DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2015 and 2014

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

March 4, 2016

To the Board of Directors
La Plata Archuleta Water District**Report on the Financial Statements**

We have audited the accompanying statements of net position of La Plata Archuleta Water District as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of La Plata Archuleta Water District as of December 31, 2015 and 2014, and the

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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.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise La Plata Archuleta Water District'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 supplemental schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule of expenses – budget and actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the La Plata Archuleta Water District's (the District) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

This section provides a summary of the District's financial performance. It contains an overview and analysis of the District's financial activities for the year ended December 31, 2015. The financial statements are an integral part of this analysis and should be read in conjunction with this document.

Financial Highlights

1. The District began serving its first customers in January 2014. By the end of 2015 the District had sold 73 taps and was serving water to 59 customers.
2. Currently, the District's primary source of income is property taxes that are the result of the 5 mil tax issue that passed in the May 2010 election. A total of \$2,237,130 in general property taxes and \$201,274 in specific ownership taxes were received in 2015, an increase of \$273,779 and \$12,110, respectively, from 2014.
3. The District has a contract with Colorado Water Conservation Board (CWCB) to purchase a portion of CWCB's allocation of water in Lake Nighthorse. Lake Nighthorse is the reservoir constructed as part of the Bureau of Reclamation's Animas-La Plata Project which is situated southwest of the City of Durango. The District has the option to purchase up to 2,500 acre-feet of water over a 40-year period. The first 100 acre-feet was purchased in 2014 for \$346,219, with an additional 60 acre-feet purchased in 2015 for \$207,731.
4. The District's total assets on December 31, 2015 totaled \$19,685,345 including unrestricted net position of \$4,878,449. The District has restricted assets of \$147,540 for TABOR reserves, \$360,166 for bond reserve and assigned assets of \$4,018,677 for the Bayfield Water Treatment Plant Expansion Project, and \$327,783 in payments in lieu of taxes (PILT) received from the Southern Ute Indian Tribe, which the District Board has designated to be used for the purchase of raw water.
5. The District began construction of its water distribution system in late 2012 and has completed construction of approximately 18 miles of water mains. The District entered a contract with Integrated Water Services in June 2015 for the construction of the Bayfield Water Treatment Plant Expansion Project in the amount of \$7,062,131. The District has capital assets of \$7,230,176 and prepaid cost of water of \$3,677,188. The prepaid cost of water is for costs associated with the expansion of the Town of Bayfield's Water Treatment Plant.

6. The District had four water main breaks occur in summer 2014 on a section of pipeline that was completed in early 2014. The District began investigation of these leaks in 2015 and is currently in negotiations with the Contractor and their Surety for corrective actions to be taken. The District is holding a receivable in the amount of \$50,358 with the expectation of being reimbursed for legal and engineering costs involved in the investigation and negotiations from the contractor or its surety.
7. The District began negotiations with the City of Durango for a joint water treatment plant to serve the western side of the District's service area in June 2015.

Report Layout

Besides this Management's Discussion and Analysis (MD&A), the report consists of combined government-wide financial statements, notes to the basic financial statements, and required supplementary information including a budget comparison schedule. La Plata Archuleta Water District is a single fund entity whose primary function is to facilitate the construction of water projects. Revenues and expenses relate to the core function of operating the District and its facilities. The basic financial statements of La Plata Archuleta Water District contain three primary statements: the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position reflects the cumulative financial condition of the District at December 31, 2014, and the Statement of Revenues, Expenses, and Changes in Net Position show the change in financial condition from operations and other activities for the year then ended. The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position are reported using the economic resources measurement focus and the accrual basis of accounting.

Government-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 2014 and 2015 of the Statement of Net Position follows:

	<u>2014</u>	<u>2015</u>
Current Assets	\$10,315,810	\$8,777,981
Capital Assets	6,111,274	7,230,176
Prepaid Cost of Water	487,237	3,677,188
Total Assets	<u>\$16,914,321</u>	<u>19,685,345</u>
Total Liabilities	\$4,801,681	\$5,353,982
Deferred Property Tax Revenue	\$2,238,777	\$2,563,619

Invested in Capital Assets, Net of related debt	\$6,398,461	\$6,741,755
Restricted	84,564	147,540
Unrestricted	<u>3,390,838</u>	<u>4,878,449</u>
Total Net Position	<u>\$9,873,863</u>	<u>\$11,767,744</u>

A condensed version of the Statement Revenues, Expenditures and Changes in Net Position follows:

	<u>2014</u>	<u>2015</u>
Operating Income		
Service Charges	\$ 12,154	\$ 29,154
Total operating expenses	595,642	647,585
Operating Income (Loss)	(583,488)	(618,431)
Nonoperating revenues (expenses)		
Property taxes and specific ownership taxes	1,963,351	2,237,130
Interest income	14,416	17,728
Tap Fees	290,886	82,536
Specific Ownership Tax	189,164	201,274
Grant income	31,170	0
PILT income	147,076	172,789
Other income	3,565	4,326
Interest Expense and Debt Issuance Cost	<u>(140,574)</u>	<u>(136,574)</u>
Treasure Fees- La Plata County	<u>(58,719)</u>	<u>(66,897)</u>
Total nonoperating revenues	<u>2,440,335</u>	<u>2,512,312</u>
Change in net position	1,856,847	1,893,881
Beginning net position	<u>8,017,016</u>	<u>9,873,863</u>
Ending net position	<u>\$ 9,873,863</u>	<u>\$11,767,744</u>

The District was originally formed in August of 2008. A 5 mil property tax was approved by the voters of the District in May 2010. 2015 is the fifth year that the District has received property tax income. Approximately 82% of the District's property tax base consists of taxes from the production and processing of natural gas, the majority of which is tied to the commodity price of the natural gas. This can cause a large swing in the property tax revenue received by the District. There is a two year lag between the sales of gas and when the District receives the property tax for those sales. For instance, the price of gas in 2013 is reflected in the property taxes received by the District in 2015.

Because the District is relatively new and currently serves few customers, the tax revenue will be used to fund operations until there is enough of a customer base to cover these costs. Any tax

revenue that is available after operations and to pay any debt obligations will be used for the capital construction program to continue expanding the water system and serving additional customers.

The District's Funds

General Fund

With the exception of the TABOR reserve requirements, the \$360,166 in bond reserves, the bond proceeds designated for the Town of Bayfield treatment plant expansion, and the PILT funds that are designated for the purchase of raw water, the remainder of this fund is available for operation and capital expenses.

Budgetary Highlights

Total income for 2015 was about \$170,000 less than what was budgeted, primarily because of fewer taps being sold than was budgeted. As the District has more years of history it should be able to have a better idea of what the different income sources will provide.

Capital Assets and Long-Term Debt

Construction of the expansion to Bayfield's Water Treatment Plant began in 2015. A total of \$2,902,621 was expended on construction, with \$145,131 of that amount being retained. An additional \$286,917 being spent on engineering design and construction management services.

Pipeline construction expended about \$2,000,000 less than anticipated due to delays in receiving federal permits for segments of pipeline projects that cross Southern Ute Indian Tribe or U.S. Bureau of Land Management lands. A total of \$1,041,280 was used in 2015 for the design and construction of water mains.

Future Plans

The District will continue to construct more distribution pipelines and connecting new customers for the foreseeable future. The expansion of the Bayfield Water Treatment Plant, which will provide the District with at least 750,000 gallons per day of treatment capacity, is projected to be complete in July 2016. As mentioned previously, the District is also negotiating with the City of Durango for a joint water treatment plant that will utilize water that the District has acquired in Lake Nighthorse. This is not expected to come to fruition for four to five years.

Financial Contact

The District's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact Edward Tolen at P.O. Box 1377, Ignacio, Colorado 81137.

La Plata Archuleta Water District

STATEMENTS OF NET POSITION

December 31,

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,716,938	\$2,681,554
Restricted cash - unspent bond proceeds	4,018,677	5,010,092
Restricted cash - bond reserve	360,166	359,524
Amount due from county treasurer	11,960	17,832
Accounts receivable	1,898	503
Property taxes receivable	2,563,619	2,238,777
Other receivables	50,358	-
Prepaid expenses	9,545	7,080
Inventory	44,232	-
Other current assets	588	448
Total current assets	<u>8,777,981</u>	<u>10,315,810</u>
Prepaid Costs of Water	3,677,188	487,237
Capital Assets	7,230,176	6,111,274
Total assets	<u>19,685,345</u>	<u>16,914,321</u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 836,862	\$ 69,926
Accrued payroll and related liabilities	10,022	8,850
Current portion of long-term debt	195,000	205,000
Total current liabilities	<u>1,041,884</u>	<u>283,776</u>
Non-current Liabilities		
Long-term debt	4,312,098	4,517,905
Total liabilities	<u>5,353,982</u>	<u>4,801,681</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	<u>2,563,619</u>	<u>2,238,777</u>
NET POSITION		
Net Position		
Net investment in capital assets	6,741,755	6,398,461
Restricted for emergencies	147,540	84,564
Unrestricted	4,878,449	3,390,838
Total net position	<u><u>\$11,767,744</u></u>	<u><u>\$9,873,863</u></u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the year ended,

	2015	2014
Operating Revenues		
Charges for services	\$ 29,154	\$ 12,154
Operating Expenses		
Compensation and benefits	197,980	189,286
Depreciation expense	145,023	107,054
Legal fees	82,308	49,652
Employee benefits and taxes	52,742	49,729
Raw water operating and maintenance assessment	45,053	-
Miscellaneous	39,949	52,021
Engineering	38,389	39,788
Accounting and auditing	21,973	21,746
Rent	13,359	13,525
Insurance	10,933	12,574
Contract costs for water treatment plant operation and maintenance	6,772	4,800
Capital outlay	(6,896)	55,467
Operating Expenses	<u>647,585</u>	<u>595,642</u>
Operating Income (Loss)	(618,431)	(583,488)
Nonoperating Revenues (Expenses)		
Property taxes	2,237,130	1,963,351
Specific ownership taxes	201,274	189,164
Payments in lieu of taxes	172,789	147,076
Tap fees	82,536	290,886
Interest income	17,728	14,416
Other income	4,326	3,565
Grant income	-	31,170
Interest expense	(136,574)	(140,574)
Treasurer fees - La Plata County	(66,897)	(58,719)
Nonoperating Revenues (Expenses)	<u>2,512,312</u>	<u>2,440,335</u>
Change in Net Position	1,893,881	1,856,847
Net position at beginning of year	9,873,863	8,017,016
Net position at end of year	<u><u>\$11,767,744</u></u>	<u><u>\$9,873,863</u></u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

STATEMENTS OF CASH FLOWS

For the year ended,

	2015	2014
Cash Flows from Operating Activities		
Cash received from customers	\$ 27,759	\$ 11,651
Other receipts	4,326	3,565
Cash paid to employees	(196,808)	(187,426)
Cash paid to suppliers	(2,966,424)	(295,291)
Net Cash Provided (Used) by Operating Activities	(3,131,147)	(467,501)
Cash Flows from Non-capital Financing Activities		
Property and specific ownership taxes	2,377,379	2,094,174
Tap fees	82,536	290,886
Payment in lieu of taxes	172,789	147,076
Net Cash Provided (Used) by Non-capital Financing Activities	2,632,704	2,532,136
Cash Flows from Capital and Related Financing Activities		
Capital related grants received	-	31,170
Principal payments of capital debt	(205,000)	(200,000)
Interest payments	(147,381)	(151,381)
Purchases of capital assets	(1,122,293)	(2,706,429)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,474,674)	(3,026,640)
Cash Flows from Investing Activities		
Interest income	17,728	14,416
Net Cash Provided (Used) by Investing Activities	17,728	14,416
Net Increase (Decrease) in Cash	(1,955,389)	(947,589)
Cash at beginning of year	8,051,170	8,998,759
Cash at end of year	<u>\$ 6,095,781</u>	<u>\$ 8,051,170</u>
Reconciliation of Operating Income (Loss) to Net		
Cash Provided by Operating Activities		
Operating loss	\$ (618,431)	\$ (583,488)
Depreciation expense	145,023	107,054
Other income	4,326	3,565
Change in accounts receivable	(1,395)	(503)
Change in prepaid expenses	(2,465)	3,379
Change in other receivables	(50,358)	-
Change in inventory	(44,232)	-
Change in other current assets	(140)	-
Change in prepaid costs of water	(3,189,951)	-
Change in accounts payable, net of capital and related financing activity	625,304	632
Change in accrued payroll and related liabilities	1,172	1,860
Net Cash Provided (Used) by Operating Activities	<u>\$ (3,131,147)</u>	<u>\$ (467,501)</u>
Noncash Capital and Related Financing Activity:		
Capital assets acquired by incurring accounts payable	<u>\$ 198,000</u>	<u>\$ 56,368</u>
Cash reported on the Statement of Net Position		
Cash and cash equivalents	\$ 1,716,938	\$ 2,681,554
Restricted cash - unspent bond proceeds	4,018,677	5,010,092
Restricted cash - bond reserve	360,166	359,524
	<u>\$ 6,095,781</u>	<u>\$ 8,051,170</u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

REPORTING ENTITY

The La Plata Archuleta Water District (the “District”) was formed by court decree on August 19, 2008. The District is an independent political subdivision operating under the statutes for special districts of the State of Colorado and has its own elected governing board members.

The mission of the District is to finance, construct, operate, and maintain a public water distribution system in the southeast portion of La Plata County.

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

The District 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 District.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the District’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 District conform to generally accepted accounting principles as applicable to governmental units accounted for as proprietary enterprise funds. The enterprise fund is used since the District’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. The District is constructing a public water distribution system that, when complete, will assess charges to its constituents for water usage by those constituents.

The more significant accounting policies of the District 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

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

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recovered in part through user charges. The District's operations are accounted for as one enterprise fund.

Basis of Accounting

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

1. In accordance with State statutes, prior to October 15, management 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. Management 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 District's Board may authorize supplemental appropriations during the year.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

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Deposits and Investments

Colorado law authorizes the District 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 District considers all highly liquid investments purchased with a maturity of twelve months or less to be cash equivalents. Certificates of deposit with maturities exceeding twelve months are also considered to be cash equivalents when early redemption charges would not be significant.

Inventory and Prepaid Expenses

Inventory is valued at cost using the first-in/first-out (FIFO) method and consists of expendable supplies and pipeline repair parts. The cost of such inventory is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. The cost of prepaid expenses are recorded as expenses when consumed rather than when purchased.

Capital Assets

Capital assets are valued at historical cost.

Depreciation of the water distribution system will be charged to operating expenses over its useful life when it is placed in service using the straight line method.

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

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

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CASH AND INVESTMENTS

The District's policy in determining which items are treated as cash equivalents include cash, demand deposits, treasury bills, and other short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

Investments are reported at fair value which is determined using selected bases. Short term investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued at the last quoted market price. Cash deposits are reported at carrying amounts which reasonably estimates fair value.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. The eligible depository is required to pledge to the Colorado Division of Banking a pool of collateral having a market value that at all times exceeds 102 percent of uninsured aggregate public deposits. The eligible collateral is determined by the PDPA, which includes obligations of the United States, the State of Colorado, Local Colorado governments, and obligations secured by first lien mortgages on real property located in the state. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The State Regulatory Commission for banks and financial services is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

There is no custodial credit risk for public deposits collateralized under PDPA.

At December 31, 2015, all of the District's deposits were held in eligible depositories as required by PDPA. Accordingly, all deposits are either insured by the Federal Deposit Insurance Corporation (FDIC) or are collateralized as required by PDPA in accordance with state statute. Bank balances before outstanding checks, deposits in transit, and other reconciling items total \$1,402,191 and \$1,674,547 at December 31, 2015 and 2014, respectively. The carrying amount in the financial statements for these deposits is \$1,400,992 and \$1,666,474 at December 31, 2015 and 2014, respectively.

The District's investment policy requires that, in making investment decisions, the District exercise judgment and care considering the probable income as well as the safety of capital. All investments allowed by Colorado statutes are considered by the District's policy to comply with this standard. This investment policy applies to the investment of all financial assets of all funds of the District over which it exercises financial control.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

Obligations of the United States and certain U.S. governmental agency securities, including securities issued by FNMA (federal national mortgage association), GNMA (governmental national mortgage association), FHLMC (federal home loan mortgage corporation), the federal farm credit bank, the federal

La Plata Archuleta Water District

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land bank, the export-import bank, and by the Tennessee Valley Authority, and certain international agency securities, including the World Bank

General obligation and revenue bonds of U.S. local government entities, the District of Columbia, and territorial possessions of the U.S. rated in the highest two rating categories by two or more nationally recognized rating agencies

Bankers' acceptances of certain banks

Certain securities lending agreements

Commercial paper

Written repurchase agreements collateralized by certain authorized securities

Certain money market funds

Guaranteed investment contracts

Local government investment pools

The investing local government's own securities including certificates of participation and lease obligations.

Colorado Surplus Asset Fund Trust

Included in cash and cash equivalents is \$4,694,789 (2015) and \$6,384,696 (2014) held in the Colorado Surplus Asset Fund Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust invests in U.S. Treasury securities, obligations of U.S. government agencies, and repurchase agreements collateralized by U.S. Treasury securities and obligations of U.S. government agencies. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. Substantially all securities owned by the Trust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the Trust. The pool is not required to be, and is not, registered with the SEC.

The Colorado Surplus Asset Fund Trust is rated AAAM by Standard & Poor's rating service. The custodian's internal records segregate investments owned by the Trust.

Investments in local government investment pools are not categorized in terms of custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

The following is a summary of cash and cash equivalents:

<u>Fair Value</u>	<u>2015</u>	<u>2014</u>
Bank deposits	\$ 1,400,992	\$ 1,666,474
Colorado Surplus Asset Fund Trust	4,694,789	6,384,696
	<u>\$ 6,095,781</u>	<u>\$ 8,051,170</u>

Risk Disclosures

Additional investment and deposit disclosures for credit risk, interest rate risk, and foreign currency risk, as required by GASB Statement No. 40, Deposit and Investment Risk Disclosures, are included below.

To minimize custodial credit risk, or the risk that an insurer or other counterparty to an investment will not fulfill its obligations, state law limits District investments to those where the issuer is rated in one of the three highest rating categories by one or more nationally recognized organizations that rate such issuers. The District has deposits in Colorado Surplus Asset Fund Trust. Colorado Surplus Asset Fund Trust is rated AAAM by Standard & Poor's.

The concentration of credit risk, or the risk of loss attributed to the magnitude of a government's investment in a single issuer, occurs when deposits are not diversified. District policy places no limit on the amount the District may invest in any one issuer; however the District maintains general guidelines for investments to ensure proper diversification by security type and institution. All District investments are issued or explicitly guaranteed by securities of the U.S. government, or insured by PDPA, or are investments in external investment pools, and therefore are not subject to concentration of credit risk disclosure requirements.

Interest rate risk is the extent to which changes in interest rates will adversely affect the fair value of an investment. The District maintains an investment policy that limits investment maturities to three years as means of managing its exposure to fair value losses arising from increasing interest rates and to avoid undue concentration in any sector of the yield curve. Exceptions to this structure may be allowed where maturities can be structured to accommodate readily identifiable cash flows as approved by the Board.

The District was not subject to foreign currency risk as of December 31, 2015 and 2014.

Restricted Cash

The District has unspent proceeds from the Limited Tax General Obligation Bonds, Series 2013 that are required to be spent on the acquisition, construction, installation, expansion and / or completion of a rural domestic water system as approved by the District's electors. \$4,018,677 remains to be spent at December 31, 2015.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

The District has established a reserve account in accordance with the Limited Tax General Obligation Bonds, Series 2013. The bond resolution establishes the calculation of the required reserve. The requirement has been met at December 31, 2015 by cash of \$360,166 included in the bond reserve account.

TAX, SPENDING, AND DEBT LIMITATIONS

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's Bill of Rights (TABOR), which added Section 20 to Article X of the Colorado Constitution. In general, TABOR restricts the ability of the State and local governments to increase revenues and spending, to impose taxes, and to issue debt and certain other types of obligations without voter approval. TABOR generally applies to the State and all local governments, including the District.

Some provisions of TABOR are unclear and will require further judicial interpretation. No representation can be made as to the overall impact of TABOR on the future activities of the District, including its ability to generate sufficient revenues for its general operations, to undertake additional programs, or to engage in any subsequent financing activities.

TABOR also requires local governments to establish emergency reserve funds. The reserve fund must consist of at least 3% of fiscal year spending. TABOR allows local governments to impose emergency taxes (other than property taxes) if certain conditions are met. Local governments are not allowed to use emergency reserves or taxes to compensate for economic conditions, revenue shortfalls, or local government salary or benefit increases. The statement of net assets carries a balance of \$13,389 (2015) and \$12,194 (2014) restricted for emergencies.

On May 4, 2010, the District's constituents voted to authorize a 5.0 mill levy rate and to exempt the District from the revenue limitations included in TABOR.

TABOR is complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

The District believes it has complied with all aspects of the TABOR amendment.

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

CAPITAL ASSETS

A summary of changes in capital assets during 2015 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable Assets					
Land	\$ 360,448	\$ 8,274	\$ -	\$ -	\$ 368,722
Construction in progress	362,979	1,005,498	-	(1,031,639)	336,838
Raw water supply	346,219	207,731	-	-	553,950
Total nondepreciable assets	<u>1,069,646</u>	<u>1,221,503</u>	<u>-</u>	<u>(1,031,639)</u>	<u>1,259,510</u>
Depreciable Assets					
Pipelines	4,882,970	13,773	-	1,031,639	5,928,382
Subdivision lines	160,336	21,328	-	-	181,664
Service lines	11,717	7,321	-	-	19,038
Equipment	30,229	-	-	-	30,229
Vehicles	58,510	-	-	-	58,510
Software	7,500	-	-	-	7,500
Total depreciable assets	<u>5,151,262</u>	<u>42,422</u>	<u>-</u>	<u>1,031,639</u>	<u>6,225,323</u>
Less accumulated depreciation	<u>109,634</u>	<u>145,023</u>	<u>-</u>	<u>-</u>	<u>254,657</u>
Net depreciable assets	<u>5,041,628</u>	<u>(102,601)</u>	<u>-</u>	<u>1,031,639</u>	<u>5,970,666</u>
Total capital assets	<u><u>\$ 6,111,274</u></u>	<u><u>\$ 1,118,902</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,230,176</u></u>

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

A summary of changes in capital assets during 2014 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Nondepreciable Assets					
Land	\$ -	\$ 183,263	\$ -	\$ 177,185	\$ 360,448
Construction in progress	3,720,176	1,712,188	-	(5,069,385)	362,979
Raw water supply	-	346,219	-	-	346,219
Total depreciable assets	<u>3,720,176</u>	<u>2,241,670</u>	<u>-</u>	<u>(4,892,200)</u>	<u>1,069,646</u>
Depreciable Assets					
Pipelines	-	-	-	4,882,970	4,882,970
Subdivision lines	-	160,336	-	-	160,336
Service lines	-	11,717	-	-	11,717
Equipment	-	18,419	-	11,810	30,229
Vehicles	-	58,510	-	-	58,510
Software	-	7,500	-	-	7,500
Total depreciable assets	<u>-</u>	<u>256,482</u>	<u>-</u>	<u>4,894,780</u>	<u>5,151,262</u>
Less accumulated depreciation	<u>-</u>	<u>107,054</u>	<u>-</u>	<u>2,580</u>	<u>109,634</u>
Net depreciable assets	<u>-</u>	<u>149,428</u>	<u>-</u>	<u>4,892,200</u>	<u>5,041,628</u>
Total capital assets	<u><u>\$ 3,720,176</u></u>	<u><u>\$ 2,391,098</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,111,274</u></u>

LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations during 2015 follows:

	<u>12/31/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2015</u>	<u>Due Within One Year</u>
2013 Limited Tax General Obligation Bonds	\$ 4,550,000	\$ -	\$ 205,000	\$ 4,345,000	\$ 195,000
Add unamortized bond premium	172,905	-	10,807	162,098	-
	<u>\$ 4,722,905</u>	<u>\$ -</u>	<u>\$ 215,807</u>	<u>\$ 4,507,098</u>	<u>\$ 195,000</u>

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

A summary of changes in long-term obligations during 2014 follows:

	<u>12/31/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2014</u>	<u>Due Within One Year</u>
2013 Limited Tax General Obligation Bonds	\$ 4,750,000	\$ -	\$ 200,000	\$ 4,550,000	\$ 205,000
Add unamortized bond premium	<u>183,712</u>	<u>-</u>	<u>10,807</u>	<u>172,905</u>	<u>-</u>
	<u>\$ 4,933,712</u>	<u>\$ -</u>	<u>\$ 210,807</u>	<u>\$ 4,722,905</u>	<u>\$ 205,000</u>

Limited Tax General Obligation Bonds - Series 2013

Limited Tax General Obligation Bonds in the face amount of \$5,000,000 were issued at a premium of \$191,817 with a date of April 3, 2013. The interest rate varies from 2.0% to 4.0% payable semi-annually on June 15 and December 15. Principal is due and payable on December 15. Final maturity date is December 15, 2032. The annual requirements to amortize the long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 195,000	\$ 143,282	\$ 338,282
2017	200,000	139,381	339,381
2018	205,000	135,382	340,382
2019	215,000	131,281	346,281
2020	220,000	125,906	345,906
2021-2025	1,195,000	523,280	1,718,280
2026-2030	1,445,000	294,656	1,739,656
2031-2032	<u>670,000</u>	<u>40,600</u>	<u>710,600</u>
	<u>\$4,345,000</u>	<u>\$1,533,768</u>	<u>\$ 5,878,768</u>

On November 1, 2011, the electors of the District approved the incurrence of debt not to exceed \$25,000,000. \$5,000,000 of this authorization has been issued with \$20,000,000 remaining as authorized, but not issued.

RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and general liability. The District is a member of the Colorado Special District Property and Liability Pool (“Pool”) for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to \$1,000,000, except if the claim falls within the government immunity statute, then the coverage is \$150,000 per person and a \$600,000 aggregate claim. The Pool is reinsured for 80% of the first \$250,000 of all claims and 100% for claims in excess of \$250,000. The

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. 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. Any settled claims are not expected to exceed coverage.

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2014 (the latest audited information available) is as follows:

Assets	<u>\$ 38,975,326</u>
Liabilities	\$ 21,867,904
Surplus	<u>17,107,422</u>
	<u>\$ 38,975,326</u>
Revenues	15,309,288
Expenses	<u>16,177,384</u>
Net Income (Loss)	<u>\$ (868,096)</u>

CONTRACTUAL MATTERS

Town of Bayfield

The District has entered into an intergovernmental agreement with the Town of Bayfield (the Town). Pursuant to this agreement, the District will pay costs to expand the water treatment plant owned by the Town. The cost of this expansion is estimated at \$7,462,131. The plant will continue to be owned and operated by the Town. The District will participate in the operating and maintenance costs of the expanded plant when the expansion project has been completed. The District will also provide its share of raw water to the treatment plant.

The Town will provide treated water to the District which the District will distribute to its users through the District's distribution system.

The costs paid by the District that are associated with the expansion of the Town's water treatment plant are reflected in the Statement of Net Position as Prepaid Costs of Water. When water usage charges commence being charged to the District's users, these prepaid costs will be amortized over 25 years from the date the expanded water treatment plant is placed in service to match the costs of providing water to the revenues generated. If the agreement is terminated prior to 25 years after the date the expanded water treatment plant is placed in service, the Town will reimburse the District for the unamortized costs of the expansion. At December 31, 2015 and 2014, prepaid costs of water are \$3,677,188 and \$487,237, respectively.

If neither the Town nor the District terminates the agreement at the end of its term (including renewals if applicable), the agreement renews for additional terms of five years.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Colorado Water Conservation Board

The District has entered into a contract with the Colorado Water Conservation Board to acquire long-term municipal and industrial water supply. The agreement provides the District with the option to acquire up to 2,500 acre-feet of water stored in Lake Nighthorse. The agreement provides that the District may acquire additional acre-feet of water supply until the cumulative supply acquired equals the allotted 2,500 acre-feet of water. The minimum purchase each year is the lesser of 60-acre feet or the remaining allotment of the 2,500 acre-feet. If the District fails to exercise its option for two consecutive years the Colorado Water Conservation Board may terminate the agreement. The agreement expires when the District acquires its full allotment or in the year 2054 if the District has not acquired its full allotment.

During 2015 the District acquired 60 acre feet for \$207,731. Cumulative purchase through December 31, 2015 total 100 acre feet at a cost of \$553,950.

Pine River Irrigation District

The District leases 200 acre-feet of water per year from the Pine River Irrigation District. Leased water is billed at \$250 per acre-foot and standby water is billed at \$40 per acre-foot. The lease also requires a surcharge of 15% of the total billed. The lease does not have a stated expiration date. The District paid \$10,821 (2015) and \$10,709 (2014) pursuant to this agreement.

RETIREMENT PLANS

401(a) Retirement Plan

The District provides a 401(a) retirement plan for eligible District employees through the Colorado County Officials and Employees Retirement Association (CCOERA) (the Plan). The Plan is a defined contribution money purchase plan. Employees participate in the Plan after 90 days of employment. The employees and the District each contribute 5% of gross wages. The District's contributions for each employee plus earnings are fully vested after five years of continuous service. District contributions and related interest forfeited by employees who leave employment before fully vesting are returned to the Plan to reduce future retirement requirements. The District contributed \$8,528 (2015) and \$8,251 (2014) to the Plan.

Deferred Compensation Plan

The District has a deferred compensation plan (the Plan), administered by CCOERA, and created in accordance with Internal Revenue Code Section 457. The Plan permits the District's employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation in the Plan is optional.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of the participants or their beneficiaries. The District has no ownership interest in the Plan, nor is the District liable for any losses under the Plan.

SUPPLEMENTAL INFORMATION

La Plata Archuleta Water District

SCHEDULE OF EXPENSES - BUDGET AND ACTUAL

For the years ended December 31, 2015 and 2014

	Original Budget	Final Budget	Expenditures Reported on the GAAP Basis	Adjustments to Budgetary Basis	Expenditures on the Budgetary Basis	Variance with Final Budget Favorable (Unfavorable)
2015						
Total expenditures	\$10,785,819	\$10,785,819	\$ 851,056	\$1,323,902	\$ 2,174,958	\$ 8,610,861
2014						
Total expenditures	\$10,809,234	\$10,809,234	\$ 794,935	\$2,591,098	\$ 3,386,033	\$ 7,423,201

Adjustments to budgetary basis are comprised of capital expenditures, depreciation expense, and debt principal payments.