

LA PLATA ARCHULETA WATER DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORT

December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

March 24, 2022

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

We have audited the financial statements of the La Plata Archuleta Water District, which comprise the statements of net position, revenues, expenses, and changes in net position, and cash flows as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the La Plata Archuleta Water District, as of December 31, 2021 and 2020, 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.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility 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 District'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 Responsibility 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 GAAS 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 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.

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La Plata Archuleta Water District
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In performing an audit in accordance with GAAS, 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 District'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 District'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

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 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 audits 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 information 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, 2021. 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 2021 the District had sold 227 taps and was serving water to 182 customers, including a 55-unit mobile home park and a 14 lot subdivision.
2. Currently, the District's primary source of income is property taxes that are the result of the 5-mill tax issue that passed in the May 2010 election. A total of \$1,473,875 in general property taxes and \$166,602 in specific ownership taxes were received in 2021, a decrease from the previous year of \$289,130 and \$14,876, respectively. The fluctuation from year to year of the general property taxes is primarily due to the fluctuating price of natural gas and the severance tax associated with it. The District also collected \$179,755 in service charges and other customer paid fees.
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 District has acquired a total of 460 acre-feet for a total \$1,592,607 as of December 31, 2021.
4. The District's total net position as of December 31, 2021 totaled \$17,865,053 including unrestricted net position of \$6,043,638. The District has restricted assets of \$79,034 for TABOR reserves and \$308,500 for bond reserve. The District also has \$40,599 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 37 miles of water mains. The District has capital assets of \$14,243,097 and prepaid cost of water of \$6,662,345. The prepaid costs of water include the design, construction and construction inspection costs associated with the expansion of the Town of Bayfield's Water Treatment Plant, which was completed in 2017.

6. The District formed the Sundance/Farraday Subdistrict No. 1 to facilitate construction of a water distribution system into three subdivisions that requested water service prior to the District's Capital Improvement Plan otherwise indicates. An election to authorize borrowing up to \$1,000,000 and setting a mill levy to service the debt was passed by the voters of the Subdistrict in 2017. Construction of the distribution system in the three subdivisions was substantially completed in 2019 and final completion was achieved in 2020. The mill levy is variable depending on the assessed value of real property in the Subdistrict and set to provide sufficient funds to service the loan.

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, 2021, 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 2021 and 2020 of the Statement of Net Position follows:

	<u>2021</u>	<u>2020</u>
Current Assets	\$4,156,018	\$5,465,749
Capital Assets	14,243,097	12,752,519
Prepaid Cost of Water	6,662,345	6,995,235
Total Assets	<u>\$25,061,460</u>	<u>\$25,213,503</u>
Total Liabilities	\$5,984,060	\$6,388,098
Deferred Property Tax Revenue	\$1,212,347	\$1,477,729

Invested in Capital Assets, Net of related debt	\$11,742,381	\$10,110,987
Restricted	79,034	48,451
Unrestricted	<u>6,043,638</u>	<u>7,188,238</u>
Total Net position	<u>\$17,865,053</u>	<u>\$17,347,676</u>

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

	<u>2021</u>	<u>2020</u>
Operating Income		
Service Charges	\$179,755	\$156,053
Total operating expenses	1,265,705	1,282,948
Operating Income (Loss)	(1,085,950)	(1,126,895)
Nonoperating revenues (expenses)		
Property taxes	1,473,875	1,763,005
Interest income	4,576	23,963
Tap Fees	114,163	82,060
Specific Ownership Tax	166,602	181,478
PILT income	40,599	58,378
Grant income	-	26,064
Other income	6,332	2,158
Interest Expense and Debt Issuance Cost	(161,729)	(174,008)
Treasure Fees- La Plata County	<u>(43,874)</u>	<u>(52,599)</u>
Total nonoperating revenues	<u>1,600,544</u>	<u>1,910,499</u>
Developer donated lines	2,783	57,000
Change in net position	517,377	840,604
Beginning net position	<u>17,347,676</u>	<u>16,507,072</u>
Ending net position	<u>\$17,865,053</u>	<u>\$17,347,676</u>

The District was originally formed in August of 2008. A 5-mill property tax was approved by the voters of the District in May 2010. 2021 is the eleventh year that the District has received property tax income. Approximately 60 to 80% 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 2019 is reflected in the property taxes received by the District in 2021.

Because the District is relatively new and currently serves few customers, the tax revenue is 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 is 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 \$331,000 in bond reserves, 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.

Capital Assets and Long-Term Debt

Construction of the expansion to Bayfield's Water Treatment Plant began in 2015 and was completed in 2017. A total of \$8,322,243 was expended on construction, engineering design and construction management services for the project. Although this is not a capital asset that the District will own, it is part of an IGA with the Town of Bayfield that secures the District a long-term supply of treated water and is considered a Prepaid Cost of Water.

Pipeline construction expended \$1,494,810 in 2021, including easement acquisition, construction and engineering costs. One project that was expected to start construction in Fall 2021 was delayed until 2022 while the District waited to see what pipe prices would do after the cost increases that occurred due to the Covid19 virus.

The District sold General Obligation Tax Bonds in 2013 in the amount of \$5,000,000 to help pay the costs of the Bayfield Water Treatment Plant Expansion Project. The current outstanding principal for those bonds at the end of 2021 is \$3,085,000. The District borrowed \$2,500,000 from the Colorado Water Resources and Power Development Authority to pay the costs of pipeline construction in 2016, 2017 and 2018. Although the District usually pays for pipeline construction with annual revenues, because the cost of the water treatment plant expansion exceeded the 2013 GO Bonds, it felt that it was necessary to borrow the money to backfill revenues that would have been used for pipeline construction instead of the treatment plant expansion. The current outstanding principal on that loan is \$1,941,695. The Sundance/Farraday Subdistrict No. 1 borrowed \$1,000,000 from the CWRPDA in Drinking Water Revolving Fund monies to fund the distribution system in the Sundance Hills and Farraday Subdivisions. The first principal payment due on this loan was made in November 2019 and left an outstanding principal of \$979,544. Because of a grant from the Colorado Department of Local Affairs that was obtained to help fund the project, only \$698,033 of the loan was required and it was reduced to that amount in 2021. The current outstanding balance of this loan is \$559,021

Future Plans

The District will continue to construct more distribution pipelines and connect new customers for the foreseeable future. The expansion of the Bayfield Water Treatment Plant will provide the District with at least 750,000 gallons per day of treatment capacity and has currently only used about 100,000 gallons per day of that capacity. 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, primarily for the western side of the District. 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,

	<u>2021</u>	<u>2020</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,553,126	\$ 3,595,897
Restricted cash - bond reserve	308,500	331,000
Accounts receivable	11,149	9,048
Property taxes receivable	1,212,347	1,477,729
Prepaid expenses	13,325	16,238
Inventory	57,571	35,837
	<u>4,156,018</u>	<u>5,465,749</u>
	Total current assets	
Prepaid Costs of Water	6,662,345	6,995,235
Capital Assets	14,243,097	12,752,519
	<u>25,061,460</u>	<u>25,213,503</u>
	Total assets	
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 120,179	\$ 150,819
Accrued payroll and related liabilities	18,570	19,576
Accrued interest expense	14,113	14,113
Unissued tap fee credits	148,226	143,995
Current portion of long-term debt	368,646	365,816
	<u>669,734</u>	<u>694,319</u>
	Total current liabilities	
Non-current Liabilities		
Long-term debt	5,314,326	5,693,779
	<u>5,984,060</u>	<u>6,388,098</u>
	Total liabilities	
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	1,212,347	1,477,729
	<u>1,212,347</u>	<u>1,477,729</u>
NET POSITION		
Net Position		
Net investment in capital assets	11,742,381	10,110,987
Restricted for emergencies	79,034	48,451
Unrestricted	6,043,638	7,188,238
	<u>17,865,053</u>	<u>17,347,676</u>
	Total net position	

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,

	2021	2020
Operating Revenues		
Charges for services	\$ 179,755	\$ 156,053
Operating Expenses		
Amortization of prepaid water costs	332,890	332,890
Depreciation expense	312,597	306,198
Compensation and benefits	254,360	265,146
Employee benefits and taxes	87,342	88,344
Miscellaneous	80,298	69,673
Contract costs for water treatment plant operation and maintenance	56,041	47,711
Legal fees	38,051	35,604
Capital outlay	25,305	28,993
Accounting and auditing	20,582	22,320
Engineering	17,592	24,230
Rent	14,023	14,242
Insurance	10,510	8,213
Repairs and maintenance	9,010	2,180
Raw water operating and maintenance assessment	7,104	37,204
	<u>1,265,705</u>	<u>1,282,948</u>
Operating Expenses	1,265,705	1,282,948
Operating Income (Loss)	(1,085,950)	(1,126,895)
Nonoperating Revenues (Expenses)		
Property taxes	1,473,875	1,763,005
Specific ownership taxes	166,602	181,478
Tap fees	114,163	82,060
Payments in lieu of taxes	40,599	58,378
Grant income	-	26,064
Interest income	4,576	23,963
Other income	6,332	2,158
Interest expense	(161,729)	(174,008)
Treasurer fees - La Plata County	(43,874)	(52,599)
	<u>1,600,544</u>	<u>1,910,499</u>
Nonoperating Revenues (Expenses)	1,600,544	1,910,499
Income (Loss) Before Developer Donated Lines	514,594	783,604
Developer donated lines	2,783	57,000
	<u>517,377</u>	<u>840,604</u>
Change in Net Position	517,377	840,604
Net position at beginning of year	17,347,676	16,507,072
Net position at end of year	<u>\$17,865,053</u>	<u>\$17,347,676</u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

STATEMENTS OF CASH FLOWS

For the year ended,

	2021	2020
Cash Flows from Operating Activities		
Cash received from customers	\$ 177,654	\$ 154,103
Other receipts	6,332	2,158
Cash paid to employees	(255,366)	(267,330)
Cash paid to suppliers	(388,688)	(424,588)
Net Cash Provided (Used) by Operating Activities	(460,068)	(535,657)
Cash Flows from Non-capital Financing Activities		
Property and specific ownership taxes	1,596,603	1,891,884
Tap fees	108,613	70,960
Payment in lieu of taxes	40,599	58,378
Net Cash Provided (Used) by Non-capital Financing Activities	1,745,815	2,021,222
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	-	436,546
Capital-related grant proceeds	-	62,642
Principal payments of capital debt	(365,816)	(726,205)
Interest payments	(172,536)	(184,815)
Purchases of capital assets	(1,817,242)	(522,889)
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,355,594)	(934,721)
Cash Flows from Investing Activities		
Interest income	4,576	23,963
Net Cash Provided (Used) by Investing Activities	4,576	23,963
Net Increase (Decrease) in Cash	(1,065,271)	574,807
Cash at beginning of year	3,926,897	3,352,090
Cash at end of year	<u>\$ 2,861,626</u>	<u>\$ 3,926,897</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating loss	\$ (1,085,950)	\$ (1,126,895)
Amortization of prepaid costs of water	332,890	332,890
Depreciation expense	312,597	306,198
Other income	6,332	2,158
Change in accounts receivable	(2,101)	(1,950)
Change in prepaid expenses	2,913	(10,331)
Change in inventory	(21,734)	13,367
Change in other current assets	-	330
Change in accounts payable, net of capital and related financing activity	(4,009)	(49,240)
Change in accrued payroll and related liabilities	(1,006)	(2,184)
Net Cash Provided (Used) by Operating Activities	<u>\$ (460,068)</u>	<u>\$ (535,657)</u>
Noncash Capital and Related Financing Activity:		
Developer donated lines	\$ 2,783	\$ 57,000
Developer constructed lines exchanged for unissued tap fee credits	\$ 9,781	\$ 44,400
Capital assets acquired by incurring accounts payable	\$ 100,376	\$ 127,007
Cash reported on the Statement of Net Position		
Cash and cash equivalents	\$ 2,553,126	\$ 3,595,897
Restricted cash - bond reserve	308,500	331,000
	<u>\$ 2,861,626</u>	<u>\$ 3,926,897</u>

The accompanying notes are an integral part of these statements.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 Sundance/Farraday Subdivision No. 1 (Subdistrict) was formed on March 9, 2017 to facilitate the construction of a distribution system into three existing subdivisions. On November 7, 2017 the voters of the Subdistrict approved the Subdistrict to incur up to \$1,000,000 in debt and authorized a mill levy sufficient to service the debt. The Subdistrict is governed by the District’s board of directors and is reported as part of the District’s operations.

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.

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

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 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

December 31, 2021 and 2020

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.

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 costs 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

December 31, 2021 and 2020

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 twelve 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, 2021, 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 \$304,588 and \$918,123 at December 31, 2021 and 2020, respectively. The carrying amount in the financial statements for these deposits is \$308,956 and \$925,255 at December 31, 2021 and 2020, 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

NOTES TO FINANCIAL STATEMENTS

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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 \$2,552,670 (2021) and \$3,001,642 (2020) 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. CSAFE records its investments at amortized cost, which approximates fair value, and the District records its investment in CSAFE at amortized cost, which approximates fair value. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

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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.

The following is a summary of cash and cash equivalents:

	<u>2021</u>	<u>2020</u>
Bank deposits	\$ 308,956	\$ 925,255
Colorado Surplus Asset Fund Trust	<u>2,552,670</u>	<u>3,001,642</u>
	<u>\$ 2,861,626</u>	<u>\$ 3,926,897</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, 2021 and 2020.

Restricted Cash

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, 2021 by cash of \$308,500 included in the bond reserve account.

La Plata Archuleta Water District

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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 position carries a balance of \$79,034 (2021) and \$48,451 (2020) 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, 2021 and 2020

CAPITAL ASSETS

A summary of changes in capital assets during 2021 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable Assets					
Land	\$ 428,419	\$ -	\$ -	\$ -	\$ 428,419
Construction in progress	633,228	1,494,810	-	(2,016,902)	111,136
Raw water supply	1,384,876	207,731	-	-	1,592,607
Total nondepreciable assets	2,446,523	1,702,541	-	(2,016,902)	2,132,162
Depreciable Assets					
Pipelines	10,656,259	-	-	2,016,902	12,673,161
Subdivision lines	553,153	43,764	-	-	596,917
Water fill station	273,309	-	-	-	273,309
Pump station	108,049	-	-	-	108,049
Service lines	76,511	24,831	-	-	101,342
Equipment	30,229	-	-	-	30,229
Vehicles	64,698	32,039	-	-	96,737
Facilities	10,204	-	-	-	10,204
Software	7,500	-	-	-	7,500
Total depreciable assets	11,779,912	100,634	-	2,016,902	13,897,448
Less accumulated depreciation	1,473,916	312,597	-	-	1,786,513
Net depreciable assets	10,305,996	(211,963)	-	2,016,902	12,110,935
Total capital assets	\$ 12,752,519	\$ 1,490,578	\$ -	\$ -	\$ 14,243,097

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NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

A summary of changes in capital assets during 2020 is as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable Assets					
Land	\$ 422,918	\$ 5,501	\$ -	\$ -	\$ 428,419
Construction in progress	204,906	428,322	-	-	633,228
Raw water supply	1,177,144	207,732	-	-	1,384,876
Total nondepreciable assets	1,804,968	641,555	-	-	2,446,523
Depreciable Assets					
Pipelines	10,668,027	8,340	-	(20,108)	10,656,259
Subdivision lines	445,353	101,400	-	6,400	553,153
Water fill station	278,693	(5,384)	-	-	273,309
Pump station	112,868	(4,819)	-	-	108,049
Service lines	62,803	-	-	13,708	76,511
Equipment	30,229	-	-	-	30,229
Vehicles	64,698	-	-	-	64,698
Facilities	-	10,204	-	-	10,204
Software	7,500	-	-	-	7,500
Total depreciable assets	11,670,171	109,741	-	-	11,779,912
Less accumulated depreciation	1,167,718	306,198	-	-	1,473,916
Net depreciable assets	10,502,453	(196,457)	-	-	10,305,996
Total capital assets	\$ 12,307,421	\$ 445,098	\$ -	\$ -	\$ 12,752,519

LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations during 2021 follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation					
Bonds	\$ 3,310,000	\$ -	\$ 225,000	\$ 3,085,000	\$ 225,000
2016 CWRPDA Loan	2,056,071	-	114,376	1,941,695	116,675
2018 CWRPDA Loan	585,461	-	26,440	559,021	26,971
	5,951,532	-	365,816	5,585,716	368,646
Unamortized premium	108,063	-	10,807	97,256	-
Total	\$ 6,059,595	\$ -	\$ 376,623	\$ 5,682,972	\$ 368,646

La Plata Archuleta Water District
NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

A summary of changes in long-term obligations during 2020 follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General Obligation					
Bonds	\$ 3,530,000	\$ -	\$ 220,000	\$ 3,310,000	\$ 225,000
2016 CWRPDA Loan	2,168,193	-	112,122	2,056,071	114,376
2018 CWRPDA Loan	979,544	-	394,083	585,461	26,440
	<u>6,677,737</u>	<u>-</u>	<u>726,205</u>	<u>5,951,532</u>	<u>365,816</u>
Unamortized premium	118,870	-	10,807	108,063	-
	<u>118,870</u>	<u>-</u>	<u>10,807</u>	<u>108,063</u>	<u>-</u>
Total	<u>\$ 6,796,607</u>	<u>\$ -</u>	<u>\$ 737,012</u>	<u>\$ 6,059,595</u>	<u>\$ 365,816</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 District has covenanted to levy ad valorem taxes on all taxable property within its boundaries in amount sufficient to pay the principal and interest on the bonds, but not in excess of 2.5 mills.

Colorado Water Resources and Power Development Authority (CWRPDA) 2016 Note Payable

A note payable in the amount of \$2,500,000 was issued to CWRPDA during 2016. Payments, including interest at 2% per annum, of \$77,464 are payable on May 1st and November 1st through May 1, 2036. The District has covenanted to levy ad valorem taxes on all taxable property within its boundaries in amount sufficient to pay the principal and interest on the loan, but not in excess of 2.5 mills.

Colorado Water Resources and Power Development Authority (CWRPDA) 2018 Note Payable

A note payable in the amount of \$1,000,000 (subsequently reduced by unspent note proceeds of \$301,967) was issued to CWRPDA during 2018. Payments, including interest at 2% per annum, of \$19,009 are payable on May 1st and November 1st through May 1, 2039. The District has covenanted to levy ad valorem taxes on all taxable property within the Sundance/Farraday Subdistrict in amount sufficient to pay the principal and interest on the loan.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

The total annual requirements to amortize the long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 368,646	\$ 162,955	\$ 531,601
2023	386,533	152,193	538,726
2024	404,478	139,648	544,126
2025	402,483	127,719	530,202
2026	420,548	115,903	536,451
2027-2031	2,330,913	381,763	2,712,676
2032-2036	1,179,858	66,205	1,246,063
2037-2039	92,257	2,786	95,043
	<u>\$ 5,585,716</u>	<u>\$ 1,149,172</u>	<u>\$ 6,734,888</u>

On November 1, 2011, the electors of the District approved the incurrence of debt not to exceed \$25,000,000. \$7,500,000 of this authorization has been issued with \$17,500,000 remaining as authorized, but not issued. On November 7, 2017, the electors of the Subdistrict approved the incurrence of debt not to exceed \$1,000,000. The full \$1,000,000 was issued during 2018.

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 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.

La Plata Archuleta Water District

NOTES TO FINANCIAL STATEMENTS

December 31, 2021 and 2020

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2020 is as follows:

Assets	\$ 59,612,386
Liabilities	<u>\$ 37,710,994</u>
Surplus	<u>21,901,392</u>
	<u>\$ 59,612,386</u>
Revenues	\$ 23,853,329
Expenses	<u>23,825,575</u>
Net Income (Loss)	<u>\$ 27,754</u>

CONTRACTUAL MATTERS

Town of Bayfield

The District entered into an intergovernmental agreement with the Town of Bayfield (the Town). Pursuant to this agreement, the District paid costs to expand the water treatment plant owned by the Town. The costs to date of this expansion were \$8,322,243. The plant will continue to be owned and operated by the Town. The District participates in the operating and maintenance costs of the expanded plant. 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. These prepaid costs are being amortized over 25 years from the date the expanded water treatment plant was 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. Amortization of these costs commenced in 2017. The following is a schedule of costs and related amortization at December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Prepaid Costs of Water	\$ 8,322,243	\$ 8,322,243
Accumulated Amortization	<u>(1,659,898)</u>	<u>(1,327,008)</u>
	<u>\$ 6,662,345</u>	<u>\$ 6,995,235</u>

Amortization of prepaid water costs was \$332,890 (2021) and \$332,890 (2020).

La Plata Archuleta Water District

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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.

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 2021 the District acquired 60 acre feet for \$207,731. During 2020 the District acquired 60 acre feet for \$207,731. Cumulative purchases through December 31, 2021 total 460 acre feet at a cost of \$1,592,607.

Pine River Irrigation District

The District leases 200 acre-feet of water per year from the Pine River Irrigation District. Leased water and standby water is billed per acre-foot plus a required surcharge. The lease does not have a stated expiration date. The District paid \$31,288 (2021) and \$23,269 (2020) 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 \$12,064 (2021) and \$12,049 (2020) 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

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December 31, 2021 and 2020

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, 2021 and 2020

	<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>
2021						
Total expenditures	\$ 5,494,915	\$ 5,494,915	\$ 1,471,308	\$ 1,537,571	\$ 3,008,879	\$ 2,486,036
2020						
Total expenditures	\$ 4,787,744	\$ 4,787,744	\$ 1,509,555	\$ 610,006	\$ 2,119,561	\$ 2,668,183

La Plata Archuleta Water District

SCHEDULE OF OPERATIONS AND MAINTENANCE RESERVE CALCULATION FOR THE
 COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY NOTE PAYABLE

For the year ended December 31, 2021

Budgeted expenditures for 2021		\$ 5,494,915
Nonoperating and maintenance adjustments:		
Capital outlay	2,935,322	
Contingency and TABOR reserves	1,315,341	
Principal payments	<u>339,376</u>	
		<u>4,590,039</u>
Budgeted operations and maintenance expenses for 2021		904,876
Three months' budgeted operations and maintenance expenses for 2021		226,219
Unrestricted cash reported on the Statement of Net Position		2,553,126
Is unrestricted cash greater than three months' budgeted operations and maintenance expenses for 2021?		Yes