

**UPPER YAMPA WATER
CONSERVANCY DISTRICT**

Financial Statements
And
Supplemental Information
With
Independent Audit Report

December 31, 2021

UPPER YAMPA WATER CONSERVANCY DISTRICT

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	M1-M5
Basic Financial Statements:	
Statement of Net Position	3
Statement of Activities	4
Statement of Cash Flows.....	5
Notes to the Financial Statements	6-14
Supplemental Information:	
Schedule of Revenues, Expenditures and Changes in Fund Net Position - Budget and Actual.....	15



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Upper Yampa Water Conservancy District
Steamboat Springs, Colorado

Opinion

We have audited the financial statements of the business-type activities and each major fund of the Upper Yampa Water Conservancy District, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Upper Yampa Water Conservancy District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the business-type activities of the Upper Yampa Water Conservancy District as of December 31, 2021, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Upper Yampa Water Conservancy District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Upper Yampa Water Conservancy District's 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 Upper Yampa Water Conservancy District's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

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 Upper Yampa Water Conservancy 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 Upper Yampa Water Conservancy 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Upper Yampa Water Conservancy District's basic financial statements. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual 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 Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Watson Coon Ryan, LLC

WATSON COON RYAN, LLC
CENTENNIAL, COLORADO

MAY 18, 2022

UPPER YAMPA WATER CONSERVANCY DISTRICT
Management's Discussion and Analysis
2021

The intent of the Management's Discussion and Analysis is to provide an overview and highlights of the financial and other activities of the Upper Yampa Water Conservancy District (UYWCD) for the year ended on December 31, 2021. UYWCD Board members and readers are encouraged to read this discussion and analysis in conjunction with the accompanying audited financial statements. In addition to the accompanying audit, it provides a report by the General Manager of the activities of the UYWCD in 2021.

Overview of the District's Operations and Economic Factors

The UYWCD, formed in 1966, provides the legal authority to plan and construct water conservation projects in the Yampa River basin. The UYWCD's combined assets represent the largest source of stored water available for water users in the Yampa River Basin managed by a single entity. The Yampa River Basin is largely recognized as the river with the least amount of stored water, by percent of total flow, of all major river basins in the Colorado River system. The UYWCD boundary includes most of Routt County and a small portion of Moffat County. The UYWCD is governed by a Board of nine directors appointed by the Water Court.

Yamcolo (9,621 AF) and Stagecoach (36,439 AF) Reservoirs represent the primary water conservation projects constructed and operated by the UYWCD. The Stillwater Ditch is another UYWCD facility and is used to deliver water contracted from the Yamcolo Reservoir and water from other decreed water sources. In addition to the facilities described above, the UYWCD has contracted for 360 AF of water from Steamboat Lake to enable an augmentation plan with water contracts for out of priority depletions in the Elk River Valley.

The 20220/21 water year was characterized by below average snowpack and very low summer precipitation. The combined effect of these hydrologic conditions resulted in reduced hydro-power generation at Stagecoach Dam. Water use out of the reservoirs was extensive. Furthermore, an increase in water storage contracts at UYWCD reservoirs led to an increase in water storage revenues.

Significant activities for the 2021 year included the renewal of some of the UYWCD's water storage contracts, annual updates to the UYWCD Strategic Plan and Board Governance Documents, and ongoing logistics and operational modifications due to Covid-19.

Revenues

Property tax revenues from a 1.82 mill levy on the taxable property of the UYWCD generated \$2,637,169, net of \$82,564 of Treasurer Collection Fees.

Overall water sales were \$369,529, \$83,304 above the \$286,225 budgeted. Increased water sale revenues resulted from a one-year contract with the Colorado Water Trust, new agricultural use contracts from Stagecoach Reservoir, newly executed long-term contracts for Augmentation water from both our Yampa River and Elk River augmentation water programs and increased contracted water for local ski operations.

Hydro-power generation produced a total revenue of \$58,824 for the year, \$136,176 below the \$195,000 budgeted. Hydro-power generation is directly influenced by the magnitude and timing of Yampa River flows into Stagecoach Reservoir. The 2020/21 water year was characterized by below average snowpack and very low summer precipitation. The combined effect of these hydrologic conditions resulted in reduced hydro-

power generation at Stagecoach Dam. Stagecoach Dam Powerhouse maintenance needs also influence hydro-power generation.

Other revenues include those generated by the Stillwater Ditch and Reservoirs Company of \$10,582 and interest income of \$15,204.

Pass through revenues and expenses for the *Evaluating the Observation Network and Enhancing Soil Moisture Observations to Support Decision Making in the Upper Yampa Basin*, the *Coal Creek Diversion Project Engineering Analysis*, and the *Infrastructure Improvement Projects*, were received and disbursed in 2021, resulting in an aggregate year-end net balance of \$7,099, scheduled for 2022 disbursements.

Expenditures

Operation and Maintenance expenditures, and capital improvements for Stagecoach Dam and Reservoir, Yamcolo Dam and Reservoir, and the Stillwater Ditch continue to improve the condition of UYWCD facilities consistent with current operational standards. Total Operating Expenditures for all UYWCD facilities and operations (net of depreciation) were \$1,855,735, \$525,449 below the \$2,381,184 budget.

Overview of the Financial Statements

The UYWCD's financial statements comprise of two components:

1. Stand-alone Enterprise fund financial statements,
2. Notes to the financial statements.

This report also contains other supplementary information consisting of a comparison of budget to actual non-US GAAP (U.S. Generally Accepted Accounting Principles) Budgetary basis.

Stand-alone Enterprise fund financial statements:

These financial statements are designed to provide readers with a broad overview of the UYWCD in a manner similar to a private-sector business.

- The statement of net position presents information on all the UYWCD's assets and liabilities with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the UYWCD is improving or deteriorating.
- The statement of revenues, expenses and changes in net position presents information showing how the UYWCD's net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The statement of cash flows represents the information on the change in the UYWCD's cash balances during the year segregated into operating, investing, and financing categories.

The assets of the UYWCD exceeded its liabilities on December 31, 2021, by \$45,282,560. Of this amount, \$26,503,746 is invested in capital assets (net of related debt) and \$6,346,340 is restricted. While there are no legal restrictions on the unrestricted net position of \$18,312,157, in 2021 the District encumbered a net position balance equal to \$772,752 in the Capital Maintenance Reserve, \$4,606,931 in the Emergency Facilities Reserve, and \$12,932,474 to ensure adequate net position is available to address future debt payments and the development of capital projects.

Statement of Net Position

	2021	2020
<u>Assets:</u>		
Current and Other Assets	\$21,552,565	\$20,225,885
Net Capital Assets	26,503,746	26,209,958
Total Assets	<u>\$48,056,311</u>	<u>\$46,435,843</u>
<u>Liabilities:</u>		
Current liabilities	\$ 58,094	\$ 168,869
Deferred Inflows	2,715,657	2,520,875
Total liabilities	<u>\$2,773,751</u>	<u>\$2,689,744</u>
<u>Net position:</u>		
Invested in capital,		
Net Investment in Capital Assets	\$26,503,746	\$26,209,958
Restricted Net Position	466,657	471,478
Unrestricted*	18,312,157	17,064,663
Total net position	<u>\$45,282,560</u>	<u>\$43,746,099</u>

*Encumbered funds, including Emergency Facilities Reserve, Capital Maintenance Reserve and Capital Projects Development Fund.

2021 Fund Closing Balance	\$18,778,813
Encumbered and Legally Restricted Reserves	\$5,846,340
Emergency Facilities Reserve	\$4,606,931
Capital Maintenance Reserve	\$772,752
Stagecoach Wetlands Mitigation Reserve	\$419,734
Tabor Reserve	\$46,923
Capital Projects Development Fund	\$12,932,473

Statement of Revenues, Expenses, and Changes in Fund Net Position

	2021	2020
Revenues		
Operating Revenues	\$438,935	\$504,098
Other Income (Expense)	2,659,473	2,685,552
Total Revenues	\$3,098,408	\$3,189,650
Expenses		
Operating Expenses	\$1,561,947	\$1,712,885
Change in Net Position	1,536,461	1,476,765
Net Position - Beginning	43,746,099	42,269,334
Net Position - Ending	\$45,282,560	\$43,746,099

Capital Assets

	Balance 12/31/20	Additions	Deletions	Balance 12/31/21
Capital assets not being depreciated:				
Stagecoach				
Land and water rights	\$ 5,179,506	\$ 80,269	\$ -	\$ 5,259,775
Dam Structure	9,080,877	-	-	9,080,877
Amenities	3,929,108	-	-	3,929,108
Yamcolo:				
Dam Structure	5,998,642	-	-	5,998,642
Stillwater Ditch:	530,653			530,653
Elk River Augmentation	10,000			10,000
Total capital assets not being depreciated	24,728,786	80,269	-	24,809,055
Capital assets being depreciated:				
Stagecoach				
Dam structure and equipment	3,391,769	117,272	-	3,509,041
Amenities	1,310,968	1,380	-	1,312,348
Yamcolo				
Dam structure and equipment	841,257	56,411	-	897,668
Stillwater Ditch	110,214	54,795	-	165,009
Equipment, vehicles and other	193,042	-	(16,217)	176,825
Total capital assets being depreciated	30,576,036	310,127	(16,217)	30,869,946
Less: Accumulated depreciation	(4,366,078)	(16,339)	16,217	(4,366,200)
Net Capital Assets	\$ 26,209,958	\$ 293,788	\$ -	\$ 26,503,746

Budgetary Comparison

The UYWCD budgets for expenses on a non-GAAP basis whereby expenses include debt principal payments and capital outlay and exclude non-cash expenses of depreciation and amortization. In 2021 there were three revenue budgetary differences. Water sales revenues were slightly higher than budgeted due to new water storage contracts. Power sales and interest revenues were lower than budgeted, resulting from current year hydrologic and economic conditions, respectively.

Capital project expenditures were all within budgeted amounts.

Budgetary changes have not adversely affected the financial stability of the UYWCD.

The variations between the budgeted income and expenses enumerated above will have no deleterious effect on the liquidity of the UYWCD or its future obligations and services.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Net Position
December 31, 2021

Assets:

Current assets:

Cash and investments	\$ 16,888,163
Accounts receivable	52,667
Property taxes receivable	2,715,657
Certificate of deposit	1,849,969
Prepaid expenses	46,109

Total current assets	<u>21,552,565</u>
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Noncurrent assets:

Capital assets, net of accumulated depreciation	<u>26,503,746</u>
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Total assets	<u>\$ 48,056,311</u>
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Liabilities:

Current liabilities:

Accounts payable	57,463
Accrued expenses payable	631

Total current liabilities	<u>58,094</u>
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Deferred inflows of resources:

Deferred property tax revenues	<u>2,715,657</u>
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Net position:

Net Investment in capital assets	26,503,746
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Restricted for:

Wetlands mitigation	419,734
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Emergencies	46,923
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Unrestricted	<u>18,312,157</u>
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Total net position	<u>\$ 45,282,560</u>
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The accompanying notes are an integral part of this financial statement.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Revenues, Expenses, and Change in Net Position
For the year ended December 31, 2021

Operating Revenues:

Water sales	\$	369,529
Power revenues		58,824
Other income		10,582
		438,935
Total operating revenues		438,935

Operating Expenses:

Facilities:		
Stagecoach reservoir		413,488
Yamcolo reservoir		162,948
Stillwater ditch and reservoir		33,864
Administration		297,178
Board of directors		52,669
External affairs		102,875
Finance		105,482
Legal		107,172
Planning		83,816
Grants, scholarships and public information		202,455
		1,561,947
Total operating expenses		1,561,947
Operating loss		(1,123,012)

Non-Operating Revenues and (Expenses):

Property taxes, net of collection fees		2,637,170
Pass-through income		63,728
Pass-through expense		(56,629)
Interest income		15,204
		2,659,473
Net non-operating revenues		2,659,473
Change in net position		1,536,461
Net position, beginning of year		43,746,099
Net position, end of year	\$	45,282,560

The accompanying notes are an integral part of this financial statement.

UPPER YAMPA WATER CONSERVANCY DISTRICT

Statement of Cash Flows

For the year ended December 31, 2021

Cash Flows From Operating Activities:	
Cash received from customers	\$ 409,962
Cash payments to suppliers of goods or services	(1,673,016)
	<u>(1,263,054)</u>
Net cash provided (used) by operating activities	<u>(1,263,054)</u>
Cash Flows From Non-Capital Financing Activities:	
Property taxes, net of collection fees	2,637,170
Cash received from pass-through grantor	63,728
Cash payments to pass-through suppliers of goods or services	(56,629)
	<u>2,644,269</u>
Net cash provided by non-capital financing activities	<u>2,644,269</u>
Cash Flows From Capital Financing Activities:	
Purchase of capital assets	(310,127)
	<u>(310,127)</u>
Net cash (used) by capital financing activities	<u>(310,127)</u>
Cash Flows From Investing Activities:	
Reinvested interest on certificates of deposit	(5,577)
Interest received	15,204
	<u>9,627</u>
Net cash provided by investing activities	<u>9,627</u>
Net change in cash and cash equivalents	1,080,715
Cash and cash equivalents, beginning of year	15,807,448
Cash and cash equivalents, end of year	<u>\$ 16,888,163</u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided by Activities:	
Operating loss	\$ (1,123,012)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	16,339
Decrease (increase) in:	
Accounts receivable	(28,973)
Prepaid expenses	(16,633)
(Decrease) increase in:	
Accounts payable, net of capital amounts	(101,977)
Accrued expenses payable	(8,798)
	<u>(8,798)</u>
Net cash provided (used) by operating activities	<u>\$ (1,263,054)</u>

The accompanying notes are an integral part of this financial statement.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Note 1: Summary of Significant Accounting Policies

The Upper Yampa Water Conservancy District (the District) was established in 1966 by Colorado Revised Statutes (CRS) Title 37, Article 45 under the “Water Conservancy Act”. The District was formed to provide legal authority to plan and construct water conservation projects in the Yampa Valley of northwest Colorado. The District stores water in two reservoirs, Stagecoach Reservoir and Yamcolo Reservoir, from which water is released to its ultimate users. The Stagecoach dam generates hydroelectric power that is sold to Yampa Valley Electric Association (YVEA). In addition, the Stagecoach Reservoir and dam includes a State recreation area for which the District pays a limited maintenance subsidy to the Colorado Parks and Wildlife.

The District’s financial statements were prepared in accordance with U.S. generally accepted accounting principles for governmental entities (US GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of US GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

Reporting Entity

The District applies the criteria set forth in GASB Codification Section 2100: Defining the Financial Reporting Entity, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials' accountability to their constituents, and the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units.

The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to: fiscal dependency, imposition of will, legal standing, and the primary recipient of services. Based on these criteria, the District has no includable component units. The District is also not included in the financial statements of any other entity.

Basic Financial Statements

As a special purpose government, basic financial statements are presented at the activity level. Activity level financial statements focus on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position, the Statement of Change in Fund Net Position, and the Statement of Cash Flows.

As a special purpose government, the District has only one fund, an enterprise/proprietary fund which is also considered its business type activity. The District does not present any other fund or activity information.

Measurement Focus and Basis of Accounting

The District operates as an enterprise and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

sector and, thus, this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

Assets, Liabilities, Deferred Inflows of Resources and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District's investment in the Colorado Local Government Liquid Asset Trust (COLOTRUST) PLUS+ fund is measured at net asset value, equal to \$1.00 per share.

Certificates of Deposit

The District holds money in nonnegotiable certificates of deposit that are valued at amortized cost. Maturities range from May 5, 2022-April 12, 2023. Interest rates range from .05%-.75%.

Accounts Receivable

Amounts due to the District from water storage and power sales are reported as accounts receivable. The District's management reviews accounts receivable periodically to consider the collectability of the balances. District management believes all accounts receivable to be fully collectible as of December 31, 2021. Therefore, no allowance for uncollectible accounts has been established.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets include land, reservoir and dam structures, hydro-electric plant, buildings and improvements, furniture and fixtures and equipment. Capital assets are defined by the District as assets with an initial cost of \$1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	30 - 40
Furniture, fixtures and equipment	5 - 20

Non-depreciable capital assets of the District include its land, land improvements, reservoirs, and dams.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist solely of unavailable revenues from property taxes.

Net Position

Equity is classified as net position and may be displayed in three components:

- Net investment in capital assets - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - consists of net position with constraints placed on the use either by (1) external groups, such as creditors, grantors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - all other net position that do not meet the definition of "restricted" or "net investment in capital assets." This net position is available for future operations or distributions.

It is the District's policy to fund operations through the most restricted available equity first.

While the unrestricted net position does not have any legal constraints on its use, the accumulation of these amounts may be necessary to offset significant unforeseen capital repairs and for the development of capital projects that may be necessary in future years. These amounts do not meet the accounting definition to be considered restricted, but the District believes this balance is necessary to ensure adequate reserves are available when the need does arise.

Operating and Non-Operating Revenues and Expenses

The proprietary fund financial statements distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Non-operating revenues and expenses are all those that do not meet the criteria described previously.

Property Taxes

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The Routt County Treasurer and Moffat County Treasurer collect property taxes and remit collections to the District on a monthly basis.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Stewardship, Compliance and Accountability

Budgetary Information

Budgets are adopted on a non-US GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on capital debt are budgeted and recorded as expenditures.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District's Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

During the year the Board may authorize supplemental appropriations, if necessary. There was one budget amendment for the year ended December 31, 2021.

Compliance

The District did not have expenditures in excess of appropriations for the year ended December 31, 2021.

TABOR Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments, excluding enterprises. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved \$46,923 of the December 31, 2021 fund net position for this purpose.

Management believes that the District qualifies as an enterprise as defined by TABOR. Therefore, the provisions of TABOR are not applicable to the District.

In November 1999, voters passed a referendum that permanently lifted TABOR restrictions on the amount of revenue the District can collect and expend.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

Note 3: Detailed Notes on the Fund

Cash and cash equivalents

Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in Colorado Revised Statutes 11-10.5-107(5) requires all eligible depositories holding public deposits, including those of the State's component units, to pledge designated eligible collateral having market value equal to at least 102 percent of the deposits exceeding the amounts insured by federal insurance. Upon liquidation of a defaulting eligible depository, the statute requires the banking board to seize the eligible collateral, liquidate the collateral, repay the public deposits to the depositing government. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. 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 market value of the collateral must be equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by Colorado Revised Statutes to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

COLOTRUST (Colorado Local Government Liquid Asset Trust) is a local government investment vehicles that qualifies as 2a7-like investment pools, where the value of each share is maintained at \$1.00.

As of December 31, 2021, all of the District's deposits were either held in deposit accounts insured by the Federal Deposit Insurance Corporation or in eligible depositories as required by PDPA.

Investments

Credit risk

The District follows Colorado Revised Statutes regarding its investments. Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which the District may invest which include local government investment pools.

Investment Valuation

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

<u>Investments:</u>	<u>Fair Value</u>
COLOTRUST (at NAV)	\$ 16,726,960

Custodial and concentration of credit risk

At December 31, 2021, the District had \$16,726,960 invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Securities. A designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST 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 COLOTRUST.

Colorado Revised Statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The allowed investments include local state sponsored investment pools. The District invests in one such pool, the Colorado Local Government Liquid Asset Trust (COLOTRUST) which is rated AAA by Standards and Poor's. This investment is not categorized because the investment is not evidenced by securities that exist in physical or book entry form. The District also invests excess undesignated cash reserves into certificates of deposit.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

Credit risk

The District has adopted a formal investment policy that complies with the Colorado Revised Statutes. The policy specifies investment instruments in which the District may invest including certificates of deposits, and local government investment pools.

Interest rate risk

The District has a formal investment policy that limits investment maturities to five years from the purchase date as a means of managing its exposure to fair value losses arising from increasing interest rates.

Capital Assets

Capital asset activity for the year ended December 31, 2021 is summarized below:

	January 1, 2021 Balance	Additions	Deletions	December 31, 2021 Balance
Capital assets not being depreciated:				
Stagecoach				
Land and water rights	\$ 5,179,506	\$ 80,269	\$ -	\$ 5,259,775
Dam Structure	9,080,877	-	-	9,080,877
Amenities	3,929,108	-	-	3,929,108
Yamcolo				
Dam Structure	5,998,642	-	-	5,998,642
Stillwater Ditch	530,653	-	-	530,653
Elk River Augmentation	10,000	-	-	10,000
Total capital assets not being depreciated:	24,728,786	80,269	-	24,809,055
Capital assets being depreciated:				
Stagecoach				
Dam structure and equipment	3,391,769	117,272	-	3,509,041
Amenities	1,310,968	1,380	-	1,312,348
Yamcolo				
Dam structure and equipment	841,257	56,411	-	897,668
Stillwater equipment	110,214	54,795	-	165,009
Equipment, vehicles and other	193,042	-	(16,217)	176,825
Total capital assets	30,576,036	310,127	(16,217)	30,869,946
Less: accumulated depreciation	(4,366,078)	(16,339)	16,217	(4,366,200)
Net capital assets	\$26,209,958	\$ 293,788	\$ -	\$26,503,746

Stillwater Ditch Agreement

The District has entered into an Assignment of Stock and Water Delivery Agreement with the shareholders of the Stillwater Ditch and Reservoirs Company (the Company) whereby the shareholders assigned and transferred all shares in the Company to the District in exchange for the

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

District's continued maintenance and repair of the Stillwater Ditch and delivery of water to the shareholders under certain absolute water rights retained by the shareholders.

Restricted Net Position

The United States Army Corps of Engineers (ACOE) issued a permit to the District to raise the height of Stagecoach Reservoir Dam four feet inundating approximately 23.51 acres of jurisdictional wetlands. The permit requires the District to post financial assurances to ensure a high level of confidence that the District will complete the compensatory mitigation required by the permit. The District has appropriated \$419,734 for this purpose as of December 31, 2021. The legislative appropriation will terminate when the compensatory mitigation is completed and accepted by the ACOE.

Note 4: Other Information

Defined Contribution Plan

Certain full-time employees are covered under a 401(a) defined contribution pension plan. Under the terms of the plan, the District contributes at a rate of double the employee's retirement contribution not to exceed 6% of gross pay. Participants become fully vested within 3 years of participation in the plan. The plan can only be amended by the District's board of directors. District contributions to the plan were \$36,325 for the year ended December 31, 2021.

Commitments and Contingencies

State of Colorado

The District has entered into an agreement with the State of Colorado Department of Natural Resources, Division of Parks and Outdoor Recreation for the operation of the recreational facilities at Stagecoach Reservoir. Under the terms of the agreement the District has agreed to make an annual payment of \$35,000 to the State each December 31st through May 1, 2024.

Power Purchase Agreement

The District entered into an agreement on October 30, 2015 to sell exclusively the hydroelectric energy generated by its Stagecoach facility to YVEA. The initial term is through December 31, 2025 and may be extended by either party for an additional 10 year period. The initial sales price is \$0.060 per kWh and is subject to annual adjustment beginning January 1, 2017. The sales price during the year ended December 31, 2021 was \$0.060 per kWh.

Reservoir Agreements

Numerous governments, organizations and individuals have reservoir agreements with the District to purchase water in storage annually from the District. The agreement terms range from 1 to 40 years with the majority of contracts expiring between the years 2021 and 2052.

Contribution to Routt County, Colorado

The District has committed to contribute \$500,000 to Routt County, Colorado for construction costs for the reconstruction improvements to be made to Routt County Road #14 in the future.

**UPPER YAMPA WATER CONSERVANCY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

State of Colorado Stagecoach Reservoir Operating Subsidy

The District has entered into a twenty-year lease agreement with the State of Colorado for the State to manage recreational use of District owned assets at Stagecoach Reservoir. The lease period is from May 1, 2004 through May 1, 2024. In exchange for the State managing the recreation areas and completing improvements and replacement of existing recreation facilities pursuant to the Master Plan, the District will annually provide the lessor of \$35,000 or the amount of State funded improvements plus \$10,000 in the form of an operating subsidy to the State. This payment is due by December 31 of each year of the lease. The State is allowed to carryover excess improvement costs annually to meet subsequent years' obligations. The maximum amount that the District is liable for in operating subsidies is \$700,000 over the twenty-year period.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members. The District has not had losses of a material amount in any of the preceding three years.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

Contingencies

The District is involved in several items of pending litigation primarily involving defense of its water rights and opposition of applications for water rights that conflict with those of the District. While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on the District's financial position, cash flows, or results of operations.

Subsequent Events

The District has evaluated subsequent events through the report date, which is the date these financial statements were available to be issued.

UPPER YAMPA WATER CONSERVANCY DISTRICT
Statement of Revenues, Expenditures, and Changes in Net Position - Budget and Actual
For the year ended December 31, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Operating Revenues:				
Water sales	\$ 286,225	\$ 286,225	\$ 369,529	\$ 83,304
Power revenues	195,000	195,000	58,824	(136,176)
Other income	8,408	10,076	10,582	506
Total revenues	<u>489,633</u>	<u>491,301</u>	<u>438,935</u>	<u>(52,366)</u>
Operating Expenditures:				
Facilities:				
Stagecoach reservoir	485,653	485,415	435,389	50,026
Yamcolo reservoir	150,322	150,543	131,307	19,236
Stillwater ditch and reservoir	34,888	34,905	30,100	4,805
Administration	329,216	329,216	294,343	34,873
Board of directors	114,232	114,232	52,669	61,563
External affairs	117,278	117,278	102,875	14,403
Finance	154,304	154,304	105,482	48,822
Legal	156,623	156,623	107,172	49,451
Planning	95,053	95,053	83,816	11,237
Grants, scholarships and public information	288,346	288,346	202,455	85,891
Capital outlay	375,000	455,269	310,127	145,142
Total expenditures	<u>2,300,915</u>	<u>2,381,184</u>	<u>1,855,735</u>	<u>525,449</u>
Operating Income (Loss)				
Other Income (Expense)				
Tax revenue, net of treasurer fee	2,443,021	2,443,021	2,637,170	194,149
Pass-through income	--	70,477	63,728	(6,749)
Pass-through expense	--	(70,477)	(56,629)	13,848
Investment earnings	31,045	31,045	15,204	(15,841)
Change in net position - non-US GAAP basis	<u>662,784</u>	<u>584,183</u>	<u>1,242,673</u>	<u>658,490</u>
Adjustments to US GAAP basis:				
Capital outlay	--	--	310,127	
Depreciation expense	--	--	(16,339)	
Change in net position - US GAAP basis	<u>662,784</u>	<u>584,183</u>	<u>1,536,461</u>	
Net position, beginning of year	<u>16,941,721</u>	<u>17,536,141</u>	<u>43,746,099</u>	
Net position, end of year	<u>\$ 17,604,505</u>	<u>\$ 18,120,324</u>	<u>\$ 45,282,560</u>	