THE PUEBLO CONSERVANCY DISTRICT

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Pueblo Conservancy District
Pueblo, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pueblo Conservancy District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pueblo Conservancy District, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i–iv and 18–20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Garren, Ross & DeVards, Inc.

PUEBLO CONSERVANCY DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016

As management of The Pueblo Conservancy District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the District exceeded its liabilities and deferred inflows of resources at the end of 2016 by $3,921,770 (net position). The composition of net position included net investment in capital assets of $2,354,645 and unrestricted net position of $1,567,125.

- The District's net position increased by $746,535 for the year ended December 31, 2016.

- At December 31, 2016, the District's general fund reported total fund balance of $1,595,919, which is an increase of $159,147 for 2016. This was due to capital outlay expenditures for land, phase 2 and phase 3 expenditures for the levee improvement project totaling $4,850,767 less maintenance fund assessment collections of $1,111,816 and bond proceeds of $4,748,687.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

The basic financial statements present two different views of the District's financial information using government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other required supplementary information that will enhance the reader's understanding of the financial condition of the District.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, liabilities, and deferred inflows of resources. The difference between assets and liabilities and deferred inflows of resources is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows.

The government-wide financial statements report the District's activities in maintenance and upkeep of two levees. The District has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local government agencies, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, such as state statutes. The general fund is used to account for all of the District's activities.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows or outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Governmental funds are reported using an accounting method called modified accrual accounting and the current financial resources measurement focus. As a result, the governmental fund financial statements gives the reader a detailed short-term view that assists the reader in determining if there are adequate financial resources available to finance the District's programs.

This report includes the District's one governmental fund, the general fund.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with the budget.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

The following table provides a condensed comparative presentation of the District's statement of net position at December 31, 2016 and 2015.

	Governmental Activities	
	2016	2015
Current and other assets	$ 3,074,198	$ 2,472,664
Capital assets	9,149,348	4,348,495
Total assets	12,223,546	6,821,159
Current and other liabilities	816,789	644,627
Long-term liabilities	6,326,987	1,986,297
Total liabilities	7,143,776	2,630,924
Deferred inflows of resources	1,158,000	1,015,000
Net position –		
Net investment in capital assets	2,354,645	1,754,793
Unrestricted	1,567,125	1,420,442
Net position	$ 3,921,770	$ 3,175,235

The statement of activities presents information which reports how the District's net position changed during any one year. The following table provides a condensed statement of activities for the years ended December 31, 2016 and 2015:

	Governmental Activities	
	2016	2015
Revenue		
Program revenues –		
Operating grants and contributions	$ -	$ 77,500
General revenues –		
Maintenance fund assessments	1,111,816	855,526
Investment earnings	7,632	47,208
Total revenues	1,119,448	980,234
Expenses		
General government	148,135	137,146
Intergovernmental	60,000	60,000
Interest and fiscal charges	164,778	77,503
Total expenses	372,913	274,649
Change in net position	746,535	705,585
Net position, January 1	3,175,235	2,469,650
Net position, December 31	$ 3,921,770	$ 3,175,235

Net position increased $746,535 during 2016 due to the continued collection of maintenance fund assessments and the additional depreciation expense incurred during 2016 totaling $16,836, along with additional interest expense of $87,275.

Financial Analysis of the General Fund

The focus of the District's general fund is to provide information on current year revenues, expenditures and the balance of spendable resources. In particular, fund balance serves as a useful measure of the District's net resources available for spending. At December 31, 2016, the District's fund balance totaled $1,595,919, which is an increase of $159,147. For the most part, the increase was due to maintenance fund assessment revenue of $1,111,816 and bond draw proceeds of $4,748,687 less capital outlay expenditures of $4,850,767 and debt service expenditures of $700,000.

General Fund Budgetary Highlights

The District amended the 2016 original budget by including the bond issuance proceeds of $4,800,000 as another financing source and increasing budgeted capital outlay expenditures by $1,700,000 to reflect additional capital outlay expenditures.

Capital Assets and Debt Administration

The District's net investment in capital assets for its governmental activities at December 31, 2016 totaled $9,149,348, which is net of accumulated depreciation of $117,059. The most significant change from the prior year is the acquisition of land and the continued progress in completing phase 2 and phase 3 of the levee improvement project as detailed in the notes to the financial statements.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

Request For Information

This financial report is designed to provide a general overview of the Pueblo Conservancy District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Pueblo Conservancy District, P.O. Box 234, Pueblo, CO 81002.

BASIC FINANCIAL STATEMENTS

THE PUEBLO CONSERVANCY DISTRICT
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Total
ASSETS		
Cash and cash equivalents	$ 819,588	$ 819,588
Investments	974,793	974,793
Other receivables	1,817	1,817
Maintenance fund assessment receivable	1,158,000	1,158,000
Deposit	120,000	120,000
Capital assets -		
Land	264,763	264,763
Construction in progress	4,770,957	4,770,957
Other capital assets, net of depreciation	4,113,628	4,113,628
Total Capital Assets	9,149,348	9,149,348
TOTAL ASSETS	12,223,546	12,223,546
LIABILITIES		
Accounts payable and accrued expenses	$ 349,073	$ 349,073
Long-term liabilities -		
Due within one year	467,716	467,716
Due in more than one year	6,326,987	6,326,987
Total Liabilities	7,143,776	7,143,776
Deferred inflows of resources -		
Maintenance fund assessments	1,158,000	1,158,000
NET POSITION		
Net investment in capital assets	2,354,645	2,354,645
Unrestricted	1,567,125	1,567,125
TOTAL NET POSITION	$ 3,921,770	$ 3,921,770

The accompanying notes are an integral part of these statements.

THE PUEBLO CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	Program Revenues Operating Grants and Contribution	Net (Expense) Revenue and Changes in Net Position Governmental Activities	Total
GOVERNMENTAL ACTIVITIES				
General government	$ 148,135	$ -	$ (148,135)	$ (148,135)
Intergovernmental	60,000	-	(60,000)	(60,000)
Interest and fiscal charges	164,778	-	(164,778)	(164,778)
TOTAL GOVERNMENTAL ACTIVITIES	$ 372,913	$ -	(372,913)	(372,913)
GENERAL REVENUES				
Maintenance fund assessments				1,111,816
Investment earnings				7,632
TOTAL GENERAL REVENUES				1,119,448
CHANGE IN NET POSITION				746,535
NET POSITION, January 1				3,175,235
NET POSITION, December 31				$ 3,921,770

The accompanying notes are an integral part of these statements.

THE PUEBLO CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2016

	General Fund	Total
ASSETS		
Cash and cash equivalents	$ 819,588	$ 819,588
Investments	974,793	974,793
Other receivables	1,817	1,817
Maintenance fund assessment receivable	1,158,000	1,158,000
Deposit	120,000	120,000
TOTAL ASSETS	$ 3,074,198	$ 3,074,198
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
LIABILITIES		
Accounts payable	$ 320,279	$ 320,279
Total liabilities	320,279	320,279
DEFERRED INFLOWS OF RESOURCES		
Maintenance fund assessments	1,158,000	1,158,000
FUND BALANCE		
Nonspendable	-	-
Restricted	-	-
Committed	-	-
Assigned	-	-
Unassigned	1,595,919	1,595,919
Total fund balances	1,595,919	1,595,919
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 3,074,198	$ 1,595,919

The accompanying notes are an integral part of these statements.

THE PUEBLO CONSERVANCY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2016

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental fund		$ 1,595,919
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental fund.		
The cost of capital assets is	9,266,406	
Accumulated depreciation is	(117,058)	9,149,348
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental fund. Long-term liabilities at year end consist of:		
Accrued interest payable	(28,794)	
Bond payable	(6,794,703)	(6,823,497)
Total net position - governmental activities		$ 3,921,770

The accompanying notes are an integral part of these statements.

THE PUEBLO CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND
DECEMBER 31, 2016

	General Fund	Total Governmental Fund
REVENUES		
Maintenance fund assessment	$ 1,111,816	$ 1,111,816
Interest	7,632	7,632
TOTAL REVENUES	1,119,448	1,119,448
EXPENDITURES		
Current -		
General government	98,221	98,221
Intergovernmental	60,000	60,000
Debt service -		
Principal	547,686	547,686
Interest	152,314	152,314
Capital outlay	4,850,767	4,850,767
TOTAL EXPENDITURES	5,708,988	5,708,988
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,589,540)	(4,589,540)
OTHER FINANCING SOURCES		
Issuance of bond proceeds	4,748,687	4,748,687
TOTAL OTHER FINANCING SOURCES	4,748,687	4,748,687
NET CHANGE IN FUND BALANCE	159,147	159,147
FUND BALANCE, January 1	1,436,772	1,436,772
FUND BALANCE, December 31	$ 1,595,919	$ 1,595,919

The accompanying notes are an integral part of these statements.

THE PUEBLO CONSERVANCY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2016

Amounts reported for governmental activities are different because:

Total net change in fund balances - governmental fund		$ 159,147
Capital outlays are reported in the governmental fund as expenditures. However, for governmental activities these costs are reported in the statement of net position and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense.		
Capital outlay	4,850,767	
Depreciation expense	(49,913)	4,800,854
The governmental fund reports the proceeds from the issuance of debt obligations as other financing sources and the repayment of principal on bonds as an expenditure. Interest expense is recognized as an expenditure in the governmental fund when it is due, while interest expense is recognized when incurred in the statement of activities. The net effect of these differences in the treatment of bonds and other obligations follows:		
Issuance of bond proceeds	(4,748,687)	
Interest expense on bonds	(12,465)	
Principal payment on bond	547,686	(4,213,466)
Changes in net position - governmental activities		$ 746,535

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pueblo Conservancy District (the District) is organized under the laws of the State of Colorado to maintain the Arkansas River and the Wildhorse Creek levees. The District operates under the jurisdiction of a nine member board of directors who are appointed by the City of Pueblo, Colorado and the County of Pueblo, Colorado.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting practices used by the District are described below:

Reporting Entity

As required by generally accepted accounting principles, the District (the primary government) includes, if applicable, component units in its financial statements based on financial accountability. Inasmuch as no component units meet the criteria for inclusion, no component unit financial statements have been included.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The government-wide financial statements, which include the statement of net position and the statement of activities, report information on all the activities of the District.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or activity. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or activity; (2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity; and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Maintenance assessments and other items not properly included among program revenues are reported instead as general revenues. The net cost by function is normally covered by general revenue such as maintenance assessments or other unrestricted revenues.

Separate fund financial statements are provided for the governmental fund. The governmental fund is reported as a separate column.

The government-wide focus is more on the sustainability of the District as a whole and the changes in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual governmental fund. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Maintenance assessments are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred as is the case with accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when the liability has matured and payment is due. General capital asset acquisitions are reported as expenditures in the governmental fund. Maintenance assessments and interest are considered revenues susceptible to accrual.

Governmental Fund

The District reports, as required by generally accepted accounting principles, the general fund as a major fund. The general fund is used to account for all financial resources of the District except those required to be accounted for in a separate fund, if any. Major revenue sources include maintenance assessments and interest, while primary expenditures include general government and capital outlay.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include interest and non-interest bearing bank deposits. Investments include an internal investment pool and U.S. agency securities. All investments are reported at fair value and any related unrealized gain or loss is included as part of investment revenue.

Maintenance Assessments

The Pueblo County Treasurer is responsible for assessing, collecting and distributing maintenance fund assessments in accordance with enabling District Court legislation. The maintenance fund fee is assessed to properties within the District's boundary as determined by the 10th Judicial District Court in January 2016. The maintenance fund assessment is included with the Pueblo County property tax billings on the first day of the assessment year and may be paid in two equal installments before the last day of February and the 15th day of June or in full before the last day of April. Fees are assessed based on property values, with a range of fees based on whether the property is located within (1) the flood plain; (2) the City of Pueblo limits, but outside the flood plain; or (3) the County of Pueblo but outside the flood plain and outside the City of Pueblo limits. The maintenance fund assessment has been determined by the Colorado Supreme Court to be an assessment and not a tax.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Maintenance fund assessments are recognized as revenue as collected by the Pueblo County Treasurer. They are considered both measurable and available if collected within 60 days after December 31.

Capital Assets

The District capitalizes acquisitions and betterments that exceed $10,000 with a useful life of one year or more. Acquisitions and betterments not meeting this criteria are expensed in the current year.

Capital assets are depreciated using the straight-line method as follows:

Description	Governmental Activities
Levee improvements	20-100 years

Long-Term Liabilities

In the government-wide financial statements long-term debt is reported as a liability in the statement of net position. Bond premiums and discounts, as well as bond insurance costs, if any, are deferred and amortized over the life of the obligation using the interest method.

In the governmental fund financial statements, bond premium and discounts, as well as bond issue costs, are recognized during the current period. The face amount of the debt issue, along with the related discount or premium, if any, is reported as other financing sources, while debt issue costs are reported as debt service expenditures.

Fund Balance

Governmental funds report fund balance in classifications based primarily on the extent the District is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. Fund balances of the District's governmental fund are classified and may be displayed in the following five categories:

- Nonspendable – includes amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as prepaid items and inventories.

- Restricted – includes amounts that are restricted for specific purposes stipulated by external resource providers constitutionally or through enabling legislation.

- Committed – includes amounts that can only be used for the specific purposes determined by the passage of a resolution of the Board of Directors of the District. Commitments may be modified or changed only by the Board of Directors approving a new resolution.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

- Assigned – includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. As authorized by the Board of Directors, assigned amounts include appropriations of existing fund balances to eliminate a projected budgetary deficit in the subsequent year's budget.

- Unassigned – includes amounts that do not meet any of the above criteria.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, fund balance is reduced in the order of restricted, committed, assigned and unassigned.

Net Position

In the government-wide financial statement, net position is classified in the following categories:

- Net investment in capital assets – this classification consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the capital assets.

- Restricted net position – this classification consists of restrictions created by external creditors, grantors, contributors or laws or regulations of other governments, enabling legislation and constitutional provisions.

- Unrestricted net position – this classification represents the remainder of net position that does not meet the definition of "net investment in capital assets" or "restricted net position".

When both restricted and unrestricted resources are available for net position use, it is the District's policy to use restricted resources first and then use unrestricted revenues as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Tax, Revenue, Spending and Debt Limitations

In November, 1992, Colorado voters adopted Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR imposes tax raising, revenue, spending and debt limitations on local government entities within the State of Colorado. The amendment is complex and subject to judicial interpretation; however, the District believes it is in compliance with the requirements of the amendment. The District has made certain interpretations of the amendment's language in order to determine its compliance.

Other Compliance Issues

The District may have been in violation of the Public Deposit Protection Act during the year ended December 31, 2016 because the District held deposits in out-of-state banks that are not eligible public depositories. The District has taken action to cure this violation.

The District may be in violation of state law in that the Board may not have approved the acquisition of U.S. Agency securities whose maturities exceeded five years from the date of acquisition. The District has taken action to cure this violation.

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are summarized as follows:

Cash and cash equivalents –	
Demand deposits	$ 819,588
Investments -	
External investment pool (Colo trust)	$ 25,322
U.S. Agency securities	949,471
	$ 974,793

DEPOSITS

At December 31, 2016, the carrying amount of the District's deposits was $819,588 and the bank balance was $851,989. Of the bank balance, $650,752 was covered by federal depository insurance and $201,237 was collateralized in single financial institution collateral pools maintained by the individual financial institutions that hold these deposits. Colorado law requires that depository institutions must apply for and be designated as an eligible public depository before the institution can accept public deposits held by that institution that are not insured by depository insurance. The fair value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the depository institution.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk parallels Colorado statutes as described above. At December 31, 2016, deposits with a bank balance of $201,237 were not insured but were not exposed to custodial credit risk because they are collateralized with securities held by the pledging financial institution's agent in the District's name.

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

INVESTMENTS

The District is subject to the provisions of Colorado Revised Statues 24-75-601, which is entitled "Concerning Investment in Securities by Public Entities". This law, among other things, outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government and agency securities, certain bonds of political subdivisions, bankers acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds, guaranteed insurance contracts and U.S. dollar-denominated corporate or bank debt. The statute also includes a provision limiting any investment to a five-year maturity unless the governing body authorizes a longer period.

At December 31, 2016, the District had the following investments and maturities:

		Investment Maturities (in years)						
Investment Type	Fair Value	Less Than 1	1-5	6-10	11-15	16-20	21-25	26-30
Colo Trust	$ 25,322	$ 25,322	$ -	$ -	$ -	$ -	$ -	$ -
U.S. Agency securities	949,471	99,339	15,281	264,538	185,823	134,040	227,288	23,162
	$ 974,793	$ 124,661	$ 15,281	$ 264,538	$ 185,823	$ 134,040	$ 227,288	$ 23,162

Custodial credit risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy does not limit the holding of securities by counterparties.

Interest rate risk – The District's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates parallels Colorado statutes. Specifically, all securities are limited to a maximum maturity of five years from the date of purchase unless the Board of Directors authorizes a longer period.

The District's investments in the Colo Trust external investment pool are reported at fair value. Colo Trust is a trust governed under the Local Government Investment Pool Trust Fund and Administration and Enforcement Act, C.R.S. 11-51-901. As such, Colo Trust reports its financial statements in accordance with Financial Accounting Standards Board (FASB) ASC820 and in reporting its investments. The regulatory oversight for Colo Trust external investment pool rests with the Colorado Securities Commission and the rating of the external investment pool was generally AAAm by Moody's and Standard and Poor's.

NOTE C – CASH, CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

The District categorizes its fair value investments 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. The District's recurring fair value measurements as of December 31, 2016 consist of the District's U.S. Agency securities and Colo Trust holdings. The District's U.S. Agency securities are valued using a pricing matrix (level 2 inputs), while the District's Colo Trust holdings are not subject to the fair value hierarchy under generally accepted accounting principles.

NOTE D – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2016 was as follows:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016
Governmental activities –				
Nondepreciable assets –				
Construction in progress	$ 181,954	$ 4,589,003	$ -	$ 4,770,957
Land	3,000	261,763	-	264,763
Total capital assets not being depreciated	184,954	4,850,766	-	5,035,720
Depreciable assets –				
Levee improvements	4,230,687	-	-	4,230,687
Total capital assets being depreciated	4,230,687	-	-	4,230,687
Less: accumulated depreciation for levee improvements	(67,146)	(49,913)	-	(117,059)
Total accumulated depreciation	(67,146)	(49,913)	-	(117,059)
Capital assets being depreciated, net	4,163,541	(49,913)	-	4,113,628
Total governmental activities capital assets, net	$ 4,348,495	$ 4,800,853	$ -	$ 9,149,348

NOTE D – CAPITAL ASSETS (Cont'd.)

Depreciation expense of $49,913 was charged to the general government function.

The District estimates total construction costs including necessary land acquisition for the levee improvement project to be approximately 20 to 24 million dollars when complete.

NOTE E – LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities in the government-wide statement of net position for the year ended December 31, 2016:

	Balance January 1, 2016	Additions	Deletions	Balance December 31, 2016	Due Within One Year
Governmental activities – Maintenance fund bond 2015 series A	$ 2,593,702	$ 4,748,687	$ 547,686	$ 6,794,703	$ 467,716
	$ 2,593,702	$ 4,748,687	$ 547,686	$ 6,794,703	$ 467,716

Payments on the maintenance fund bond 2015 series A are reported in the general fund.

The following is a description of the individual issue for the governmental activities:

$10,000,000 2015 series A maintenance fund tax-exempt draw bonds; interest rate of 3.57%; due in annual installments of principal and interest totaling $700,000 annually through October 29, 2022, at which time the entire balance is due	$ 6,794,703

The bond agreement provides that the District must draw down the entire proceeds of the bonds within eighteen months after closing.

The estimated debt service requirements at December 31, 2016 for the governmental activities bond payable are as follows:

Year Ending December 31,	Principal	Interest	Total
2017	$ 467,716	$ 232,284	$ 700,000
2018	470,990	229,010	700,000
2019	488,037	211,963	700,000
2020	505,170	194,830	700,000
2021	523,987	176,013	700,000
2022	4,338,803	157,047	4,495,850
	$ 6,794,703	$ 1,201,147	$ 7,995,850

NOTE E – LONG-TERM LIABILITIES (Cont'd.)

The principal and interest on the bonds described above are payable only from the revenue generated by the maintenance fund assessment as allowed under Colorado law. The debt service on the bond constitutes an irrevocable lien on the revenue of the maintenance fund assessment but not necessarily an exclusive such lien.

The 2015 series A bond does not constitute a debt or indebtedness of the District within the meaning of any constitutional or statutory provision or limitation and shall not be considered or held to be a general obligation of the District.

NOTE F – 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 carries commercial insurance for such risks, including property and liability insurance. Settled claims resulting from these risks did not exceed commercial insurance coverage for each of the last three years.

REQUIRED SUPPLEMENTARY INFORMATION

THE PUEBLO CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016

	Budgeted Amounts		Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES AND OTHER FINANCING SOURCES				
Maintenance fund assessment	$ 1,015,000	$ 1,015,000	$ 1,111,816	$ 96,816
Interest revenue	21,000	21,000	7,632	(13,368)
Bond proceeds	-	4,800,000	4,748,687	(51,313)
TOTAL REVENUES AND OTHER FINANCING SOURCES	1,036,000	5,836,000	5,868,135	32,135
EXPENDITURES				
Current -				
Director fees	21,600	21,600	21,600	-
Professional fees - legal	36,000	36,000	5,097	30,903
Professional fees - accounting	16,500	16,500	20,488	(3,988)
Professional fees - engineering	20,400	20,400	20,400	-
Professional fees - other	13,500	13,500	23,171	(9,671)
Office expense	4,450	4,450	3,287	1,163
Insurance	3,500	3,500	768	2,732
Planning and development	25,000	25,000	-	25,000
Repairs and maintenance	8,500	8,500	3,410	5,090
Levee engineering and professional fees	35,000	35,000	-	35,000
Contingencies	20,000	20,000	-	20,000
Intergovernmental	60,000	60,000	60,000	-
Debt service -				
Principal payments	547,686	547,686	547,686	-
Interest charges	152,314	152,314	152,314	-
Capital outlay	3,345,000	5,045,000	4,850,767	194,233
TOTAL EXPENDITURES	4,309,450	6,009,450	5,708,988	300,462
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(3,273,450)	(173,450)	159,147	332,597
FUND BALANCE, January 1	7,553,553	1,436,772	1,436,772	-
FUND BALANCE, December 31	$ 4,280,103	$ 1,263,322	$ 1,595,919	$ 332,597

THE PUEBLO CONSERVANCY DISTRICT
RECONCILIATION OF THE BUDGETARY BASIS OF ACCOUNTING
TO GAAP BASIS OF ACCOUNTING
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016

BUDGETARY BASIS

Explanation of differences between budgetary revenues and other financing sources and GAAP basis revenues

REVENUES AND OTHER FINANCING SOURCES

Actual amounts (budgetary basis) of revenues and other financing sources from the budgetary comparison schedule	$ 5,868,135
Differences - budget to GAAP -	
Bond proceeds	(4,748,687)
GAAP BASIS REVENUES	$ 1,119,448

BUDGETARY INFORMATION

The District adheres to the following procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

On or before the first board meeting in October, the executive director submits to the board of directors a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the board of directors to obtain taxpayer comments. The District adopts a budget for the general fund and the general fund uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the budget.

Expenditure estimates in the annual budgets are enacted into law by the passage of an appropriation resolution. The board of directors may amend the original adopted budget during the year by passing a new resolution to reflect current needs. During 2016 the expenditure estimates were amended.

The legal level of budgetary control exists at the total fund level, which is to say total expenditures in the general fund cannot legally exceed appropriations.