

LEFT HAND DITCH COMPANY
(a Colorado non-profit corporation)

Financial Statements
December 31, 2015 and 2014

LEFT HAND DITCH COMPANY
Years Ended December 31, 2015 and 2014

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Left Hand Ditch Company
PO Box 229
Niwot, Colorado 80544

We have reviewed the accompanying balance sheets of Left Hand Ditch Company (a Colorado non-profit corporation) as of December 31, 2015 and 2014, and the statements of income and retained earnings and cash flows the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility 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 designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Clausen & Associates

Longmont, Colorado
February 6, 2016

LEFT HAND DITCH COMPANY

BALANCE SHEETS

	December 31,	
	2015	2014
ASSETS		
CURRENT ASSETS		
Cash on hand and in banks	\$ 271,353	\$ 396,175
Certificates of deposit	177,476	177,165
Assessments receivable	37,460	112,165
Prepaid expenses	8,341	6,209
Total current assets	494,630	691,714
RESTRICTED ASSETS		
Cash debt service reserve (Note 7)	39,011	14,004
PROPERTY AND EQUIPMENT		
Irrigation facilities	4,417,269	3,895,156
Office equipment	9,806	9,806
Total property & equipment	4,427,075	3,904,962
Less accumulated depreciation	(976,279)	(898,876)
Net property and equipment	3,450,796	3,006,086
OTHER ASSETS		
Loan fees (net of accumulated amortization of \$1,025 and \$538 in 2015 and 2014, respectively)	13,581	14,068
Lease deposit	750	750
Total other assets	14,331	14,818
TOTAL ASSETS	\$ 3,998,768	\$ 3,726,622
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 6,903	\$ 1,876
Rents received in advance	7,333	7,333
Due to Colorado State Treasurer (Note 9)	59,747	-
Accrued interest (Note 7)	81,867	53,124
Notes payable (current portion)	49,093	17,821
Total current liabilities	204,943	80,154
LONG-TERM LIABILITIES		
Notes payable (Note 7)	2,217,236	2,004,129
Less, current portion (above)	(49,093)	(17,821)
Net long-term liabilities	2,168,143	1,986,308
TOTAL LIABILITIES	2,373,086	2,066,462
STOCKHOLDERS' EQUITY		
Common stock - \$.3125 par value - 16,800 shares authorized, 16,647 issued and outstanding	5,202	5,202
Paid-in capital	204,675	204,675
Retained earnings	1,415,805	1,450,283
Total stockholders' equity	1,625,682	1,660,160
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,998,768	\$ 3,726,622

LEFT HAND DITCH COMPANY
STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years ended December 31,	
	2015	2014
ASSESSMENT REVENUE	\$ 514,297	\$ 622,946
OPERATING EXPENSES		
Salaries and wages	70,170	66,350
Payroll taxes	5,553	6,511
Subtotal	75,723	72,861
Repairs and maintenance	286,696	38,348
Depreciation expense	77,403	52,679
Professional fees	37,395	17,914
Water purchased	36,000	46,871
Employee benefits	22,947	23,180
Insurance expense	13,159	13,527
Auto expense	10,684	9,553
Accounting fees	9,535	8,788
Rent expense	9,000	9,000
Office supplies and expense	8,955	4,059
Computer expense	6,050	5,300
Directors' fees	4,500	3,240
Telephone expense	2,939	2,834
Meeting expense	1,920	2,500
Engineering expense	780	22,971
Contract labor	710	2,500
Amortization expense	487	443
Total operating expenses	604,883	336,568
OPERATING INCOME (LOSS)	(90,586)	286,378
OTHER INCOME (EXPENSE)		
State grant	77,258	-
Lease income (Note 4)	23,650	22,000
Loss on disposal of fixed assets	-	(11,819)
Interest income	4,683	5,864
Transfer fees	3,675	2,398
Interest expense	(53,208)	(44,443)
Miscellaneous income	50	-
Net other income (expense)	56,108	(26,000)
NET INCOME (LOSS)		
BEFORE EXTRAORDINARY ITEMS	(34,478)	260,378
EXTRAORDINARY ITEMS (Note 11)		
FEMA reimbursement	-	590,658
Storm repairs	-	(268,482)
Net extraordinary items	-	322,176
NET INCOME (LOSS)	(34,478)	582,554
RETAINED EARNINGS, beginning of year	1,450,283	867,729
RETAINED EARNINGS, end of year	\$ 1,415,805	\$ 1,450,283

See accompanying notes and independent accountants' review report.

LEFT HAND DITCH COMPANY
STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (34,478)	\$ 582,554
Adjustments to reconcile net income (loss) to net cash provided by operations -		
Depreciation expense	77,403	52,679
Amortization expense	487	443
(Increase) decrease in -		
Assessments receivable	74,705	(59,522)
Prepaid expenses	(2,132)	(1,130)
Increase (decrease) in -		
Accounts payable	5,027	(141,526)
Due to Colorado State Treasurer	59,747	(2,446)
Accrued interest	28,743	27,642
Net cash provided (used) by operating activities	209,503	458,694
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in certificates of deposit	(311)	(263)
(Increase) decrease in cash debt service reserve	(25,007)	(7)
Acquisition of property and equipment	(522,113)	(710,121)
Loss on disposal of fixed assets	-	11,819
Net cash provided (used) by investing activities	(547,431)	(698,572)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan fees	-	(3,150)
Principal payments on CWCB loans	(17,821)	(17,074)
Proceeds of CWCB loans	230,928	480,019
Net cash provided (used) by financing activities	213,107	459,795
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(124,822)	219,917
CASH AND CASH EQUIVALENTS, beginning of year	396,175	176,258
CASH AND CASH EQUIVALENTS, end of year	\$ 271,353	\$ 396,175
SUPPLEMENTAL DATA:		
Interest paid	\$ 53,208	\$ 44,443

LEFT HAND DITCH COMPANY

NOTES TO FINANCIAL STATEMENTS December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business. Left Hand Ditch Company (the Company) has been in existence since the 1800s and was granted tax-exempt status in February 1945. The Company owns and operates irrigation water systems in Boulder County, Colorado. The Company grants credit to all of its Boulder County customers for annual assessments. The financial statements have been prepared on the accrual basis of accounting.

Revenue Recognition. The Company sets member assessments at its annual meeting as recommended by the Board of Directors. Assessments are billed annually for the January-December calendar year. Revenue is recognized when assessments are billed.

Cash and Cash Equivalents. The Company presents its cash flow statements using the indirect method. For purposes of cash flow presentation, the Company considers cash on hand, demand deposits with financial institutions, and all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Property and Equipment. Property and equipment are stated at cost except for adjudicated water rights, which are carried at a nominal value of \$1. Substantially all depreciation expense has been determined using the straight-line method. Generally, acquisitions of property and equipment in excess of \$500 are capitalized. The cost of maintenance and repairs is charged against income as incurred; significant renewals, betterments and improvements are capitalized.

Allowance for Doubtful Accounts. No allowance for doubtful accounts has been provided for in the Company's financial statements pursuant to the Company's policy of selling individual shares when assessments and related interest become more than two years in arrears.

Use of 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 2 - CONCENTRATION OF CREDIT RISK

The Company maintains its checking and savings accounts with financial institutions that insure cash balances of up to \$250,000 through the Federal Deposit Insurance Corporation. At December 31, 2015, the Company had \$21,353 of uninsured cash balances.

LEFT HAND DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 3 - PROPERTY AND EQUIPMENT

Depreciation and amortization has been determined based upon estimated useful lives as follows:

Roads, dams, reservoirs, and equipment, etc.	15 - 50 years
Office equipment, furniture and software	3 - 10 years

Depreciation expense totaled \$77,403 and \$52,679 for the years 2015 and 2014, respectively.

Amortization expense totaled \$487 and \$443 for the years 2015 and 2014, respectively.

NOTE 4 - OPERATING LEASE

On May 1, 2000, the Company entered into an agreement with the Left Hand Valley Lake Association to lease the recreational rights of the Left Hand Valley Reservoir. The lease consists of the surface area of the lake and portions of adjacent land for recreational purposes only. In February 2015, the lease was extended for an additional 5 years. The scheduled quarterly payments are \$6,050. Lease income under the agreement was \$23,650 and \$22,000 for the years ending December 31, 2015 and 2014, respectively.

The cost of the surface water rights is not determinable.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Company has an agreement with the Left Hand Water District (the District) to transfer and exchange Northern Colorado Water Conservancy District (Big T) water and Left Hand Ditch Company water, pursuant to certain restrictive terms and conditions. This agreement may be terminated or amended upon written mutual agreement between the parties. As of December 31, 2015 and 2014, the Left Hand Water District owns approximately 17% of Left Hand Ditch Company stock.

The Company received \$57,713 and \$49,432 and disbursed \$36,000 and \$46,871 for the years ending December 31, 2015 and 2014, respectively, as a result of this agreement.

LEFT HAND DITCH COMPANY

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE 6 - INCOME TAXES

The Company is not subject to income taxes pursuant to I.R.C. Section 501(c)(12) covering mutual ditch companies whose member assessment income exceeds 85% of total income. No unrelated business income in excess of the allowed annual exclusion amount has been collected that would be subject to income taxes.

NOTE 7 - LONG-TERM NOTES PAYABLE

During July 1994, the Company applied for a state-funded loan through the Colorado Water Conservation Board (CWCB) to pay for a portion of the spillway project. A \$560,000, 30-year loan at 4.375% interest was approved on January 12, 1998, by CWCB. All the Company's assets are pledged as security on this note. Scheduled annual payments of principal and interest on the note are \$33,875 per year for 30 years and began in 2000. The terms of the CWCB loan require 10 annual deposits of 10 percent of the annual loan payments into a debt service reserve account. The Company opened this account in December 1998 with a deposit of \$3,387. The balance in the reserve account was \$39,011 and \$14,004 for the years ending December 31, 2015 and 2014, respectively. As of December 31, 2015 the Company was in compliance with the terms of this CWCB loan. The terms of the loan require the Company to levy assessments in an amount sufficient to pay the annual amounts due on the loan and to place these assessment revenues pledged to make annual loan payments into a separate account. The loan balance as of December 31, 2015 was \$349,132.

Accrued interest on this loan totaled \$9,614 and \$10,094 at December 31, 2015 and 2014, respectively.

During 2012, the Company applied for a state-funded loan through the Colorado Water Conservation Board (CWCB) to pay for the Lake Isabelle and Allen's Lake Dam projects. A \$1,475,307, 30-year loan at 2.45% interest was signed August 20, 2012. The Company completed the Allen's Lake Dam in the summer of 2013 and the Lake Isabelle project was completed in the summer of 2014. Collateral consists of all revenues derived from assessments on stock and the Company's right to receive said assessments. As of December 31, 2015, \$1,333,976 had been disbursed on the loan. The terms of this loan also require a debt service reserve account to be established with 10 annual deposits of 10 percent of the annual loan payments with the first deposit due on the due date of its annual loan payment and annually thereafter for the first ten years of repayment of this loan. The first payment on the loan is due October 31, 2016. The annual payment amount is estimated to be \$63,243.

Accrued interest on this loan totaled \$72,253 and \$43,030 at December 31, 2015 and 2014, respectively.

LEFT HAND DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 7 - LONG-TERM NOTES PAYABLE - continued

The Company received an additional emergency loan in 2014 from the CWCB to help cover the cost of repair from flood damage that occurred in September 2013. The loan amount is not to exceed \$3,276,056. The terms of the loan are three years of no interest or payments, followed by a 27-year amortization at a blended rate of 2.3% per annum. The loan amount as of December 31, 2015 was \$534,128.

Estimated principal payments due on the notes for the next five years are as follows:

2016	\$	49,093
2017		65,104
2018		67,064
2019		69,087
2020		71,176
Thereafter		1,895,712
		<u>\$ 2,217,236</u>

NOTE 8 - LEASE PAYABLE

The Company entered into a lease for office space with Related Investment Partners effective February 7, 2013, for a period of two years, at an annual rental of \$9,000. As of the date the financials were available to be issued, the Company had not signed a new lease.

NOTE 9 - DUE TO COLORADO STATE TREASURER

On December 16, 2015, sixteen shares of capital stock were sold due to the owner's death. The stock was sold by the Company for \$68,150. Of this amount, \$8,403 was retained by the Company for amounts owed by the stockholder and \$59,747 will be paid to the Colorado State Treasurer Unclaimed Property Division.

NOTE 10 - COMPENSATED ABSENCES

Full-time employees of the Company are entitled to paid time off, including vacation and sick leave, depending on length of service and other factors. The values of accumulated compensated absences have not been accrued for the years ended December 31, 2015 and 2014 because the amount cannot be reasonably estimated.

LEFT HAND DITCH COMPANY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015 and 2014

NOTE 11 – EXTRAORDINARY ITEMS

In September 2013 the Company's irrigation facilities sustained extensive damage from flooding due to a natural disaster. The Company received \$590,658 in FEMA reimbursements in 2014 and has been approved for a \$3,276,056 loan to assist in rebuilding the facilities.

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 6, 2016, which was the date the financial statements were available to be issued.