

**CHIPETA WATER DISTRICT**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

December 31, 2017 and 2016

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February 15, 2018

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INDEPENDENT AUDITOR'S REPORT

# **DONALD R. MORELAND & ASSOCIATES, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Chipeta Water District  
Montrose, Colorado 81403

We have audited the accompanying financial statements of Chipeta Water District, as of and for the years ended December 31, 2017 and 2016, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### **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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 District'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 District'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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chipeta Water District as of December 31, 2017 and 2016, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors  
Chipeta Water District  
Page Two

**Other-Matters**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Chipeta Water District's financial statements as a whole. The supplementary information - revenues and expenditures - budget and actual is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information - revenues and expenditures - budget and actual is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Donald R. Moreland + Associates, P.C.*

Montrose, Colorado  
January 22, 2018

**MANAGEMENT' S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Chipeta Water District, we offer readers of the Chipeta Water District's financial statements this narrative overview and analysis of the financial activities of the Chipeta Water District for the years ended December 31, 2017 and 2016.

### Financial Highlights

- The assets of the Chipeta Water District (also referred to as the District) exceeded its liabilities at December 31, 2017 and 2016 by \$2,692,146 and \$2,727,190, respectively, (net position). Of this amount, \$1,665,530 and \$1,556,865, respectively, (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased (decreased) by \$(35,044) and \$(49,082) for the years ended December 31, 2017 and 2016, respectively.
- District revenues increased from the prior year for the years ended December 31, 2017 and 2016.
- District expenses also remained relatively consistent with the prior year with the exception of increases in treated water costs, employee costs, repairs and maintenance and depreciation. In 2016, District expenses remained relatively consistent with the prior year with the exception of an increase in employee costs and decreases in material and supplies, professional fees and depreciation.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Chipeta Water District's basic financial statements. The Chipeta Water District's basic financial statements are presented as a special purpose government engaged only in business type activities - providing water utility services.

The *statement of net position* presents information on all of the Chipeta Water District's assets and liabilities, with the difference between the two 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 Chipeta Water District is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net position* presents information showing how the District's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The *statement of cash flows* report the District's cash flows from operating, capital and related financing and investing activities. Also presented are beginning and end of year cash and cash equivalents.

The basic financial statements can be found on pages 7 through 9 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 10 through 17 of the report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* concerning the Chipeta Water District's budgetary comparisons for revenues and expenditures. Supplementary information can be found on page 18 of this report.

**Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the Chipeta Water District, assets exceeded liabilities by \$2,692,146 and \$2,727,190 respectively at December 31, 2017 and 2016.

Approximately 40 percent of the District's net position reflect its investment in capital assets (e.g., land, buildings, equipment, water tanks and distribution system), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**Chipeta Water District Net Position**

	<u>2017</u>	<u>2016</u>
Current assets	\$1,582,246	1,471,475
Capital assets	1,026,616	1,170,325
Other assets	102,630	104,026
Total assets	<u>2,711,492</u>	<u>2,745,826</u>
Current liabilities	19,346	18,636
Total liabilities	<u>19,346</u>	<u>18,636</u>
Net position:		
Net investment in capital assets	1,026,616	1,170,325
Unrestricted	1,665,530	1,556,865
Total net position	<u>\$2,692,146</u>	<u>2,727,190</u>

At the end of the current fiscal year, the Chipeta Water District is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

Under the GASB 34 reporting model the audit shows the District's net position increased (decreased) by \$(35,044) and \$(49,082), respectively, during the fiscal years ended December 31, 2017 and 2016. A large portion of these decreases in net position is due to depreciation.

**Chipeta Water District Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Revenues:		
Operating revenue	\$ 609,974	592,178
Non-operating revenue	<u>29,328</u>	<u>33,008</u>
Total revenues	<u>639,302</u>	<u>625,186</u>
Expenses:		
Operating expenses:		
Administrative and general	362,468	339,056
Water costs	179,031	168,043
Depreciation	191,246	179,412
Non-operating expenses:		
Net (increase) decrease in		
Fair value of investments	1,101	(2,625)
Loss on disposal of assets		<u>11,382</u>
Total expenses	<u>733,846</u>	<u>695,268</u>
Income (loss) before contributions	(94,544)	(70,082)
Capital contributions - tap fees	<u>59,500</u>	<u>21,000</u>
Change in net position	(35,044)	(49,082)
Net position - beginning of year	<u>2,727,190</u>	<u>2,776,272</u>
Net position - end of year	<u>\$2,692,146</u>	<u>2,727,190</u>

The District has generally been able to contain expenses.

**Budgetary highlights**

Changes between actual revenues and budgeted amounts were primarily due to increased water sales and capital contributions-tap fees.

Changes between actual expenses and budgeted amounts were primarily due to decreased materials and supplies and increased capital outlay.

**Capital Asset and Debt Administration**

**Capital assets.** The Chipeta Water District's investment in capital assets as of December 31, 2017 and 2016 amounted to \$1,026,616 and \$1,170,325, respectively, (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, water tanks and distribution system.

Major capital asset events during the years ended December 31, 2017 and 2016, included the following:

- Purchases of a telemetry system (SCADA), vehicle and water distribution system additions.

**Chipeta Water District Capital Assets**  
(net of depreciation)

	<u>2017</u>	<u>2016</u>
Land and rights-of-way	\$ 94,243	94,243
Buildings	29,077	31,316
Equipment	38,596	18,811
Water tanks	87,407	116,108
Distribution system	777,293	909,847
Total capital assets	<u>\$1,026,616</u>	<u>1,170,325</u>

Additional information on the District's capital assets can be found in Note 3 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The District will continue to improve the distribution system.

**Request for information**

This financial report is designed to provide a general overview of the Chipeta Water 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 request for additional information should be addressed to Chipeta Water District, 14738 6175 Road, Montrose, Colorado, 81403.

**FINANCIAL STATEMENTS**

CHIPETA WATER DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 585,150	468,447
Certificates of deposit	930,698	927,116
Accounts receivable - (net of allowance for doubtful accounts: 2017-\$139; 2016-\$139)	24,964	26,421
Inventory of supplies	38,336	37,639
Prepaid expenses	3,098	11,852
TOTAL CURRENT ASSETS	<u>1,582,246</u>	<u>1,471,475</u>
<u>CAPITAL ASSETS</u>		
Land and rights-of-way	94,243	94,243
Buildings	121,444	120,833
Equipment	273,644	260,257
Water tanks	747,321	747,321
Distribution system	3,684,985	3,732,859
	<u>4,921,637</u>	<u>4,955,513</u>
Accumulated depreciation	3,895,021	3,785,188
TOTAL CAPITAL ASSETS	<u>1,026,616</u>	<u>1,170,325</u>
<u>OTHER ASSETS</u>		
Long-term investments	100,125	101,226
Prepaid land leases	2,505	2,550
Deposits		250
TOTAL OTHER ASSETS	<u>102,630</u>	<u>104,026</u>
	<u>2,711,492</u>	<u>2,745,826</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	10,137	9,515
Accrued payroll taxes	4,247	4,033
Accrued costs of compensated absences	4,962	5,088
TOTAL CURRENT LIABILITIES	<u>19,346</u>	<u>18,636</u>
<u>NET POSITION</u>		
Net investment in capital assets	1,026,616	1,170,325
Unrestricted	1,665,530	1,556,865
TOTAL NET POSITION \$	<u><u>2,692,146</u></u>	<u><u>2,727,190</u></u>

See Notes to Financial Statements.

CHIPETA WATER DISTRICT

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUE</u>		
Water sales and charges	\$ 569,763	544,622
Material and labor reimbursements	18,803	24,663
Rental income	13,333	13,176
Miscellaneous	8,075	9,717
TOTAL OPERATING REVENUES	<u>609,974</u>	<u>592,178</u>
<u>OPERATING EXPENSES</u>		
Water costs:		
Treated water	127,094	116,106
Raw water	51,937	51,937
Salaries and wages	187,439	180,944
Payroll taxes	14,965	14,197
Employee insurance	54,548	57,963
Truck maintenance	4,522	3,393
Gas and oil	5,619	5,093
Materials and supplies	22,694	22,370
Utilities	14,817	13,406
Repairs and maintenance	11,612	5,474
Rent	45	45
Insurance	12,086	10,676
Office	6,582	3,213
Postage	5,708	6,080
Telephone	1,082	1,026
Answering service	671	837
Taxes and licenses	1,004	973
Professional fees	10,271	8,601
Seminars and education	323	575
Dues and fees	2,718	2,236
Depreciation	191,246	179,412
Miscellaneous	5,762	1,954
TOTAL OPERATING EXPENSES	<u>732,745</u>	<u>686,511</u>
OPERATING INCOME (LOSS)	<u>(122,771)</u>	<u>(94,333)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Reimbursed water meters cost	13,293	15,403
Investment income	16,035	17,605
Net increase (decrease) in fair value of investments	(1,101)	2,625
Gain (loss) on disposal of equipment		(11,382)
NET NON-OPERATING REVENUES (EXPENSES)	<u>28,227</u>	<u>24,251</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(94,544)	(70,082)
CAPITAL CONTRIBUTIONS - TAP FEES	59,500	21,000
CHANGE IN NET POSITION	(35,044)	(49,082)
NET POSITION - BEGINNING OF YEAR	<u>2,727,190</u>	<u>2,776,272</u>
NET POSITION - END OF YEAR	<u>\$ 2,692,146</u>	<u>2,727,190</u>

See Notes to Financial Statements.

CHIPETA WATER DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 620,946	597,541
Payments to suppliers	(284,997)	(266,626)
Payments to employees	(256,955)	(252,202)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>78,994</u>	<u>78,713</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets	(47,537)	(100,752)
Reimbursed water meters cost	13,293	15,403
Capital contributions - tap fees	59,500	21,000
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>25,256</u>	<u>(64,349)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of certificates of deposit	(3,582)	(209,806)
Investment income received	16,035	17,706
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>12,453</u>	<u>(192,100)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	116,703	(177,736)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>468,447</u>	<u>646,183</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 585,150</u>	<u>468,447</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (122,771)	(94,333)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	191,291	179,457
Decrease (Increase) in receivables	1,457	5,363
Decrease (Increase) in inventory	(697)	(3,161)
Decrease (Increase) in prepaid expenses	8,754	(9,101)
Decrease (Increase) in deposits	250	
Increase (Decrease) in accounts payable	622	(414)
Increase (Decrease) in accrued payroll taxes	214	335
Increase (Decrease) in accrued costs of compensated absences	(126)	567
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 78,994</u>	<u>78,713</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

The Chipeta Water District is incorporated as a special district under the laws of the State of Colorado with an elected board of seven directors. The District distributes domestic water within the boundaries of the District, located in the Spring Creek Mesa Area, west of Montrose, Colorado. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) 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 financial statements of the District consist only of the enterprise fund of the District, a stand-alone government. Based on criteria set forth by GASB, there are no component units for which the District is financially accountable.

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

*Proprietary Fund Financial Statements.* The proprietary fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

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1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. ASSETS, LIABILITIES, AND NET POSITION

*Cash and cash equivalents.* The District considers all cash on hand, demand deposits and short-term highly liquid investments with an original maturity of three months or less to be cash equivalents

*Inventories.* Inventory is stated at the lower of cost or market. Cost is determined by using last invoice cost.

*Capital assets.* Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. It is the District's policy to capitalize all capital expenditures over \$500 with an estimated useful life in excess of two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives. Capital assets acquired by capital lease are depreciated over the estimated useful lives and are included in depreciation expense. The estimated useful lives are as follows:

Leases	10 - 100 years
Distribution system	10 - 50 years
Water tanks	15 - 50 years
Buildings	10 - 50 years
Equipment	5 - 50 years

*Compensated absences.* The liability for compensated absences consists of unpaid, accumulated annual leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

*Reclassifications.* Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

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1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budget.

- a. The District's manager submits a proposed operating budget to the Board and a public hearing is held prior to December for the following calendar year. The operating budget includes proposed expenditures and the means of financing them.
- b. Prior to January 1, the budget is enacted by passage of a resolution. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP) except that and grants are budgeted as revenues, principal payments, transfers to reserve funds and capital outlays are budgeted as expenditures, and no provision is made for depreciation or system abandonments. Budgeted expenditures are appropriated in total for the District and the level of control is in total.
- c. The Board of Directors may authorize supplemental appropriations during the year. During 2017 and 2016, no supplemental appropriations were adopted.
- d. Appropriations lapse at the end of the year.

2 - DEPOSITS AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. 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 at least equal the aggregate uninsured deposits.

Custodial Credit Risks - Deposits

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 does not have a deposit policy for custodial credit risk. As of December 31, 2017 and 2016 none of the District's bank balances of \$1,515,404 and \$1,393,349, respectively, were exposed to custodial credit risk as \$602,799 and \$602,393, respectively, was insured and \$912,605 and \$790,956, respectively, was collateralized by securities pledged by financial institutions.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

2 - DEPOSITS AND INVESTMENTS (continued)

Investments

As of December 31, 2017 and 2016, the District had the following investments and maturities:

<u>2017</u>	<u>INVESTMENT MATURITIES (in years)</u>	<u>LESS THAN</u>	
		<u>1</u>	<u>1-5</u>
<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>		
Domestic corporate fixed-income securities	\$ <u>100,125</u>	<u>          </u>	<u>100,125</u>
	\$ <u>100,125</u>	<u>          </u>	<u>100,125</u>
<u>2016</u>	<u>INVESTMENT MATURITIES (in years)</u>	<u>LESS THAN</u>	
		<u>1</u>	<u>1-5</u>
<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>		
Domestic corporate fixed-income securities	\$ <u>101,226</u>	<u>          </u>	<u>101,226</u>
	\$ <u>101,226</u>	<u>          </u>	<u>101,226</u>

Interest rate risk

The District does not have a formal investment policy that limit investment maturities as means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest including obligations of the United States and certain U.S. government agency securities; certain international agency securities; general obligation and revenue bonds of U.S. local government entities; bankers' acceptances of certain banks; commercial paper; local government investment pools; written repurchase agreements collateralized by certain authorized securities; certain money market funds; and guaranteed investment contracts. The District has no policy that would further limit its investment choice. As of December 31, 2017 and 2016, the District's investment in commercial paper was rated A by Standard & Poor's.

Concentration of credit risk

The District places no limit on the amount the District may invest in any one issuer. More than 5 percent of the District's investments are in commercial paper. At December 31, 2017 and 2016, commercial paper represented 100% of the District's investments.

These investments are presented on the balance sheet as follows:

	<u>2017</u>	<u>2016</u>
Long-term investments	\$ <u>100,125</u>	<u>101,226</u>
	\$ <u>100,125</u>	<u>101,226</u>

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

2 - DEPOSITS AND INVESTMENTS (continued)

Fair value measurement

Government Accounting Standards Board Statement No. 72 (GASB 72) *Fair Value Measurement and Application* establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques. According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair application guidance and enhances disclosures about fair value measurements.

The District's investments and derivative instruments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure fair value of assets and liabilities as follows.

Level 1 - Quoted prices in active markets for identical securities.

Level 2 - Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with the evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy.

Level 3 - Prices determined using significant unobservable inputs. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The following table reflects the fair value of the District's investments and derivative instruments as of December 31, 2017 and 2016:

2017

<u>Assets</u>	<u>Fair Value Measurement Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Domestic corporate				
fixed-income securities	\$100,125		100,125	
Total investments	<u>\$100,125</u>		<u>100,125</u>	

2016

<u>Assets</u>	<u>Fair Value Measurement Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Domestic corporate				
fixed-income securities	\$101,226		101,226	
Total investments	<u>\$101,226</u>		<u>101,226</u>	

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2017 and 2016, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<b>2017</b>				
Capital assets not being depreciated:				
Land and rights-of-way	\$ 94,243			94,243
Capital assets being depreciated:	94,243			
Buildings	120,833	1,455	844	121,444
Equipment	260,257	32,789	19,402	273,644
Water tanks	747,321			747,321
Distribution system	<u>3,732,859</u>	<u>13,293</u>	<u>61,167</u>	<u>3,684,985</u>
Total capital assets being depreciated	<u>4,861,270</u>	<u>47,537</u>	<u>81,413</u>	<u>4,827,394</u>
Less accumulated depreciation for:				
Buildings	89,517	3,694	844	92,367
Equipment	241,446	13,004	19,402	235,048
Water tanks	631,213	28,701		659,914
Distribution system	<u>2,823,012</u>	<u>145,847</u>	<u>61,167</u>	<u>2,907,692</u>
Total accumulated depreciation	<u>3,785,188</u>	<u>191,246</u>	<u>81,413</u>	<u>3,895,021</u>
Total capital assets, net	<u>\$1,170,325</u>	<u>(143,709)</u>		<u>1,026,616</u>
<b>2016</b>				
Capital assets not being depreciated:				
Land and rights-of-way	\$ 94,243			94,243
Capital assets being depreciated:				
Buildings	120,833			120,833
Equipment	262,185		1,928	260,257
Water tanks	747,321			747,321
Distribution system	<u>3,723,541</u>	<u>100,752</u>	<u>91,434</u>	<u>3,732,859</u>
Total capital assets being depreciated	<u>4,853,880</u>	<u>100,752</u>	<u>93,362</u>	<u>4,861,270</u>
Less accumulated depreciation for:				
Buildings	85,843	3,674		89,517
Equipment	235,265	8,109	1,928	241,446
Water tanks	602,512	28,701		631,213
Distribution system	<u>2,764,136</u>	<u>138,928</u>	<u>80,052</u>	<u>2,823,012</u>
Total accumulated depreciation	<u>3,687,756</u>	<u>179,412</u>	<u>81,980</u>	<u>3,785,188</u>
Total capital assets, net	<u>\$1,260,367</u>	<u>( 78,660)</u>	<u>11,382</u>	<u>1,170,325</u>

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

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4 - LEASES

The District has leased land for five sites. The terms of these leases are as follows:

Site 1 is leased for a period of 99 years. The total lease payment of \$500 has been paid. The lease expires July 2, 2066.

Site 2 is leased for a period of 100 years. The total lease payment of \$2,000 has been paid. The lease expires January 1, 2074.

Site 3 is leased for a period of 100 years. The total lease payment of \$1,000 has been paid. The lease expires April 15, 2075.

Site 4 is leased for a period of 100 years. The total lease payment of \$10 has been paid. The lease expires April 15, 2076.

Site 5 is leased for a period of 10 years. The total lease payment of \$554 has been paid. The lease expires December 31, 2018, renewable.

5 - SHORT-TERM DEBT

The District had no short-term debt during the years ended December 31, 2017 and 2016.

6 - COMMITMENTS

Purchase Commitment

In 1989, the District entered into a contract with the Tri-County Water Conservancy District for the purchase of raw water from the Dallas Creek Water Project as follows:

<u>CALENDAR YEAR</u>	<u>ANNUAL PURCHASE COMMITMENT</u>
2006 - 2049	600 acre feet

The purchase price of the water from the Dallas Creek Water Project is currently \$77.61 per acre foot, with potential costs adjustments at no longer than five year intervals. In addition, the District is obligated to pay a proportionate amount of the project operation, maintenance and replacement costs, which were set at \$7.50, per acre foot for 2017 and 2016, subject to annual adjustment.

Annual payments of \$51,068, calculated at the above rates, are due on January 15 of each year.

Such annual payments are subject to adjustment as a result of rate adjustments. During the years ended December 31, 2017 and 2016, the District paid \$51,068, annually, for the water purchases.

Treatment Commitment

Under a contract currently in effect, the District is committed to purchasing treatment of a minimum of 50 million gallons of water annually from the Project 7 Water Authority. The rate for treatment for 2017 and 2016 was \$.90 per 1,000 gallons. During the years ended December 31, 2017 and 2016, the District purchased treatment of 141 and 129 million gallons for \$127,094 and \$116,106, respectively, under this agreement.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2017 and 2016

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7 - SPENDING AND DEBT LIMITATIONS

The State Constitution, Article X, Section 20, has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Section is complex and subject to judicial interpretation. It is the opinion of management and the District's attorney that the District's water activity is an enterprise within the meaning of Article X, Section 20, and is not subject to the revenue limitations nor required to establish the emergency reserves.

8 - RISK MANAGEMENT

The District is exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Such exposure, except for the distribution system, is covered by purchase of commercial insurance, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

**CHIPETA WATER DISTRICT**  
**SUPPLEMENTARY INFORMATION - REVENUES AND EXPENDITURES - BUDGET AND ACTUAL**  
**For the years ended December 31, 2017 and 2016**

	2017			2016		
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
<b>REVENUES</b>						
Water sales and charges	\$ 530,000	569,763	39,763	530,000	544,622	14,622
Material and labor reimbursements	15,000	18,803	3,803	13,000	24,663	11,663
Reimbursed water meters cost	5,000	13,293	8,293	10,000	15,403	5,403
Investment income	18,000	16,035	(1,965)	10,000	17,605	7,605
Tap fees	17,500	59,500	42,000	14,000	21,000	7,000
Rental income	15,000	13,333	(1,667)	15,000	13,176	(1,824)
Miscellaneous	1,000	8,075	7,075	1,000	9,717	8,717
<b>TOTAL REVENUES</b>	<b>601,500</b>	<b>698,802</b>	<b>97,302</b>	<b>593,000</b>	<b>646,186</b>	<b>53,186</b>
<b>EXPENDITURES</b>						
Water costs	174,000	179,031	(5,031)	172,000	168,043	3,957
Salaries and wages	182,500	187,439	(4,939)	182,000	180,944	1,056
Payroll taxes	15,000	14,965	35	14,600	14,197	403
Employee insurance	54,200	54,548	(348)	54,000	57,963	(3,963)
Contract services	750		750	1,000		1,000
Mileage	200		200	200		200
Truck maintenance	3,000	4,522	(1,522)	3,000	3,393	(393)
Gas and oil	6,000	5,619	381	6,000	5,093	907
Materials and supplies	32,500	22,694	9,806	32,500	22,370	10,130
Utilities	15,600	14,817	783	15,500	13,406	2,094
Repairs and maintenance	6,000	11,612	(5,612)	5,500	5,474	26
Rent	2,100		2,100	2,100		2,100
Insurance	9,300	12,086	(2,786)	9,300	10,676	(1,376)
Office	2,900	6,582	(3,682)	2,900	3,213	(313)
Postage	6,100	5,708	392	6,000	6,080	(80)
Telephone	1,150	1,082	68	1,300	1,026	274
Answering service	775	671	104	700	837	(137)
Taxes and licenses	1,050	1,004	46	1,050	973	77
Professional fees	9,300	10,271	(971)	37,700	8,601	29,099
Seminars and education	1,500	323	1,177	2,000	575	1,425
Dues and fees	1,500	2,718	(1,218)	1,500	2,236	(736)
Capital outlay	32,000	47,537	(15,537)	77,000	100,752	(23,752)
Miscellaneous	3,000	5,762	(2,762)	3,000	1,954	1,046
Contingency	150,000		150,000	150,000		150,000
<b>TOTAL EXPENDITURES</b>	<b>710,425</b>	<b>588,991</b>	<b>121,434</b>	<b>780,850</b>	<b>607,806</b>	<b>173,044</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$</b>	<b>(108,925)</b>	<b>109,811</b>	<b>218,736</b>	<b>(187,850)</b>	<b>38,380</b>	<b>226,230</b>
Reconciliation of Excess of Revenues Over (Under) Expenditures to Change in Net Position						
Increase (decrease) in fair value of investments		(1,101)			2,625	
Capitalized expenditures		47,537			100,752	
Depreciation and amortization		(191,291)			(179,457)	
Loss on disposal of assets					(11,382)	
<b>CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>		<b>(35,044)</b>			<b>(49,082)</b>	