

CHIPETA WATER DISTRICT

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2019

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, 2018 and 2017.

Financial Highlights

- The assets of the Chipeta Water District (also referred to as the District) exceeded its liabilities at December 31, 2018 and 2017 by \$2,684,953 and \$2,692,146, respectively, (net position). Of this amount, \$1,805,094 and \$1,665,530, 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 \$(7,193) and \$(35,044) for the years ended December 31, 2018 and 2017, respectively.
- District revenues increased from the prior year for the years ended December 31, 2018 and 2017.
- District expenses also remained relatively consistent with the prior year with the exception of increases in treated water costs, employee costs, materials and supplies and decreases in depreciation. In 2017, District expenses remained relatively consistent with the prior year with the exception of increases in treated water costs, employee costs, repairs and maintenance 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 \$2,684,953 and \$2,692,146 respectively at December 31, 2018 and 2017.

Approximately 33 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>2018</u>	<u>2017</u>
Current assets	\$1,735,677	1,582,246
Capital assets	879,859	1,026,616
Other assets	102,129	102,630
Total assets	<u>2,717,665</u>	<u>2,711,492</u>
Current liabilities	<u>32,712</u>	<u>19,346</u>
Total liabilities	<u>32,712</u>	<u>19,346</u>
Net position:		
Net investment in capital assets	879,859	1,026,616
Unrestricted	1,805,094	1,665,530
Total net position	<u>\$2,684,953</u>	<u>2,692,146</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 \$(7,193) and \$(35,044), respectively, during the fiscal years ended December 31, 2018 and 2017. A large portion of these decreases in net position is due to depreciation.

Chipeta Water District Changes in Net Position

	2018	2017
Revenues:		
Operating revenue	\$ 663,853	609,974
Non-operating revenue	52,464	29,328
Total revenues	716,317	639,302
Expenses:		
Operating expenses:		
Administrative and general	397,802	362,468
Water costs	188,989	179,031
Depreciation	181,763	191,246
Non-operating expenses:		
Net (increase) decrease in Fair value of investments	456	1,101
Total expenses	769,010	733,846
Income (loss) before contributions	(52,693)	(94,544)
Capital contributions - tap fees	45,500	59,500
Change in net position	(7,193)	(35,044)
Net position - beginning of year	2,692,146	2,727,190
Net position - end of year	\$2,684,953	2,692,146

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, reimbursements and capital contributions-tap fees.

Changes between actual expenses and budgeted amounts were primarily due to increased treated water costs, materials and supplies and capital outlay.

Capital Asset and Debt Administration

Capital assets. The Chipeta Water District's investment in capital assets as of December 31, 2018 and 2017 amounted to \$879,859 and \$1,026,616, 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, 2018 and 2017, included the following:

- Purchases of a vehicle and water distribution system additions.

Chipeta Water District Capital Assets
(net of depreciation)

	<u>2018</u>	<u>2018</u>
Land and rights-of-way	\$ 94,243	94,243
Buildings	25,461	29,077
Equipment	26,601	38,596
Water tanks	62,563	87,407
Distribution system	670,991	777,293
Total capital assets	\$ <u>879,859</u>	<u>1,026,616</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, 2018 and 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 530,007	585,150
Certificates of deposit	1,125,846	930,698
Accounts receivable - (net of allowance for doubtful accounts: 2018-\$139; 2017-\$139)	22,972	24,964
Inventory of supplies	45,064	38,336
Prepaid expenses	11,788	3,098
TOTAL CURRENT ASSETS	<u>1,735,677</u>	<u>1,582,246</u>
<u>CAPITAL ASSETS</u>		
Land and rights-of-way	94,243	94,243
Buildings	121,444	121,444
Equipment	273,644	273,644
Water tanks	747,321	747,321
Distribution system	3,719,991	3,684,985
	4,956,643	4,921,637
Accumulated depreciation	4,076,784	3,895,021
TOTAL CAPITAL ASSETS	<u>879,859</u>	<u>1,026,616</u>
<u>OTHER ASSETS</u>		
Long-term investments	99,669	100,125
Prepaid land leases	2,460	2,505
TOTAL OTHER ASSETS	<u>102,129</u>	<u>102,630</u>
	<u>2,717,665</u>	<u>2,711,492</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	21,559	10,137
Accrued payroll taxes	4,594	4,247
Accrued costs of compensated absences	6,559	4,962
TOTAL CURRENT LIABILITIES	<u>32,712</u>	<u>19,346</u>
<u>NET POSITION</u>		
Net investment in capital assets	879,859	1,026,616
Unrestricted	1,805,094	1,665,530
TOTAL NET POSITION \$	<u><u>2,684,953</u></u>	<u><u>2,692,146</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUE</u>		
Water sales and charges	\$ 604,370	569,763
Material and labor reimbursements	37,847	18,803
Rental income	13,627	13,333
Miscellaneous	8,009	8,075
TOTAL OPERATING REVENUES	<u>663,853</u>	<u>609,974</u>
<u>OPERATING EXPENSES</u>		
Water costs:		
Treated water	136,752	127,094
Raw water	52,237	51,937
Salaries and wages	197,389	187,439
Payroll taxes	15,484	14,965
Employee insurance	57,742	54,548
Truck maintenance	2,173	4,522
Gas and oil	6,785	5,619
Materials and supplies	59,632	22,694
Utilities	16,317	14,817
Repairs and maintenance	2,560	11,612
Rent	45	45
Insurance	12,688	12,086
Office	6,869	6,582
Postage	6,104	5,708
Telephone	1,093	1,082
Answering service	829	671
Taxes and licenses	1,044	1,004
Professional fees	8,642	10,271
Seminars and education	525	323
Dues and fees	840	2,718
Depreciation	181,763	191,246
Miscellaneous	1,041	5,762
TOTAL OPERATING EXPENSES	<u>768,554</u>	<u>732,745</u>
OPERATING INCOME (LOSS)	<u>(104,701)</u>	<u>(122,771)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Reimbursed water meters cost	35,006	13,293
Investment income	17,458	16,035
Net increase (decrease) in fair value of investments	(456)	(1,101)
NET NON-OPERATING REVENUES (EXPENSES)	<u>52,008</u>	<u>28,227</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(52,693)	(94,544)
CAPITAL CONTRIBUTIONS - TAP FEES	45,500	59,500
CHANGE IN NET POSITION	(7,193)	(35,044)
NET POSITION - BEGINNING OF YEAR	<u>2,692,146</u>	<u>2,727,190</u>
NET POSITION - END OF YEAR	<u>\$ 2,684,953</u>	<u>2,692,146</u>

See Notes to Financial Statements.

CHIPETA WATER DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 665,845	620,946
Payments to suppliers	(320,127)	(284,997)
Payments to employees	(268,671)	(256,955)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>77,047</u>	<u>78,994</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets	(35,006)	(47,537)
Reimbursed water meters cost	35,006	13,293
Capital contributions - tap fees	45,500	59,500
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>45,500</u>	<u>25,256</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Redemption of certificates of deposit	206,272	
Purchase of certificates of deposit	(401,420)	(3,582)
Investment income received	17,458	16,035
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(177,690)</u>	<u>12,453</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(55,143)	116,703
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>585,150</u>	<u>468,447</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 530,007</u>	<u>585,150</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (104,701)	(122,771)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	181,808	191,291
Decrease (Increase) in receivables	1,992	1,457
Decrease (Increase) in inventory	(6,728)	(697)
Decrease (Increase) in prepaid expenses	(8,690)	8,754
Decrease (Increase) in deposits		250
Increase (Decrease) in accounts payable	11,422	622
Increase (Decrease) in accrued payroll taxes	347	214
Increase (Decrease) in accrued costs of compensated absences	1,597	(126)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 77,047</u>	<u>78,994</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

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
December 31, 2018 and 2017

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, 2018 and 2017

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 2018 and 2017, 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, 2018 and 2017 none of the District's bank balances of \$1,654,383 and \$1,515,404, respectively, were exposed to custodial credit risk as \$603,821 and \$602,799, respectively, was insured and \$1,050,562 and \$912,605, respectively, was collateralized by securities pledged by financial institutions.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

2 - DEPOSITS AND INVESTMENTS (continued)

Investments

As of December 31, 2018 and 2017, the District had the following investments and maturities:

<u>2017</u>	<u>INVESTMENT TYPE</u>	<u>INVESTMENT MATURITIES (in years)</u>	
		<u>FAIR VALUE</u>	<u>LESS THAN</u>
		<u>1</u>	<u>1-5</u>
	Domestic corporate fixed-income securities	\$ <u>99,669</u>	<u>99,669</u>
		\$ <u>99,669</u>	<u>99,669</u>

<u>2017</u>	<u>INVESTMENT TYPE</u>	<u>INVESTMENT MATURITIES (in years)</u>	
		<u>FAIR VALUE</u>	<u>LESS THAN</u>
		<u>1</u>	<u>1-5</u>
	Domestic corporate fixed-income securities	\$ <u>100,125</u>	<u>100,125</u>
		\$ <u>100,125</u>	<u>100,125</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, 2018 and 2017, 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, 2018 and 2017, commercial paper represented 100% of the District's investments.

These investments are presented on the balance sheet as follows:

Long-term investments	<u>2018</u>	<u>2017</u>
	\$ <u>99,669</u>	<u>101,125</u>
	\$ <u>99,669</u>	<u>101,125</u>

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

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, 2018 and 2017:

2018

<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	\$ 99,669		99,669	
Total investments	\$ 99,669		99,669	

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	\$100,125		100,125	

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2018 and 2017, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
2018				
Capital assets not being depreciated:				
Land and rights-of-way	\$ 94,243			94,243
Capital assets being depreciated:				
Buildings	121,444			121,444
Equipment	273,644			273,644
Water tanks	747,321			747,321
Distribution system	3,684,985	35,006		3,719,991
Total capital assets being depreciated	4,827,394	35,006		4,862,400
Less accumulated depreciation for:				
Buildings	92,367	3,616		95,983
Equipment	235,048	11,995		247,043
Water tanks	659,914	24,844		684,758
Distribution system	2,907,692	141,308		3,049,000
Total accumulated depreciation	3,895,021	181,763		4,076,784
Total capital assets, net	\$1,026,616	(146,757)		879,859
2017				
Capital assets not being depreciated:				
Land and rights-of-way	\$ 94,243			94,243
Capital assets being depreciated:				
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	3,732,859	13,293	61,167	3,684,985
Total capital assets being depreciated	4,861,270	47,537	81,413	4,827,394
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	2,823,012	145,847	61,167	2,907,692
Total accumulated depreciation	3,785,188	191,246	81,413	3,895,021
Total capital assets, net	\$1,170,325	(143,709)		1,026,616

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2017

7 - JOINT VENTURE

The District is a participant with three municipalities and two water districts in a joint venture to operate the Project 7 Water Authority, a water treatment facility. The Authority is governed by a six member board consisting of an appointed representative from each of the participants. The District is obligated by contract to purchase the treatment of 50 million gallons of water annually from the Authority so long as the Authority has any unpaid debt other than for operating expenses, at rates set by the Authority. The rate for 2018 and 2017 was 90 cents per thousand gallons which results in a minimum annual purchase commitment of \$45,000 but the rate charged may be changed by action of the Authority.

During the years ended December 31, 2018 and 2017, the District purchased treatment of 152 and 141 million gallons for \$136,752 and \$127,094, respectively. At December 31, 2018 and 2017, the District owed the Authority \$8,015 and \$8,033, respectively. Separate financial statements of Project 7 Water Authority are available from the District or the Authority.

8 - 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.

9 - 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, 2018 and 2017

	2018		2017		VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL AND FINAL BUDGET	ACTUAL	ORIGINAL AND FINAL BUDGET	ACTUAL	
REVENUES					
Water sales and charges	\$ 540,000	604,370	530,000	569,763	39,763
Material and labor reimbursements	15,000	37,847	15,000	18,803	3,803
Reimbursed water meters cost	5,000	35,006	5,000	13,293	8,293
Investment income	17,000	17,458	18,000	16,035	(1,965)
Tap fees	17,000	45,500	17,500	59,500	42,000
Rental income	15,000	13,627	15,000	13,333	(1,667)
Miscellaneous	1,000	8,009	1,000	8,075	7,075
TOTAL REVENUES	610,000	761,817	601,500	698,802	97,302
EXPENDITURES					
Water costs	177,000	188,989	174,000	179,031	(5,031)
Salaries and wages	184,000	197,389	182,500	187,439	(4,939)
Payroll taxes	15,000	15,484	15,000	14,965	35
Employee insurance	67,200	57,742	54,200	54,548	(348)
Contract services	750	750	750	750	750
Mileage	200	200	200	200	200
Truck maintenance	3,000	2,173	3,000	4,522	(1,522)
Gas and Oil	6,000	6,785	6,000	5,619	381
Materials and supplies	31,500	59,632	32,500	22,694	9,806
Utilities	15,460	16,317	15,600	14,817	783
Repairs and maintenance	5,000	2,560	6,000	11,612	(5,612)
Rent	2,100	2,100	2,100	2,100	2,100
Insurance	11,300	12,688	9,300	12,086	(2,786)
Office	2,900	6,859	2,900	6,582	(3,682)
Postage	6,000	6,104	6,100	5,708	392
Telephone	1,150	1,093	1,150	1,082	68
Answering service	850	829	775	671	104
Taxes and licenses	1,050	1,044	1,050	1,004	46
Professional fees	17,800	8,642	9,300	10,271	(971)
Seminars and education	500	525	1,500	323	1,177
Dues and fees	2,200	840	1,500	2,718	(1,218)
Capital outlay	2,000	35,006	32,000	47,537	(15,537)
Miscellaneous	3,000	1,041	3,000	5,762	(2,762)
Contingency	100,000	621,752	150,000	588,991	150,000
TOTAL EXPENDITURES	655,960	1,400,665	710,425	1,099,811	218,736
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$	(45,960)	186,025	(108,925)	186,025	218,736
Reconciliation of Excess of Revenues Over (Under) Expenditures to Change in Net Position					
Increase (decrease) in fair value of investments		(456)		(1,101)	
Capitalized expenditures		35,006		47,537	
Depreciation and amortization		(181,808)		(191,291)	
CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		(7,193)		(35,044)	