

CHIPETA WATER DISTRICT

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

December 31, 2019 and 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, 2019 and 2018, 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, 2019 and 2018, 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
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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, 2020

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, 2019 and 2018.

Financial Highlights

- The assets of the Chipeta Water District (also referred to as the District) exceeded its liabilities at December 31, 2019 and 2018 by \$2,781,592 and \$2,684,953, respectively, (net position). Of this amount, \$1,979,388 and \$1,805,094, 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 \$96,639 and \$(7,193) for the years ended December 31, 2019 and 2018, respectively.
- District revenues decreased from the prior year for the years ended December 31, 2019 and 2018.
- District expenses also remained relatively consistent with the prior year with the exception of decreases in treated water costs, employee costs, materials and supplies and depreciation and increases in material and supplies and repairs and maintenance. In 2018, District expenses 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.

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 18 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 19 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 \$2,781,592 and \$2,684,953 respectively at December 31, 2019 and 2018.

Approximately 29 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>2019</u>	<u>2018</u>
Current assets	\$1,901,072	1,735,677
Capital assets	802,204	879,859
Other assets	<u>99,022</u>	<u>102,129</u>
Total assets	<u>2,802,298</u>	<u>2,717,662</u>
Current liabilities	<u>20,706</u>	<u>32,712</u>
Total liabilities	<u>20,706</u>	<u>32,712</u>
Net position:		
Net investment in capital assets	802,204	879,859
Unrestricted	<u>1,979,388</u>	<u>1,805,859</u>
Total net position	<u>\$2,781,592</u>	<u>2,684,953</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 \$96,639 and \$(7,193), respectively, during the fiscal years ended December 31, 2019 and 2018. A large portion of these decreases in net position is due to depreciation.

Chipeta Water District Changes in Net Position

	2019	2018
Revenues:		
Operating revenue	\$ 638,912	663,853
Non-operating revenue	64,077	52,464
Total revenues	702,989	716,317
Expenses:		
Operating expenses:		
Administrative and general	408,693	397,802
Water costs	182,415	188,989
Depreciation	125,449	181,763
Non-operating expenses:		
Net (increase) decrease in fair value of investments	3,393	456
Total expenses	719,950	769,010
Income (loss) before contributions	(16,961)	(52,693)
Capital contributions - tap fees	113,600	45,500
Change in net position	96,639	(7,193)
Net position - beginning of year	2,684,953	2,692,146
Net position - end of year	\$2,781,592	2,684,953

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 decreased treated water costs, and increased 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, 2019 and 2018 amounted to \$802,204 and \$879,859, 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, 2019 and 2018, included the following:

- Purchases of a vehicle and computers and water distribution system additions.

Chipeta Water District Capital Assets
(net of depreciation)

	<u>2019</u>	<u>2018</u>
Land and rights-of-way	\$ 94,243	94,243
Buildings	21,846	25,461
Equipment	35,759	26,601
Water tanks	42,904	62,563
Distribution system	607,452	670,991
Total capital assets	\$ <u>802,204</u>	<u>879,859</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, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 816,635	530,007
Certificates of deposit	1,020,884	1,125,846
Accounts receivable - (net of allowance for doubtful accounts: 2019-\$139; 2018-\$139)	30,289	22,972
Inventory of supplies	30,822	45,064
Prepaid expenses	2,442	11,788
TOTAL CURRENT ASSETS	<u>1,901,072</u>	<u>1,735,677</u>
<u>CAPITAL ASSETS</u>		
Land and rights-of-way	94,243	94,243
Buildings	121,444	121,444
Equipment	280,107	273,644
Water tanks	747,321	747,321
Distribution system	<u>3,746,867</u>	<u>3,719,991</u>
	4,989,982	4,956,643
Accumulated depreciation	<u>4,187,778</u>	<u>4,076,784</u>
TOTAL CAPITAL ASSETS	<u>802,204</u>	<u>879,859</u>
<u>OTHER ASSETS</u>		
Long-term investments	96,607	99,669
Prepaid land leases	2,415	2,460
TOTAL OTHER ASSETS	<u>99,022</u>	<u>102,129</u>
	<u>2,802,298</u>	<u>2,717,665</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	12,365	21,559
Accrued payroll taxes	4,110	4,594
Accrued costs of compensated absences	<u>4,231</u>	<u>6,559</u>
TOTAL CURRENT LIABILITIES	<u>20,706</u>	<u>32,712</u>
<u>NET POSITION</u>		
Net investment in capital assets	802,204	879,859
Unrestricted	<u>1,979,388</u>	<u>1,805,094</u>
TOTAL NET POSITION \$	<u>2,781,592</u>	<u>2,684,953</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>OPERATING REVENUE</u>		
Water sales and charges	\$ 589,455	604,370
Material and labor reimbursements	30,489	37,847
Rental income	13,771	13,627
Miscellaneous	5,197	8,009
TOTAL OPERATING REVENUES	<u>638,912</u>	<u>663,853</u>
<u>OPERATING EXPENSES</u>		
Water costs:		
Treated water	130,178	136,752
Raw water	52,237	52,237
Salaries and wages	177,510	197,389
Payroll taxes	14,297	15,484
Employee insurance	49,454	57,742
Truck maintenance	2,263	2,173
Gas and oil	6,759	6,785
Materials and supplies	92,929	59,632
Utilities	13,237	16,317
Repairs and maintenance	7,057	2,560
Rent	45	45
Insurance	13,983	12,688
Office	8,870	6,869
Postage	6,284	6,104
Telephone	954	1,093
Answering service	951	829
Taxes and licenses	1,386	1,044
Professional fees	7,045	8,642
Seminars and education	969	525
Dues and fees	1,968	840
Depreciation	125,449	181,763
Miscellaneous	2,732	1,041
TOTAL OPERATING EXPENSES	<u>716,557</u>	<u>768,554</u>
OPERATING INCOME (LOSS)	<u>(77,645)</u>	<u>(104,701)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Reimbursed water meters cost	26,877	35,006
Investment income	25,324	17,458
Net increase (decrease) in fair value of investments	(3,393)	(456)
Gain on disposition of assets	11,876	
NET NON-OPERATING REVENUES (EXPENSES)	<u>60,684</u>	<u>52,008</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	(16,961)	(52,693)
CAPITAL CONTRIBUTIONS - TAP FEES	113,600	45,500
CHANGE IN NET POSITION	96,639	(7,193)
NET POSITION - BEGINNING OF YEAR	<u>2,684,953</u>	<u>2,692,146</u>
NET POSITION - END OF YEAR	<u>\$ 2,781,592</u>	<u>2,684,953</u>

See Notes to Financial Statements.

CHIPETA WATER DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 631,595	665,845
Payments to suppliers	(335,408)	(320,127)
Payments to employees	(244,073)	(268,671)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>52,114</u>	<u>77,047</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets	(64,442)	(35,006)
Reimbursed water meters cost	26,877	35,006
Capital contributions - tap fees	113,600	45,500
Proceeds from disposition of capital assets	28,525	
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>104,560</u>	<u>45,500</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Redemption of certificates of deposit	105,849	206,272
Purchase of certificates of deposit	(887)	(401,420)
Investment income received	24,992	17,458
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>129,954</u>	<u>(177,690)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	286,628	(55,143)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>530,007</u>	<u>585,150</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 816,635</u>	<u>530,007</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (77,645)	(104,701)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	125,494	181,808
Decrease (Increase) in receivables	(7,317)	1,992
Decrease (Increase) in inventory	14,242	(6,728)
Decrease (Increase) in prepaid expenses	9,346	(8,690)
Increase (Decrease) in accounts payable	(9,194)	11,422
Increase (Decrease) in accrued payroll taxes	(484)	347
Increase (Decrease) in accrued costs of compensated absences	(2,328)	1,597
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 52,114</u>	<u>77,047</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

CHIPETA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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.

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, 2019 and 2018

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 2019 and 2018, 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 has a deposit policy for custodial credit risk which limits bank deposits to PDPA approved depositories. As of December 31, 2019 and 2018 none of the District's bank balances of \$1,285,005 and \$1,654,383, respectively, were exposed to custodial credit risk as \$500,000 and \$603,821, respectively, was insured and \$785,085 and \$1,050,562, respectively, was collateralized by securities pledged by financial institutions.

At December 31, 2019 and 2018, the carrying amount of the District's deposits were presented on the balance sheet as follows:

Cash and cash equivalents	<u>2019</u>	<u>2018</u>
	\$816,635	530,007
Investments included in cash and cash equivalents		
Colostrust	(552,788)	
	<u>\$263,847</u>	<u>530,007</u>

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018 and 2018

2 - DEPOSITS AND INVESTMENTS (continued)

Investments

As of December 31, 2019 and 2018, the District had the following investments and maturities:

<u>2019</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	\$ 96,607	96,607
	Colotrust	552,788	
		<u>\$649,395</u>	<u>96,607</u>
<u>2018</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	\$ 99,669	99,669
		<u>\$ 99,669</u>	<u>99,669</u>

As of December 31, 2019, the District has invested \$552,788 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. The value of the position in the pool is the same as the value of the pool shares. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned by the pool are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pool.

The District's investment in COLOTRUST is rated AAAM by S&P. COLOTRUST is routinely monitored by the Colorado Division of Securities with regard to operations and investments. Separately issued financial statements may be obtained at the following address:

COLOTRUST
717 17th Street, Suite 1850
Denver, CO 80202
www.colotrust.com

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.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019 and 2017

2 - DEPOSITS AND INVESTMENTS (continued)

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, 2019 the District's investment in Colotrust, a 2a7-like pool was rated AAA by Standard & Poor's and AAA by Moody's Investors Service. As of December 31, 2019 and 2018, 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, 2019 and 2018, commercial paper represented 100% of the District's investments.

These investments are presented on the balance sheet as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$816,635	<u> </u>
Deposits included in cash and cash equivalents	(263,847)	<u> </u>
	552,788	
Long-term investments	<u>96,607</u>	<u>99,669</u>
	<u>\$649,395</u>	<u>99,669</u>

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.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2017

2 - DEPOSITS AND INVESTMENTS (continued)

Fair value measurement (continued)

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, 2019 and 2018:

2019

<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				
Colotrust	\$552,788			
Domestic corporate				
fixed-income securities	96,607		96,607	
Total investments	<u>\$649,395</u>		<u>96,607</u>	

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	<u>\$ 99,669</u>		<u>99,669</u>	

(A) During the year, the District invested in COLOTRUST, a local government investment pool. The valuation is measured at net asset value and is designed to approximate the share value. The pool's Board of Trustees, elected by the participants, is responsible for overseeing the management of COLOTRUST, including establishing operating standards and policies. COLOTRUST is designed to provide local governments with a convenient method for investing in short-term investments carefully chose to provide maximum safety and liquidity, while still maximizing interest earnings.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
2019				
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	37,566	31,103	280,107
Water tanks	747,321			747,321
Distribution system	<u>3,719,991</u>	<u>26,876</u>		<u>3,746,867</u>
Total capital assets being depreciated	<u>4,862,400</u>	<u>64,442</u>	<u>31,103</u>	<u>4,895,739</u>
Less accumulated depreciation for:				
Buildings	95,983	3,615		99,598
Equipment	247,043	11,760	14,455	244,348
Water tanks	684,758	19,659		704,417
Distribution system	<u>3,049,000</u>	<u>90,415</u>		<u>3,139,415</u>
Total accumulated depreciation	<u>4,076,784</u>	<u>125,449</u>	<u>14,455</u>	<u>4,187,778</u>
Total capital assets, net	<u>\$ 879,859</u>	<u>(61,007)</u>	<u>16,648</u>	<u>802,204</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	<u>3,684,985</u>	<u>35,006</u>		<u>3,719,991</u>
Total capital assets being depreciated	<u>4,827,394</u>	<u>35,006</u>		<u>4,862,400</u>
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	<u>2,907,692</u>	<u>141,308</u>		<u>3,049,000</u>
Total accumulated depreciation	<u>3,895,021</u>	<u>181,763</u>		<u>4,076,784</u>
Total capital assets, net	<u>\$1,026,616</u>	<u>(146,757)</u>		<u>879,859</u>

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

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 \$1,045 has been paid. The lease expires December 31, 2028, renewable.

5 - SHORT-TERM DEBT

The District had no short-term debt during the years ended December 31, 2019 and 2018.

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 \$8.00, per acre foot for 2019 and 2018, subject to annual adjustment.

Annual payments of \$51,368, 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, 2019 and 2018, the District paid \$51,368, annually, for the water purchases.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

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 2019 and 2018 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, 2019 and 2018, the District purchased treatment of 145 and 152 million gallons for \$130,178 and \$136,752, respectively. At December 31, 2019 and 2018, the District owed the Authority \$7,460 and \$8,015, 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, 2019 and 2018

	2019		2018		ORIGINAL AND FINAL BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL AND FINAL BUDGET	ACTUAL	ORIGINAL AND FINAL BUDGET	ACTUAL					
REVENUES									
Water sales and charges	\$ 540,000	589,455	540,000	604,370	540,000	64,370	540,000	604,370	64,370
Material and labor reimbursements	17,500	30,489	15,000	37,847	15,000	22,847	15,000	37,847	22,847
Reimbursed water meters cost	5,000	26,877	5,000	35,006	5,000	30,006	5,000	35,006	30,006
Investment income	17,000	25,324	17,000	17,458	17,000	458	17,000	17,458	458
Tap fees	21,000	113,600	17,000	45,500	17,000	28,500	17,000	45,500	28,500
Rental income	14,000	13,771	(229)	13,627	15,000	(1,373)	15,000	13,627	(1,373)
Miscellaneous	1,000	5,197	1,000	8,009	1,000	7,009	1,000	8,009	7,009
TOTAL REVENUES	615,500	804,713	610,000	761,817	610,000	151,817	610,000	761,817	151,817
EXPENDITURES									
Water costs	187,500	182,415	177,000	188,989	177,000	(11,989)	177,000	188,989	(11,989)
Salaries and wages	190,000	177,510	184,000	197,389	184,000	(13,389)	184,000	197,389	(13,389)
Payroll taxes	15,000	14,297	15,000	15,484	15,000	(484)	15,000	15,484	(484)
Employee insurance	56,700	49,454	67,200	57,742	67,200	9,458	67,200	57,742	9,458
Contract services	750	750	750	750	750	0	750	750	0
Mileage	200	200	200	200	200	0	200	200	0
Truck maintenance	2,500	2,263	3,000	2,173	3,000	827	3,000	2,173	827
Gas and oil	6,500	6,759	6,000	6,785	6,000	(785)	6,000	6,785	(785)
Materials and supplies	31,500	92,929	31,500	59,632	31,500	(28,132)	31,500	59,632	(28,132)
Utilities	16,760	13,237	15,460	16,317	15,460	(857)	15,460	16,317	(857)
Repairs and maintenance	5,000	7,057	5,000	2,560	5,000	2,440	5,000	2,560	2,440
Rent	2,100	2,100	2,100	2,100	2,100	0	2,100	2,100	0
Insurance	12,000	13,983	11,300	12,688	11,300	(1,388)	11,300	12,688	(1,388)
Office	5,000	8,870	2,900	6,869	2,900	(3,969)	2,900	6,869	(3,969)
Postage	6,000	6,284	6,000	6,104	6,000	(104)	6,000	6,104	(104)
Telephone	1,150	954	1,150	1,093	1,150	57	1,150	1,093	57
Answering service	850	951	850	829	850	21	850	829	21
Taxes and licenses	1,050	1,386	1,050	1,044	1,050	6	1,050	1,044	6
Professional fees	10,300	7,045	17,800	8,642	17,800	9,158	17,800	8,642	9,158
Seminars and education	700	969	500	525	500	(25)	500	525	(25)
Dues and fees	2,200	1,968	2,200	840	2,200	1,360	2,200	840	1,360
Capital outlay	2,000	64,442	2,000	35,006	2,000	(33,006)	2,000	35,006	(33,006)
Miscellaneous	3,000	2,732	3,000	1,041	3,000	1,959	3,000	1,041	1,959
Contingency	100,000	655,505	100,000	621,752	100,000	100,000	100,000	621,752	100,000
TOTAL EXPENDITURES	658,760	655,505	655,960	621,752	655,960	34,208	655,960	621,752	34,208
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$	(43,260)	149,208	(45,960)	140,065	(45,960)	186,025	(45,960)	140,065	186,025
Reconciliation of Excess of Revenues Over (Under) Expenditures to Change in Net Position									
Increase (decrease) in fair value of investments		(3,393)		(456)					
Gain on disposition of assets		11,876							
Capitalized expenditures		64,442							
Depreciation and amortization		(125,494)							
CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		96,639		(7,193)					