

**PROJECT 7 WATER AUTHORITY
FINANCIAL STATEMENTS
& INDEPENDENT AUDITOR'S
REPORT
December 31, 2019 & 2018**

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report.....	1
Management's Discussion & Analysis.....	3
Financial Statements	
Statement of Net Position.....	11
Statement of Revenues, Expenses & Changes in Net Position.....	13
Statement of Cash Flows.	14
Notes to Financial Statements	
1. Summary of Significant Accounting Policies.....	15
2. Deposits and Investments.....	19
3. Capital Assets.....	21
4. Short-term Debt.....	23
5. Long-term Debt.....	23
6. Budgetary Accounting.....	26
7. Related Parties.....	27
8. Employee Retirement Plan.....	28
9. Spending and Debt Limitations.....	28
10. Risk Management.....	28
Supplementary Information	
Revenues and Expenditures - Budget & Actual.....	29

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Project 7 Water Authority
Montrose, CO 81401

I have audited the accompanying financial statements of the business-type activities of the Project 7 Water Authority, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 Authority'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 Authority's internal control. Accordingly, I 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.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Project 7 Water Authority as of December 31, 2019 and 2018, and the 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Project 7 Water Authority's financial statements as a whole. The supplementary information, which includes: revenues and expenditures – budget and actual (budgetary basis), is presented for purposes of additional analysis and is not a required part of the financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Kelly Neal Scates, CPA, PC

Delta, Colorado
July 20, 2020

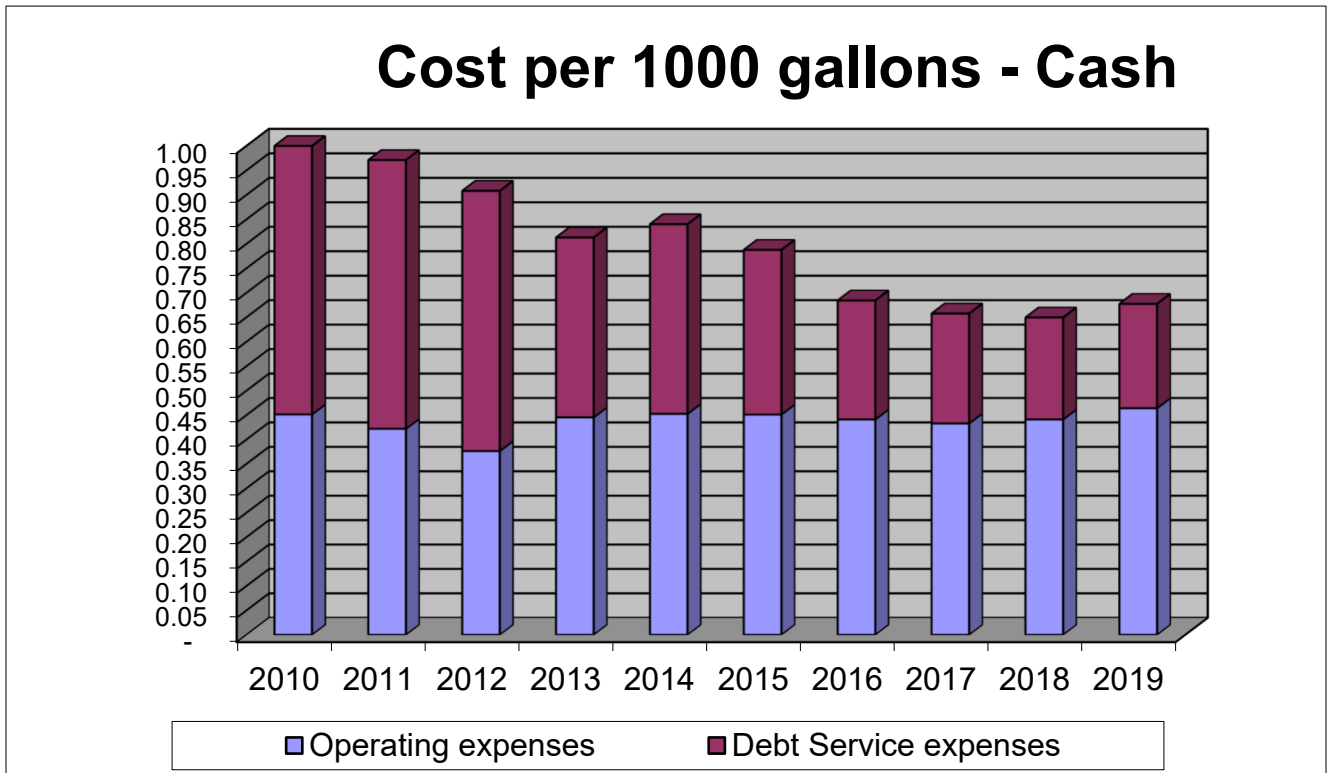
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Project 7 Water Authority, (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended December 31, 2019 and 2018.

Financial Highlights

- The assets of the Authority exceeded its liabilities at December 31, 2019 and 2018 by \$9,468,191 and \$9,100,822 respectively, (net position). Of this amount, \$3,263,917 and \$3,109,315, at December 31, 2019 and 2018, respectively, (unrestricted net position), may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's total net position increased by \$367,369 and \$474,335 for the years ended December 31, 2019 and 2018, respectively.
- The Authority's operating expenses increased slightly from 2018 to 2019 due to increased health insurance costs. Water sales decreased 4.0% due to a decrease in consumption.
- The cost per 1000 gallons has decreased due to a decrease in debt service costs.



Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements in an enterprise fund. As an enterprise fund, the Authority's basic financial statements are presented as a special purpose government engaged only in business type activities, i.e. providing water treatment services and are comprised of two components: 1) the financial statements and 2) notes to financial statements used to explain in more detail some of the information in the financial statements.

The *Statement of Net Position* reports the Authority's current financial resources (short-term spendable resources) with capital assets and long-term obligations. The statements provide information about the nature and the amounts of investments (assets) and the obligations owed by the Authority (liabilities). It provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. However, other non-financial factors should be considered, such as changes in economic conditions and the effects of new or changed governmental legislation.

The *Statement of Revenues, Expenses and Changes in Net Position* reports the Authority's operating and non-operating revenues and expenses. Operating expenses include all operational costs of the District including depreciation. Non-operating revenue includes interest income and non-operating expense includes interest expense.

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

The basic financial statements can be found on pages 11 through 14 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 15 through 28 of the report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning the Authority's budgetary comparisons for revenues and expenditures. Supplementary information can be found on pages 29 through 32 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$9,468,191 at the close of the most recent fiscal year.

A majority of the Authority's net position, (approximately 62 percent), reflects 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 Authority uses these capital assets to provide services to members; consequently, these assets are not available for future spending. Restricted net position of \$312,500, are those net assets legally restricted for loan covenants.

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

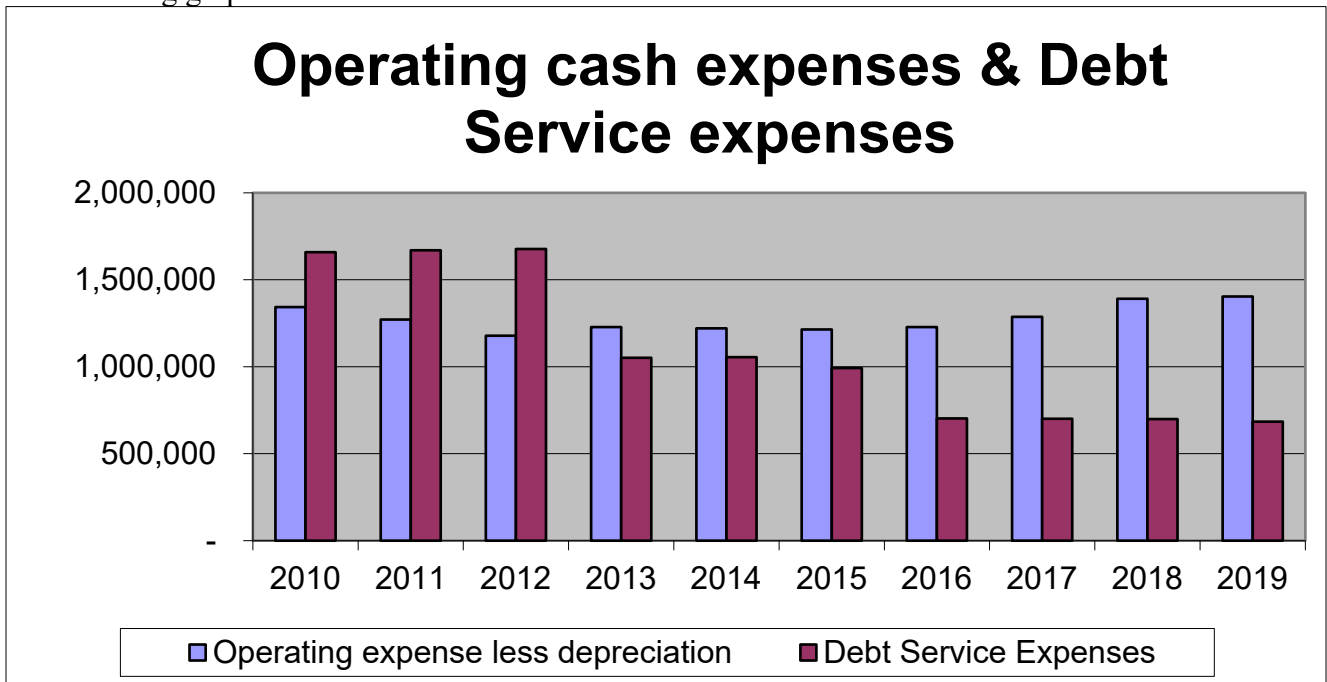
Project 7 Water Authority Net Position			
Assets:		<u>2019</u>	<u>2018</u>
Current	\$	3,409,102	3,254,375
Restricted		312,500	312,500
Capital		<u>11,748,718</u>	<u>12,000,606</u>
	Total Assets	<u>15,470,320</u>	<u>15,567,481</u>
Liabilities:			
Current		615,576	609,715
Long-term			
Debt		<u>5,386,553</u>	<u>5,856,944</u>
	Total Liabilities	<u>6,002,129</u>	<u>6,466,659</u>
Net Position:			
Net Investment in Capital Assets		5,891,774	5,679,007
Restricted		312,500	312,500
Unrestricted		<u>3,263,917</u>	<u>3,109,315</u>
	Total Net Position	<u>\$ 9,468,191</u>	<u>9,100,822</u>

The Authority's net position increased by \$367,369 and \$474,335, respectively, during the fiscal years ended December 31, 2019 and 2018.

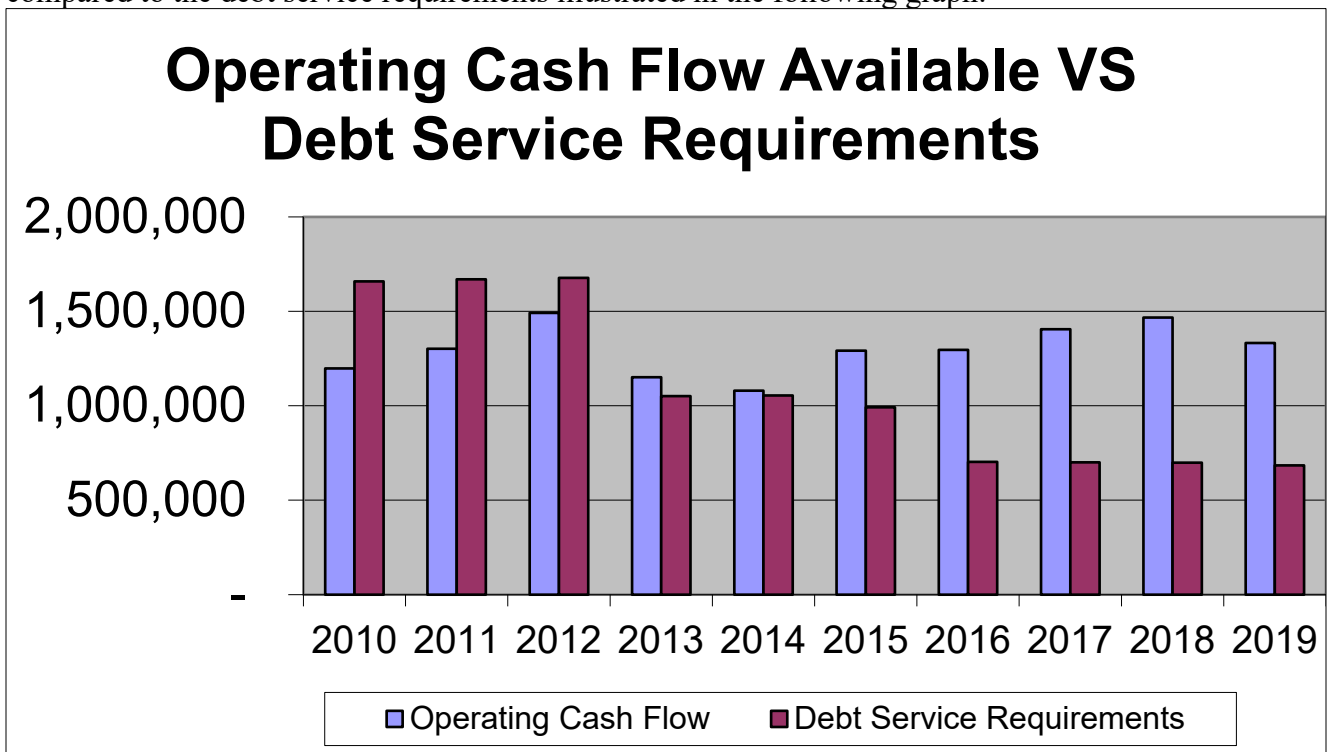
Project 7 Water Authority Changes in Net Position		
	2019	2018
Revenues:		
Operating	\$ 2,735,216	2,857,568
Non-Operating	25,216	21,763
Total Revenues	<u>2,760,432</u>	<u>2,879,331</u>
Expenses:		
Operating Expenses:		
Source of Supply	35,630	37,174
Water Treatment	1,461,589	1,453,521
Transmission and Distribution	369,928	386,593
Administrative and General	306,466	285,281
Non-Operating	219,450	242,427
Total Expenses	<u>2,393,063</u>	<u>2,404,996</u>
Changes in Net Position	367,369	474,335
Net Position - Beginning of Year	<u>9,100,822</u>	<u>8,626,487</u>
Net Position - End of Year	<u>\$ 9,468,191</u>	<u>9,100,822</u>

The end of year cash and investment balances increased even though \$545,000 was spent on capital assets the amount of gallons sold to the member entities decreased 4.0% from 2018 to 2019.

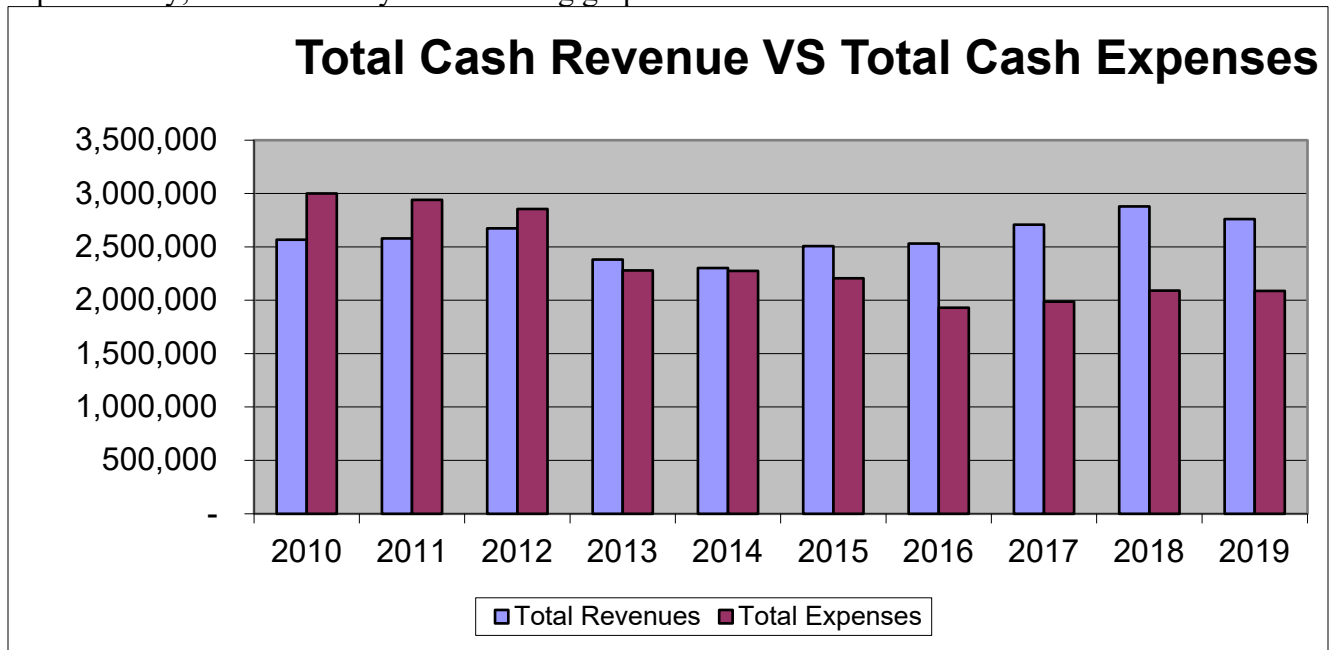
The Authority's operating cash expenses compared to the debt service expenses are illustrated in the following graph:



The Authority's net cash flow available (revenues less operating expenses excluding depreciation) compared to the debt service requirements illustrated in the following graph:



The Authority's total cash revenues compared to cash expenses, including debt service, but not capital outlay, is illustrated by the following graph:



Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets as of December 31, 2019 and 2018 amounted to \$12,000,606 and \$12,000,606, respectively, (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, water tanks and distribution system. There were no major capital asset events during the past fiscal year.

PROJECT 7 WATER AUTHORITY CAPITAL ASSETS

(Net of Depreciation)

	<u>2019</u>	<u>2018</u>
Land and Right-Of-Ways	\$ 697,042	697,042
Storage Reservoir and Transmission Line	24,650	58,345
Buildings and Improvements	174,219	186,569
Water Treatment Plant	7,708,043	8,078,419
Equipment	124,386	124,499
Vehicles	20,371	28,000
Transmission, Storage and Distribution System	2,772,954	2,718,275
Construction in Progress	<u>227,052</u>	<u>109,000</u>
Total Capital Assets	\$ <u>11,748,717</u>	<u>12,000,606</u>

Additional information on the Authority’s capital assets can be found in Note 3 on page 21 of this report.

Long-term debt. At the end of the current fiscal year, the Authority had \$ 5,856,944 of loans with the Colorado Water Resources and Power Development Authority secured by the revenues of the Authority.

		<u>2019</u>	<u>2018</u>
2008 CWRPDA Loan	\$	<u>5,856,944</u>	<u>6,321,599</u>
LONG-TERM DEBT	\$	<u>5,856,944</u>	<u>6,321,599</u>

Additional information on the Authority’s long-term debt can be found in note 5 on page 23 of this report.

Economic Factors and Next Year’s Budgets

- As further design work on the new additional Ridgway Reservoir Treatment Plant (the Plant) was in progress in 2019, it was determined that the Authority could potentially save approximately ten million dollars by moving the Plant further north, eliminating the need for 5 miles of raw water transmission line or finished water distribution lines. Property that was very well positioned hydraulically to minimize the amount of transmission and distribution lines, and enabled gravity water flow to each of the Tri-County Water Conservancy District’s pumping stations, was purchased in 2020 for \$1,315,000. The Authority intends to sell the property purchased in 2018 that was intended for the new plant.
- In 2020 the Authority will be diligently focused on the design of the new Plant. The Authority is hiring Hydrology specialists to place groundwater wells on the new property purchased in 2020 to study water quality and quantity available and will also begin the permitting process for the Plant. The Authority will also be starting the cultural and environmental assessments that will be necessary to acquire Federal funding and will be applying for various grants and/or loans to fund the design and building of the Plant.
- One of the three 50 HP pumps used for backwashing the filters stopped working in late 2018. Initial estimates for replacement of these pumps were determined to be approximately \$1,000,000. However, a pump contractor bid \$125,000 and the pumps were replaced down in the filter building basement between November 2019 and February 2020. This was included in the Capital Improvement Plan.

Request for Information

This financial report is designed to provide a general overview of the Project 7 Water Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to Project 7 Water Authority, 69128 E. Hwy 50, P.O. Box 1185, Montrose, Colorado, 81402.

FINANCIAL STATEMENTS

PROJECT 7 WATER AUTHORITY
STATEMENT OF NET POSITION
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,218,393	3,073,726
Due from Related Parties	127,128	132,025
Prepaid Insurance	26,175	25,682
Inventory of Supplies	37,406	22,942
TOTAL CURRENT ASSETS	<u>3,409,102</u>	<u>3,254,375</u>
NONCURRENT ASSETS		
RESTRICTED ASSETS		
Operations and Maintenance Reserve Account:		
Cash and Cash Equivalents	312,500	312,500
TOTAL RESTRICTED ASSETS	<u>312,500</u>	<u>312,500</u>
UTILITY PLANT IN SERVICE		
Land, Right-Of-Way and Easements	697,042	697,042
Storage Reservoir and Transmission Line	1,333,704	1,333,704
Buildings and Improvements	362,390	362,390
Water Treatment Plant	14,659,777	14,659,777
Equipment	607,985	585,856
Vehicles	102,386	102,386
Transmission, Storage and Distribution System	13,700,285	13,295,009
Construction in Progress	227,052	109,457
UTILITY PLANT IN SERVICE	<u>31,690,621</u>	<u>31,145,621</u>
Less Accumulated Depreciation	(19,941,903)	(19,145,015)
UTILITY PLANT IN SERVICE - NET	<u>11,748,718</u>	<u>12,000,606</u>
TOTAL ASSETS	<u>15,470,320</u>	<u>15,567,481</u>

	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	159	1,552
Accrued Payroll	5,341	2,463
Accrued Costs of Compensated Absences	43,619	41,930
Accrued Interest Payable	96,066	99,115
Current Portion of Long-Term Debt	470,391	464,655
TOTAL CURRENT LIABILITIES	<u>615,576</u>	<u>609,715</u>
LONG-TERM DEBT - NET	<u>5,386,553</u>	<u>5,856,944</u>
TOTAL LIABILITIES	<u>6,002,129</u>	<u>6,466,659</u>
NET POSITION		
Net Investment in Capital Assets	5,891,774	5,679,007
Restricted:		
For Operations and Maintenance Reserve	312,500	312,500
Unrestricted	3,263,917	3,109,315
TOTAL NET POSITION	<u>\$ 9,468,191</u>	<u>9,100,822</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT 7 WATER AUTHORITY**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

For the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING REVENUES		
Water Sales	\$ 2,721,292	2,837,866
Miscellaneous	13,924	19,702
TOTAL OPERATING REVENUES	<u>2,735,216</u>	<u>2,857,568</u>
OPERATING EXPENSES		
Source of Supply	35,630	37,174
Water Treatment	1,461,589	1,453,521
Transmission and Distribution	369,928	386,593
Administrative and General	306,466	285,281
TOTAL OPERATING EXPENSES	<u>2,173,613</u>	<u>2,162,569</u>
OPERATING INCOME	<u>561,603</u>	<u>694,999</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	25,216	21,763
Interest Expense	(219,450)	(242,427)
NET NONOPERATING REVENUES (EXPENSES)	<u>(194,234)</u>	<u>(220,664)</u>
CHANGE IN NET POSITION	<u>367,369</u>	<u>474,335</u>
NET POSITION - BEGINNING	<u>9,100,822</u>	<u>8,626,487</u>
NET POSITION - ENDING	<u>\$ 9,468,191</u>	<u>9,100,822</u>

The Accompanying Notes are an Integral Part of These Financial Statements

PROJECT 7 WATER AUTHORITY**STATEMENT OF CASH FLOWS**

For the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Water Sales	\$ 2,726,349	2,844,668
Payments to Suppliers	(776,833)	(790,825)
Payments to Employees	(611,675)	(609,208)
Other Receipts	13,924	19,702
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,351,765</u>	<u>1,464,337</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and Construction of Capital Assets	(545,000)	(1,066,749)
Principal Paid on Long-Term Debt	(464,655)	(453,182)
Interest Paid on Long-Term Debt	(222,499)	(245,678)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,232,154)</u>	<u>(1,765,609)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	25,216	21,763
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>25,216</u>	<u>21,763</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	144,827	(279,509)
CASH AND CASH EQUIVALENTS:		
BEGINNING OF YEAR	<u>3,386,066</u>	<u>3,665,575</u>
END OF YEAR	<u>3,530,893</u>	<u>3,386,066</u>
DISPLAYED AS:		
Cash and Cash Equivalents in Current Assets	3,218,393	3,073,726
Restricted Cash and Cash Equivalents:		
Operations and Maintenance Reserve Account	312,500	312,500
RECONCILED TOTAL OF CASH	<u>\$ 3,530,893</u>	<u>3,386,226</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Income from Operations	\$ 561,603	694,999
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	796,888	771,753
Changes in Assets and Liabilities:		
(Increase) Decrease in Due from Related Parties	4,897	(1,231)
(Increase) Decrease in Due from Other Government Entities		8,033
(Increase) Decrease in Prepaid Insurance	(493)	37
(Increase) Decrease in Inventory	(14,464)	5,775
Increase (Decrease) in Accounts Payable	(1,233)	1,552
Increase (Decrease) in Accrued Payroll	2,878	(18,807)
Increase (Decrease) in Accrued Compensated Absences	1,689	2,226
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,351,765</u>	<u>1,464,337</u>

The Accompanying Notes are an Integral Part of These Financial Statements

NOTES TO FINANCIAL STATEMENTS

PROJECT 7 WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FORM OF ORGANIZATION

The Project 7 Water Authority, (Authority), operates under a contract that established the Authority as a separate governmental entity on September 29, 1977, under Colorado Revised Statutes, 29-1-203. The contracting parties that the Authority provides treated water to are the Cities of Delta and Montrose, Colorado, the Town of Olathe, Colorado, Tri-County Water Conservancy District, Menoken Water District and the Chipeta Water District. The Authority is governed by a board consisting of an appointed representative from each of the contracting parties.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

B. REPORTING ENTITY

As defined by GAAP established by the GASB, the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as 1) Appointment of a voting majority of the component unit's board and either a) the ability to impose its will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or 2) fiscal dependency on the primary government. Based on these criteria, there are no other organizations that would be considered component units of the Authority.

C. BASIC FINANCIAL STATEMENTS

The Authority is a special-purpose government engaged only in business-type activities. As such, enterprise fund financial statements are presented.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. BASIS OF ACCOUNTING

Proprietary funds, which include enterprise funds, are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. Therefore, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of this fund are included on the statement of net position. Revenues and expenses are recorded in the accounting period in which they are earned or incurred, and they become measurable. Net position is segregated into amounts invested in capital assets, restricted for debt service and loan reserves, and unrestricted net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of the change in net position is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from *non-operating* 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 Authority are charges to contracting parties for sales of treated water. 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 non-operating revenues and expenses.

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

E. ASSETS, LIABILITIES AND NET POSITION

Cash and cash equivalents. The Authority 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.

Investments. The Authority's policy is to invest in certificates of deposit and securities guaranteed or issued by the Federal government or its agencies. Investments are stated at fair value.

Allowance for Doubtful Accounts. The Authority considers all receivables collectible, and accordingly, provides no allowance for doubtful accounts.

Revenue Recognition. Revenues are recognized when earned. Metered water accounts are read and billed at the end of each month.

Inventories. Inventory, consisting primarily of operating supplies for water treatment, is stated at the lower of cost or market. Cost is determined by using last invoice cost.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. ASSETS, LIABILITIES AND NET POSITION (continued)

Restricted Assets. These assets consist of certificates of deposit, investments and investments classified as cash and cash equivalents restricted for debt service.

Capital Assets. Purchased or constructed capital assets are reported at cost or estimated historical cost. Construction costs are increased by interest incurred on bonds during the construction period and reduced by earnings from investment of the unexpended bond proceeds. It is the Authority's policy to capitalize all capital expenditures over \$1,000 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 and no depreciation is recorded in the year of acquisition or construction. The estimated useful lives are as follows:

Storage Reservoir	40 years
Buildings and Improvements	5 to 25 years
Water Treatment Plant	15 to 40 years
Equipment	3 to 10 years
Vehicles	5 years
Transmission and Distribution System	40 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.

Debt Issuance Costs. Debt issuance costs are recognized as an expense during the period of issuance.

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

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. ASSETS, LIABILITIES AND NET POSITION (continued)

Net Position. Net position is classified in the following categories:

Net Investment in Capital Assets – This category groups all capital assets, into one component of net position. Accumulated depreciation and related debt of these assets reduce this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations, including debt service covenants, of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Authority, which are not restricted for any project or other purpose. A deficit would require future funding.

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

Use of estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities, and deferred inflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows these procedures in establishing the budget.

- a. The Authority’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 grants and loan proceeds are budgeted as revenues, principal payments 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 Authority and the level of control is in total.
- c. The Board of Directors may authorize supplemental appropriations during the year. During 2019 no supplemental appropriations were adopted, however, in 2018 supplemental appropriations of \$700,000 were adopted.
- d. Unused 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 Authority does not have a deposit policy for custodial credit risk. As of December 31, 2019 and 2018 none of the Authority’s bank balances of \$2,604,110 and \$2,424,354, respectively, were exposed to custodial credit risk as \$500,000 was insured, and \$2,104,110 and \$1,964,354, respectively, was collateralized by securities pledged by financial institutions.

PROJECT 7 WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2019 and 2018

2 – DEPOSITS AND INVESTMENTS (continued)

Investments

At December 31, 2019 and 2018, the Authority had the following investments:

	<u>Maturities</u>	<u>Fair Value</u>	
		<u>2019</u>	<u>2018</u>
Colostrust Plus	N/A	\$ 992,080	969,191

Interest Rate risk. The Authority does not have an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority has not experienced fair value losses for the past ten years.

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 Authority has no policy that would further limit its investment choice. As of December 31, 2019 and 2018, the Authority's investment in Colostrust Plus, a 2a7-like investment pool, was rated AAAm by Standard & Poor's, Aaa by Moody's Investors Service and AAA/V-1 by Fitch Ratings. Separate financial statements for Colostrust are available at www.colostrust.com.

Concentration of Credit Risk. The Authority places no limit on the amount the Authority may invest in any one issuer and all of the investments for the years ended 2019 and 2018 were in Colostrust Plus.

PROJECT 7 WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

3 - CAPITAL ASSETS (continued)

2019	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated:				
Land and Rights-Of-Way	\$ 697,042			\$ 697,042
Construction in Progress	109,457	117,595		227,052
Total Capital Assets Not Being Depreciated	806,499	117,595	-	924,094
Capital Assets Being Depreciated:				
Storage Reservoir and Transmission Line	1,333,704			1,333,704
Buildings and Improvements	362,390			362,390
Water Treatment Plant	14,659,777			14,659,777
Equipment	585,856	22,129		607,985
Vehicles	102,386			102,386
Transmission, Storage and Distribution System	13,295,008	405,277		13,700,285
Total Capital Assets Being Depreciated	30,339,121	427,406	-	30,766,527
Less Accumulated Depreciation For:				
Storage Reservoir and Transmission Line	1,275,359	33,695		1,309,054
Buildings and Improvements	175,821	12,349		188,171
Water Treatment Plant	6,581,358	370,376		6,951,734
Equipment	461,357	22,242		483,599
Vehicles	74,386	7,629		82,015
Transmission, Storage and Distribution System	10,576,733	350,597		10,927,331
Total Accumulated Depreciation	19,145,014	796,888	-	19,941,904
TOTAL CAPITAL ASSETS, NET	\$ 12,000,606	(251,887)	-	\$ 11,748,717

PROJECT 7 WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

3 - CAPITAL ASSETS (continued)

2018	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated:				
Land and Rights-Of-Way	\$ 96,750	600,292		\$ 697,042
Construction in Progress	40,000	69,457		109,457
Total Capital Assets Not Being Depreciated	136,750	669,749	-	806,499
Capital Assets Being Depreciated:				
Storage Reservoir and Transmission Line	1,333,704			1,333,704
Buildings and Improvements	362,390			362,390
Water Treatment Plant	14,659,777			14,659,777
Equipment	585,856			585,856
Vehicles	94,681	28,000	20,295	102,386
Transmission, Storage and Distribution System	12,926,008	369,000		13,295,008
Total Capital Assets Being Depreciated	29,962,416	397,000	20,295	30,339,121
Less Accumulated Depreciation For:				
Storage Reservoir and Transmission Line	1,239,953	35,406		1,275,359
Buildings and Improvements	163,473	12,347		175,821
Water Treatment Plant	6,210,983	370,375		6,581,358
Equipment	437,199	24,158		461,357
Vehicles	91,052	3,629	20,295	74,386
Transmission, Storage and Distribution System	10,250,736	325,996		10,576,733
Total Accumulated Depreciation	18,393,396	771,911	20,295	19,145,014
TOTAL CAPITAL ASSETS, NET	\$ 11,705,770	294,838	-	\$ 12,000,606

Depreciation was charged to operations during the years ended December 31, 2019 and 2018 as follows:

	2019	2018
Source of Supply	\$ 33,695	35,245
Water Treatment	400,400	402,315
Transmission and Distribution	350,597	325,997
Administrative and General	12,196	8,196
	<u>\$ 796,888</u>	<u>771,753</u>

FUTURE EXPANSION - CONSTRUCTION IN PROGRESS

The Authority has purchased property near Ridgway, Colorado with the intention of building an additional water treatment plant in order to increase treatment capacity for the long-term. The Authority is still in the developmental stage of planning and designing the additional water treatment and cost estimates for for construction are not available as of December 31, 2019.

PROJECT 7 WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

4 - SHORT-TERM DEBT

For the years ended December 31, 2019 and 2018, the Authority had no short-term debt.

5 - LONG-TERM DEBT

COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY LOANS

	<u>2019</u>	<u>2018</u>
\$10,176,512 - 2008 loan due in semi-annual installments of February 1st and August 1st each year of \$350,474 in 2020 and decreasing to \$346,085 in 2030 including interest at 3.82% Accrued interest payable is \$96,066 and \$99,115 at December 31, 2019 and 2018, respectively	\$ 5,856,944	6,321,599
Total principal amounts due	<u>5,856,944</u>	<u>6,321,599</u>
Less amounts due in one year	<u>(470,391)</u>	<u>(464,655)</u>
Long-term Debt - Net	<u><u>5,386,553</u></u>	<u><u>5,856,944</u></u>

During 2019, the Authority was notified by the Colorado Water Resources and Power Development Authority that they had refunded certain of their own bonds to generate savings for the loan to Project 7 of approximately \$432,456 through 2130 when the loan would be paid off. The Colorado Water Resources and Power Development Authority applies savings credits to loan interest first with any remaining credits applied to principal in the year the credits are realized reducing the total principal and interest payments due. The original principal and interest amounts due, and the covenants of the 2008 loan, remain unchanged. The credits are recorded as a reduction of interest expense in the financial statements.

PROJECT 7 WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

5 - LONG-TERM DEBT (continued)

COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY LOANS (continued)

A summary of changes in debt is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
2019:					
2008 CWRPDA Loan	\$ <u>6,321,599</u>	<u> </u>	<u>464,655</u>	<u>5,856,944</u>	<u>470,391</u>
2018:					
2008 CWRPDA Loan	\$ <u>6,774,781</u>	<u> </u>	<u>453,182</u>	<u>6,321,599</u>	<u>464,655</u>

The annual requirements to amortize all debt outstanding as of December 31, 2019 is as follows:

Year	Principal	Interest	Anticipated Interest Credits	Estimated Total Payment
2020	\$ 470,392	230,558	(36,886)	664,064
2021	476,128	222,813	(37,233)	661,708
2022	481,864	215,151	(37,665)	659,350
2023	487,600	207,841	(34,621)	660,820
2024	499,073	199,965	(37,281)	661,757
2025-2029	2,787,928	696,742	(186,503)	3,298,167
2030	653,959	38,212	(46,891)	645,280
	<u>\$ 5,856,944</u>	<u>1,811,282</u>	<u>(417,080)</u>	<u>7,251,146</u>

For the years ended December 31, 2019 and 2018, the Authority had no capitalized interest and incurred \$219,450 and \$242,427 respectively of interest costs which was charged to interest expense.

PROJECT 7 WATER AUTHORITY
 NOTES TO FINANCIAL STATEMENTS (continued)
 December 31, 2019 and 2018

5 – LONG-TERM DEBT (continued)

COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY LOANS PAYABLE (continued)

The Authority may prepay the loans with the CWRPDA in whole or in part in the amount of \$100,000 or any integral multiple of \$100,000, with payments applied first to accrued interest and then to principal.

The Authority has covenanted to establish, maintain, revise and collect charges and rates at least sufficient to create gross revenues each year sufficient for all costs associated with operation and maintenance expenses and to create net revenue in an amount: (i) equal to not less than 110% of the amount necessary to pay when due the principal of and interest on the 2008 loan, and (ii) sufficient to make up any deficiencies in the rate stabilization reserve account. For the years ended December 31, 2019 and 2018, a rate stabilization reserve account was not required due to the fact that the net revenues available for debt service were sufficient in compliance with this covenant as follows:

Debt Service Coverage Ratio	<u>2019</u>	<u>2018</u>
Revenues Available for Debt Service	\$ 2,760,432	2,879,311
Operating Expenses - Budget Basis	<u>1,376,725</u>	<u>1,390,816</u>
Net Revenues Available for Debt Service	<u>\$ 1,383,707</u>	<u>1,488,515</u>
Total Principle and Interest On Long-Term Debt		
Maturities For The Current Year	<u>\$ 687,154</u>	<u>698,860</u>
Coverage Ratio	201%	213%

An Operations and Maintenance Reserve account equal to three month's budgeted operations and maintenance expenses is required and has been provided in the amount of \$312,500.

5 – COMMITMENTS

The Authority has entered into contracts for the engineering and design of an additional water treatment plant for \$221,960 and \$126,536 for the installation of a flush pump at the current treatment plant. At December 31, 2019, the amounts paid for were \$113,000 and \$6,000, respectively.

PROJECT 7 WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

6 – BUDGETARY ACCOUNTING

Originally adopted budgeted expenditures, amendments and final adopted budgeted expenditures for the years ended December 31, 2019 and 2018 are as follows:

	Original Budget	Amendment	Final Budget
2019	\$ 2,828,476		2,828,476
2018	2,494,737	700,000	3,194,737

The following adjustments are required to convert from financial statements presented in accordance with generally accepted accounting principles (GAAP), to revenues and expenditures using the budgetary basis of accounting as described in Note 1:

	GAAP Basis	Adjustments	Budgetary Basis
2019			
REVENUES:			
Operating Revenues	\$ 2,735,216		2,735,216
Interest Income	25,216		25,216
	<u>\$ 2,760,432</u>	<u>-</u>	<u>2,760,432</u>
EXPENDITURES:			
Operating Expenses	\$ 2,173,613	B) (796,888)	1,376,725
Debt Service:			-
Principal		A) 464,655	464,655
Interest	219,450	B) 3,049	222,499
Capital Improvements		C) 545,000	545,000
	<u>\$ 2,393,063</u>	<u>215,816</u>	<u>2,608,879</u>
2018			
REVENUES:			
Operating Revenues	\$ 2,857,568		2,857,568
Interest Income	21,763		21,763
	<u>\$ 2,879,331</u>	<u>-</u>	<u>2,879,331</u>
EXPENDITURES:			
Operating Expenses	\$ 2,162,569	B) (771,753)	1,390,816
Debt Service:			-
Principal		A) 453,182	453,182
Interest	242,427	B) 3,251	245,678
Capital Improvements		C) 1,066,749	1,066,749
	<u>\$ 2,404,996</u>	<u>751,429</u>	<u>3,156,425</u>

A) Long-Term Debt Principal Payments

B) Depreciation and Amortization

C) Capital Improvements and Equipment Purchases

PROJECT 7 WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2019 and 2018

7 – RELATED PARTIES

	Accounts Receivable		Water Purchase	
	2019	2018	2019	2018
City of Montrose	\$ 45,503	47,501	1,241,350	1,223,071
City of Delta	19,884	21,491	441,454	474,626
Tri-County Conservancy Distr	42,673	44,266	715,442	797,592
Menoken Water District	7,311	9,006	123,044	139,200
Chipeta Water District	7,460	8,016	130,178	136,753
Town of Olathe	4,297	1,745	69,824	66,624
TOTAL	\$ 127,128	132,025	\$ 2,721,292	2,837,866

8 – EMPLOYEE RETIREMENT PLAN

The Authority provides pension benefits for all employees through a Simplified Employee Pension (SEP) defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Authority contributes 14.20% of the employee's base salary each month. Contributions are transferred to an insurance company under terms of a group contract. Employees are not permitted to contribute to the plan. Full vesting of benefits begins immediately.

The Authority's total payroll, base salary and contribution amounts were as follows:

	<u>2019</u>	<u>2019</u>
Total Payroll	\$ 616,243	592,627
Base Salary	601,594	584,204
Contributions	85,426	82,957

9 – 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 Authority's attorney that the Authority 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.

10 – RISK MANAGEMENT

The Authority 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.

11 – SUBSEQUENT EVENTS

Effective January 1, 2020 the Authority increased the amount charged to the contracting parties from ninety cents to one dollar for 1,000 gallons of treated water.

In June, 2020, the Authority purchased property near Ridgway, Colorado for \$1,315,000. The property was purchased to construct an additional treatment plant. The Authority intends to sell property purchased in 2018 that was originally intended for the new plant.

SUPPLEMENTARY INFORMATION

PROJECT 7 WATER AUTHORITY

SUPPLEMENTARY INFORMATION

SCHEDULE OF REVENUES WITH BUDGET COMPARISONS

For the year ended December 31, 2019 with comparative totals for 2018

	2019			2018
	ACTUAL	BUDGET	FAVORABLE (UNFAVORABLE) VARIANCE	ACTUAL
REVENUES				
Water Sales	\$ 2,721,292	2,447,720	273,572	2,837,866
Miscellaneous	13,924	15,000	(1,076)	19,702
Interest Income	25,216	15,000	10,216	21,763
TOTAL REVENUES	\$ 2,760,432	2,477,720	282,712	2,879,331

PROJECT 7 WATER AUTHORITY
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES WITH BUDGET COMPARISONS
For the year ended December 31, 2019 with comparative totals for 2018

	2019			2018
	ACTUAL	BUDGET	FAVORABLE (UNFAVORABLE) VARIANCE	ACTUAL
SOURCE OF SUPPLY				
Electricity	\$ 477	500	23	471
Repairs and Maintenance		1,000	1,000	
Telemetry Circuits	1,458	1,500	42	1,458
Professional Services		2,000	2,000	
TOTAL SOURCE OF SUPPLY	1,935	5,000	3,065	1,929
WATER TREATMENT				
PERSONNEL SERVICES				
Salaries	480,776	492,500	11,724	462,534
Employee Retirement	66,648	68,160	1,512	64,449
Life Insurance	1,757	2,000	243	1,629
Group Health Insurance	198,367	200,000	1,633	186,354
Payroll Taxes	4,720	3,600	(1,120)	4,611
Workmen's Compensation	17,376	28,000	10,624	22,759
TOTAL PERSONNEL SERVICES	769,644	794,260	24,616	742,336
OTHER OPERATING EXPENSES				
Tools	339	700	361	917
Chemicals	215,658	185,000	(30,658)	204,082
Computer Expenses	223	1,321	1,098	549
Diesel Fuel and Lubricants	3,179	2,040	(1,139)	1,905
Education and Travel	2,025	2,400	375	2,116
Electricity	11,336	7,500	(3,836)	9,114
Miscellaneous	8		(8)	161
Outside Lab Analysis	11,207	16,500	5,293	31,510
Natural Gas	2,597	3,605	1,008	2,648
Professional Services	225	1,400	1,175	
Safety	-	300	300	357
Security	749	2,500	1,751	1,738
Repairs and Maintenance				
Buildings	9,737	11,600	1,863	8,712
Instrumentation	54	4,700	4,646	
Plant	6,899	5,000	(1,899)	19,558
Yard	1,372	3,000	1,628	1,437
Sludge Disposal	4,483	1,500	(2,983)	
Lab Supplies	13,905	13,500	(405)	17,017
Trash Service	1,796	1,500	(296)	1,779
Uniforms	2,288	2,000	(288)	2,393
Vehicle Expense	3,465	5,000	1,535	2,877
TOTAL OTHER OPERATING EXPENSES	291,545	271,066	(20,479)	308,870
TOTAL WATER TREATMENT	\$ 1,061,189	1,065,326	4,137	1,051,206

PROJECT 7 WATER AUTHORITY

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES WITH BUDGET COMPARISONS (continued)

For the year ended December 31, 2019 with comparative totals for 2018

	2019			2018
	ACTUAL	BUDGET	FAVORABLE (UNFAVORABLE) VARIANCE	ACTUAL
TRANSMISSION AND DISTRIBUTION				
Electricity	\$ 4,910	5,000	90	4,732
Professional Services	3,479	1,000	(2,479)	32,217
Repairs and Maintenance				
Lines	1,069	7,000	5,931	6,392
Meters		1,800	1,800	6,344
Circuits (telephone)	9,873	11,000	1,127	10,911
TOTAL TRANSMISSION AND DISTRIBUTION	\$ 19,331	25,800	6,469	60,596
ADMINISTRATIVE AND GENERAL PERSONNEL SERVICES				
Salaries	135,466	143,000	7,534	130,093
Employee Retirement	18,779	20,300	1,521	18,508
Life Insurance	439	750	311	420
Group Health Insurance	57,048	50,000	(7,048)	50,328
Payroll Taxes	1,803	2,050	247	1,820
Workmen's Compensation	5,792	7,350	1,558	7,586
TOTAL PERSONNEL SERVICES	219,327	223,450	4,123	208,755
OTHER OPERATING EXPENSES				
Advertising and Legal Notices	259	500	241	402
Audit	6,500	6,000	(500)	6,250
Bank Service Charges	32		(32)	117
Communications	8,169	2,300	(5,869)	4,015
Computer Expense	650	600	(50)	997
Director's Expenses	5,217	4,400	(817)	4,773
Dues, Memberships and Subscriptions	979	1,000	21	945
Education and Travel	1,016	1,000	(16)	549
Insurance	39,322	40,000	678	38,721
Legal	910	800	(110)	875
Miscellaneous	1,412	2,000	588	1,253
Office Expense	3,826	5,200	1,374	2,685
Postage	538	700	162	403
Professional Services		4,000	4,000	
Telephone	3,647	3,200	(447)	3,581
Vehicle Expense	2,165	2,000	(165)	2,624
Water	301	200	(101)	140
TOTAL OTHER OPERATING EXPENSES	74,943	73,900	(1,043)	68,330
TOTAL ADMINISTRATIVE AND GENERAL	\$ 294,270	297,350	3,080	277,085
TOTAL OPERATING EXPENSES BUDGET BASIS	\$ 1,376,725	1,393,476	16,751	1,390,816

PROJECT 7 WATER AUTHORITY

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES WITH BUDGET COMPARISONS (continued)

For the year ended December 31, 2019 with comparative totals for 2018

	2019			2018
			FAVORABLE (UNFAVORABLE)	
	ACTUAL	BUDGET	VARIANCE	ACTUAL
DEBT SERVICE				
Principal	\$ 464,655	455,000	(9,655)	453,182
Interest	222,499	250,000	27,501	245,678
TOTAL DEBT SERVICE	687,154	705,000	17,846	698,860
CAPITAL OUTLAY				
Construction	522,871	700,000	177,129	438,457
Land			-	600,292
Equipment	22,129	30,000	7,871	28,000
TOTAL CAPITAL OUTLAY	545,000	730,000	185,000	1,066,749
TOTAL EXPENDITURES \$	2,608,879	2,828,476	219,597	3,156,425