

CHIPETA WATER DISTRICT

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

December 31, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Chipeta Water District
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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 21, 2021

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, 2020 and 2019.

Financial Highlights

- The assets of the Chipeta Water District (also referred to as the District) exceeded its liabilities at December 31, 2020 and 2019 by \$2,978,728 and \$2,781,592, respectively, (net position). Of this amount, \$2,164,631 and \$1,979,388, 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 \$197,136 and \$96,639 for the years ended December 31, 2020 and 2019, respectively.
- District revenues increased from the prior year for the years ended December 31, 2020 and 2019.
- District expenses remained relatively consistent with the prior year with the exception of increases in treated water costs, employee costs, and decreases in material and supplies and depreciation. In 2019, District expenses remained relatively consistent with the prior year with the exception of decreases in treated water costs, employee costs, and depreciation and increases in materials and supplies.

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 \$2,978,728 and \$2,781,592 respectively at December 31, 2020 and 2019.

Approximately 25 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

	2020	2019
Current assets	\$2,092,061	1,901,072
Capital assets	814,097	802,204
Other assets	101,906	99,022
Total assets	<u>3,008,064</u>	<u>2,802,298</u>
Current liabilities	<u>29,336</u>	<u>20,706</u>
Total liabilities	<u>29,336</u>	<u>20,706</u>
Net position:		
Net investment in capital assets	814,097	802,204
Unrestricted	<u>2,164,631</u>	<u>1,979,388</u>
Total net position	<u>\$2,978,728</u>	<u>2,781,592</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 \$197,136 and \$96,639, respectively, during the fiscal years ended December 31, 2020 and 2019. A large portion of these increases in net position is due to capital contributions - tap fees.

Chipeta Water District Changes in Net Position

	<u>2020</u>	<u>2019</u>
Revenues:		
Operating revenue	\$ 715,914	638,912
Non-operating revenue	62,930	64,077
Total revenues	<u>778,844</u>	<u>702,989</u>
Expenses:		
Operating expenses:		
Administrative and general	427,502	408,693
Water costs	222,877	182,415
Depreciation	24,079	125,449
Non-operating expenses:		
Net decrease in fair value of investments		3,393
Total expenses	<u>674,458</u>	<u>719,950</u>
Income (loss) before contributions	104,386	(16,961)
Capital contributions - tap fees	<u>92,750</u>	<u>113,600</u>
Change in net position	197,136	96,639
Net position - beginning of year	<u>2,781,592</u>	<u>2,684,953</u>
Net position - end of year	<u>\$2,978,728</u>	<u>2,781,592</u>

The District has generally been able to contain expenses.

Budgetary highlights

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

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

Capital Asset and Debt Administration

Capital assets. The Chipeta Water District's investment in capital assets as of December 31, 2020 and 2019 amounted to \$814,097 and \$802,204, 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, 2020 and 2019, included the following:

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

Chipeta Water District Capital Assets
(net of depreciation)

	2020	2019
Land and rights-of-way	\$ 94,243	94,243
Buildings	18,294	21,846
Equipment	26,278	35,759
Water tanks	37,026	42,904
Distribution system	638,256	607,452
Total capital assets	\$ 814,097	802,204

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, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 1,195,423	816,635
Certificates of deposit	823,488	1,020,884
Accounts receivable - (net of allowance for doubtful accounts: 2020-\$139; 2019-\$139)	30,067	30,289
Inventory of supplies	39,724	30,822
Prepaid expenses	3,359	2,442
TOTAL CURRENT ASSETS	<u>2,092,061</u>	<u>1,901,072</u>
<u>CAPITAL ASSETS</u>		
Land and rights-of-way	94,243	94,243
Buildings	121,444	121,444
Equipment	280,107	280,107
Water tanks	747,321	747,321
Distribution system	3,782,839	3,746,867
	<u>5,025,954</u>	<u>4,989,982</u>
Accumulated depreciation	4,211,857	4,187,778
TOTAL CAPITAL ASSETS	<u>814,097</u>	<u>802,204</u>
<u>OTHER ASSETS</u>		
Long-term investments	99,536	96,607
Prepaid land leases	2,370	2,415
TOTAL OTHER ASSETS	<u>101,906</u>	<u>99,022</u>
	<u>3,008,064</u>	<u>2,802,298</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	15,249	12,365
Accrued payroll taxes	6,647	4,110
Accrued costs of compensated absences	7,440	4,231
TOTAL CURRENT LIABILITIES	<u>29,336</u>	<u>20,706</u>
<u>NET POSITION</u>		
Net investment in capital assets	814,097	802,204
Unrestricted	2,164,631	1,979,388
TOTAL NET POSITION \$	<u>2,978,728</u>	<u>2,781,592</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>OPERATING REVENUE</u>		
Water sales and charges	\$ 658,377	589,455
Material and labor reimbursements	37,871	30,489
Rental income	13,984	13,771
Miscellaneous	5,682	5,197
TOTAL OPERATING REVENUES	<u>715,914</u>	<u>638,912</u>
<u>OPERATING EXPENSES</u>		
Water costs:		
Treated water	170,340	130,178
Raw water	52,537	52,237
Salaries and wages	204,376	177,510
Payroll taxes	16,019	14,297
Employee insurance	68,249	49,454
Truck maintenance	2,819	2,263
Gas and oil	5,015	6,759
Materials and supplies	68,759	92,929
Utilities	15,370	13,237
Repairs and maintenance	7,721	7,057
Rent	45	45
Insurance	12,617	13,983
Office	4,627	8,870
Postage	6,364	6,284
Telephone	1,015	954
Answering service	846	951
Taxes and licenses	2	1,386
Professional fees	7,606	7,045
Seminars and education	1,423	969
Dues and fees	3,111	1,968
Depreciation	24,079	125,449
Miscellaneous	1,518	2,732
TOTAL OPERATING EXPENSES	<u>674,458</u>	<u>716,557</u>
OPERATING INCOME (LOSS)	<u>41,456</u>	<u>(77,645)</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Reimbursed water meters cost	35,971	26,877
Investment income	24,248	25,324
Net increase (decrease) in fair value of investments	2,711	(3,393)
Gain on disposition of assets		11,876
NET NON-OPERATING REVENUES (EXPENSES)	<u>62,930</u>	<u>60,684</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS	104,386	(16,961)
CAPITAL CONTRIBUTIONS - TAP FEES	92,750	113,600
CHANGE IN NET POSITION	197,136	96,639
NET POSITION - BEGINNING OF YEAR	<u>2,781,592</u>	<u>2,684,953</u>
NET POSITION - END OF YEAR	<u>\$ 2,978,728</u>	<u>2,781,592</u>

See Notes to Financial Statements.

CHIPETA WATER DISTRICT

STATEMENT OF CASH FLOWS

For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers	\$ 716,136	631,595
Payments to suppliers	(368,624)	(335,408)
Payments to employees	(282,898)	(244,073)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>64,614</u>	<u>52,114</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Acquisition and construction of capital assets	(35,971)	(64,442)
Reimbursed water meters cost	35,971	26,877
Capital contributions - tap fees	92,750	113,600
Proceeds from disposition of capital assets		28,525
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>92,750</u>	<u>104,560</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Redemption of certificates of deposit	200,127	105,849
Purchase of certificates of deposit	(2,621)	(887)
Investment income received	23,918	24,992
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>221,424</u>	<u>129,954</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	378,788	286,628
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>816,635</u>	<u>530,007</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,195,423</u>	<u>816,635</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 41,456	(77,645)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	24,124	125,494
Decrease (Increase) in receivables	222	(7,317)
Decrease (Increase) in inventory	(8,902)	14,242
Decrease (Increase) in prepaid expenses	(917)	9,346
Increase (Decrease) in accounts payable	2,885	(9,194)
Increase (Decrease) in accrued payroll taxes	2,537	(484)
Increase (Decrease) in accrued costs of compensated absences	3,209	(2,328)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES \$	<u>64,614</u>	<u>52,114</u>

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY

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

B. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Proprietary Fund Financial Statements. The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

CHIPETA WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019

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 2020 and 2019, 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, 2020 and 2019 none of the District's bank balances of \$1,173,989 and \$1,285,005, respectively, were exposed to custodial credit risk as \$500,000, respectively, was insured and \$673,989 and \$785,085, respectively, was collateralized by securities pledged by financial institutions.

At December 31, 2020 and 2019, the carrying amount of the District's deposits were presented on the balance sheet as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$1,195,423	816,635
Investments included in cash and cash equivalents		
Colostrust	(857,440)	(552,788)
	<u>\$ 337,983</u>	<u>263,847</u>

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

2 - DEPOSITS AND INVESTMENTS (continued)

Investments

As of December 31, 2020 and 2019, the District had the following investments and maturities:

<u>2020</u>	<u>INVESTMENT TYPE</u>	<u>INVESTMENT MATURITIES (in years)</u>		
		<u>FAIR VALUE</u>	<u>LESS THAN 1</u>	<u>1-5</u>
	Domestic corporate fixed-income securities	\$ 99,536	99,536	
	Colostrust	857,440	857,440	
		<u>\$956,976</u>	<u>956,976</u>	
<u>2019</u>	<u>INVESTMENT TYPE</u>	<u>INVESTMENT MATURITIES (in years)</u>		
		<u>FAIR VALUE</u>	<u>LESS THAN 1</u>	<u>1-5</u>
	Domestic corporate fixed-income securities	\$ 96,607		96,607
	Colostrust	552,788	552,788	
		<u>\$649,395</u>	<u>552,788</u>	<u>96,607</u>

As of December 31, 2020, the District has invested \$857,440 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.colotruster.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, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, commercial paper represented 100% of the District's investments.

These investments are presented on the balance sheet as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$1,195,423	816,635
Deposits included in cash and cash equivalents	<u>(337,983)</u>	<u>(263,847)</u>
	857,440	552,788
Long-term investments	<u>99,536</u>	<u>96,607</u>
	<u>\$ 956,976</u>	<u>649,395</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, 2020 and 2019

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, 2020 and 2019:

2020

<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	\$857,440			
Domestic corporate fixed-income securities	<u>99,536</u>		<u>99,536</u>	
Total investments	<u>\$956,976</u>		<u>99,536</u>	

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	<u>96,607</u>		<u>96,607</u>	
Total investments	<u>\$649,395</u>		<u>96,607</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, 2020 and 2019

3 - CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2020 and 2019, was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
2020				
Capital assets not being depreciated:				
Land and rights-of-way	\$ 94,243			94,243
Capital assets being depreciated:				
Buildings	121,444			121,444
Equipment	280,107			280,107
Water tanks	747,321			747,321
Distribution system	3,746,867	35,972		3,782,839
Total capital assets being depreciated	4,895,739	35,972		4,931,711
Less accumulated depreciation for:				
Buildings	99,598	3,552		103,150
Equipment	244,348	9,481		253,829
Water tanks	704,417	5,878		710,295
Distribution system	3,139,415	5,168		3,144,583
Total accumulated depreciation	4,187,778	24,079		4,211,857
Total capital assets, net	\$ 802,204	(11,893)		814,097
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	3,719,991	26,876		3,746,867
Total capital assets being depreciated	4,862,400	64,442	31,103	4,895,739
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	3,049,000	90,415		3,139,415
Total accumulated depreciation	4,076,784	125,449	14,455	4,187,778
Total capital assets, net	\$ 879,859	(61,007)	16,648	802,204

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

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, 2020 and 2019.

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 \$8.50 and \$8.00, per acre foot for 2020 and 2019, respectively, subject to annual adjustment.

Annual payments of \$51,668, 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, 2020 and 2019, the District paid \$51,668 and \$51,368, respectively, for the water purchases.

CHIPETA WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2020 and 2019

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 2020 and 2019 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, 2020 and 2019, the District purchased treatment of 170 and 145 million gallons for \$170,340 and \$130,178, respectively. At December 31, 2020 and 2019, the District owed the Authority \$9,266 and \$7,460, 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.

10 - SUBSEQUENT EVENTS

Subsequent events were evaluated through January 21, 2021 which is the date the financial statements were available to be issued.

In 2020, domestic and international economies face uncertainty related to the COVID-19 pandemic. Voluntary, and then subsequently mandatory, shelter-in-place orders necessitated temporary business closing as the uncertainty continues. Though the extent of disruption is expected to be temporary, the extent of the financial impact and other possible impacting matters are unknown at this time.

SUPPLEMENTARY INFORMATION

REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

CHLEFFA WATER DISTRICT
SUPPLEMENTARY INFORMATION - REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
For the years ended December 31, 2020 and 2019

	2020		2019		VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL AND FINAL BUDGET	ACTUAL	ORIGINAL AND FINAL BUDGET	ACTUAL	
REVENUES					
Water sales and charges	\$ 580,000	658,377	540,000	589,455	49,455
Material and labor reimbursements	32,000	37,871	17,500	30,489	12,989
Reimbursed water meters cost	5,000	35,971	5,000	26,877	21,877
Investment income	22,000	24,248	17,000	25,324	8,324
Tap fees	42,000	92,750	21,000	113,600	92,600
Rental income	15,500	13,984	14,000	13,771	(229)
Miscellaneous	1,000	5,682	1,000	5,197	4,197
TOTAL REVENUES	697,500	868,883	615,500	804,713	189,213
EXPENDITURES					
Water costs	197,500	222,877	187,500	182,415	5,085
Salaries and wages	190,000	204,376	190,000	177,510	12,490
Payroll taxes	15,000	16,019	15,000	14,297	703
Employee insurance	63,700	68,249	56,700	49,454	7,246
Contract services	750	750	750	750	0
Mileage	200	200	200	200	0
Truck maintenance	3,000	2,819	2,500	2,263	237
Gas and oil	6,500	5,015	6,500	6,759	(259)
Materials and supplies	41,500	68,759	31,500	92,929	(61,429)
Utilities	16,770	15,370	16,760	13,237	3,523
Repairs and maintenance	5,500	7,721	5,000	7,057	(2,057)
Rent	2,100	2,100	2,100	2,100	0
Insurance	14,500	12,617	12,000	13,983	(1,983)
Office	5,000	4,627	5,000	8,870	(3,870)
Postage	6,600	6,364	6,000	6,284	(284)
Telephone	1,100	1,015	1,150	954	196
Answering service	900	846	850	951	(101)
Taxes and licenses	1,050	2	1,050	1,386	(336)
Seminars and education	9,400	7,606	10,300	7,045	3,255
Professional fees	1,000	1,423	700	969	(269)
Dues and fees	2,500	3,111	2,200	1,968	232
Capital outlay	4,000	35,971	2,000	64,442	(62,442)
Miscellaneous	3,000	1,518	3,000	2,732	268
Contingency	100,000	100,000	100,000	100,000	0
TOTAL EXPENDITURES	691,570	686,305	658,760	655,505	3,255
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$	5,930	182,578	(43,260)	149,208	192,468
Reconciliation of Excess of Revenues Over (Under) Expenditures to Change in Net Position					
Increase (decrease) in fair value of investments		2,711			(3,393)
Gain on disposition of assets					11,876
Capitalized expenditures		35,971			64,442
Depreciation and amortization		(24,124)			(125,494)
CHANGE IN NET POSITION PER STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION		197,136			96,639