

SECURITY WATER DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2019 and 2018

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DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Security Water District

We have audited the accompanying financial statements of Security Water District, which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, 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.

Auditors' 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Security Water District, as of December 31, 2019 and 2018, and the results of its operations and its cash flows 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 as listed in the table of contents 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.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Security Water District's financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates 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.

Hoelting & Company Inc.

Colorado Springs, Colorado
June 11, 2020

SECURITY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2019

As management of Security Water District (the District) we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$47,537,622 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$38,604,997 (*net position*). Of this amount, \$12,387,581 represents unrestricted net position, which may be used to meet the District's ongoing obligations.
- The District's total net position increased during the year by \$1,672,461.
- Capital assets net of depreciation increased by \$1,868,849 from the prior year.
- The District's total outstanding long-term debt decreased by \$468,974 during the current year due to payment of revenue bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) Notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets), obligations (liabilities), and deferred inflows and outflows. The difference between assets, liabilities, and deferred inflows and outflows, is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position - All revenues and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District's rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2019, the District's assets exceeded liabilities and deferred inflows by \$38,604,997 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 13,831,367	\$ 14,333,057
Capital assets, net	<u>33,706,255</u>	<u>31,837,406</u>
Total assets	<u>47,537,622</u>	<u>46,170,463</u>
Current and other liabilities	857,848	772,420
Long-term liabilities	<u>7,329,924</u>	<u>7,793,516</u>
Total liabilities	<u>8,187,772</u>	<u>8,515,936</u>
Deferred inflow of resources	<u>744,853</u>	<u>721,991</u>
Net position:		
Net investment in capital assets	26,145,416	23,807,593
Restricted	72,000	72,000
Unrestricted	<u>12,387,581</u>	<u>13,052,943</u>
Total net position	<u>\$ 38,604,997</u>	<u>\$ 36,932,536</u>

Unrestricted net position of the District at the end of the year was \$12,387,581, a decrease of \$665,362 from the prior year.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 5,402,664	\$ 5,161,085
Operating expenses	<u>(6,192,208)</u>	<u>(6,359,137)</u>
Operating income (loss)	(789,544)	(1,198,502)
Non-operating revenues and expenses, net	<u>1,827,005</u>	<u>2,259,442</u>
Income (Loss) before contributions	1,037,461	1,061,390
Capital contributions – tap fees	<u>635,000</u>	<u>436,158</u>
Change in net position	1,672,461	1,497,548
Net position, beginning	<u>36,932,536</u>	<u>35,434,988</u>
Net position, ending	<u>\$ 38,604,997</u>	<u>\$ 36,932,536</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2019 amounts to \$33,706,255. This investment in capital assets includes land, water rights, buildings and improvements, equipment, transmission lines, and elevated tanks.

	<u>2019</u>	<u>2018</u>
Capital assets, not being depreciated	\$ 13,552,395	\$ 11,537,622
Capital assets, being depreciated	34,004,818	32,946,269
Less accumulated depreciation	<u>(13,850,958)</u>	<u>(12,646,485)</u>
Total capital assets, net	<u>\$ 33,706,255</u>	<u>\$ 31,837,406</u>

Major capital assets acquired during the year included substantial capital construction to mitigate water quality concerns.

Long-Term Debt

Outstanding debt at December 31, 2019 was \$7,560,839 and consisted of general obligation bonds.

	<u>2019</u>	<u>2018</u>
General obligation bonds, net	<u>\$ 7,560,839</u>	<u>\$ 8,029,813</u>
Total long-term debt	<u>\$ 7,560,839</u>	<u>\$ 8,029,813</u>

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – Although the District's water rates will remain very competitive, rate increases will be necessary to cover increasing operating costs and to fund water projects. In 2011, District electors authorized the issuance of indebtedness of up to \$15,000,000 in order to finance the District's portion of a new water delivery system. \$9.72 million in General Obligation Bonds were sold in 2012. The new water delivery system came online in 2016, which helped the District to shift its water supplies entirely to surface water sources due to the discovery of Perfluorinated chemicals (PFCs) in groundwater supplies. The costs incurred to eliminate PFC exposure had a significant impact on the District's finances and reserves in 2016 and 2017. In 2018, the Air Force began to help offset the costs of purchasing replacement water. In addition, in 2019 the Air Force began constructing a water mitigation facility, which will remove PFOA and PFOS chemicals to levels below the Environmental Protection Agency's Lifetime Health Advisory. Although Air Force payments for water and for the operational costs of the mitigation facility are expected in the future, the PFC contamination is also expected to have a budgetary impact for the foreseeable future. Consequently, it is likely that past and future costs incurred due to PFC mitigation will have an additional impact on future water rates.

Economic and Environmental Factors – Development within the District continued to be slow in 2019, however there are several projects within the District that will likely be initiated in 2020 and continue into the next few years. Water quality concerns have increased the need to acquire additional water supplies to augment the District's water portfolio. The District will continue to pursue additional water rights and develop additional water delivery systems in order to insure a safe and reliable future water supply. Although the general economy within the region is strong, COVID-19 has affected the world, the region,

and the District in 2020. The pandemic has had an impact on water consumption patterns and certain expense categories, as well as policies involving fees, charges and delinquency shut-offs. Although it is too early to assess the full financial effect of COVID-19, it is not expected to be material.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers, creditors and other financial users with a general overview of the District's finances. If you have questions about this report or need additional financial information, please contact the District's General Manager, Roy E. Heald, at 719-392-3475 or 231 Security Boulevard, Colorado Springs, CO 80911.

BASIC FINANCIAL STATEMENTS

**SECURITY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 304,666	\$ 680,351
Investments	11,826,480	11,979,989
Accounts receivable	352,536	339,856
Other receivables	500	500
Due from county treasurer	7,890	8,006
Interest receivable	71,524	55,089
Property taxes receivable	744,853	721,991
Inventory, at cost	175,956	201,424
Prepaid expenses	341,799	340,689
Restricted cash and cash equivalents	2,500	2,500
Other assets	2,663	2,662
	13,831,367	14,333,057
Total current assets		
Noncurrent assets:		
Capital assets:		
Land	1,908,390	1,904,390
Water rights	11,041,921	9,629,488
Construction in progress	602,084	3,744
Buildings and land improvements	551,381	551,307
Equipment	11,501,277	11,135,417
Transmission lines	19,930,745	19,238,130
Elevated tank	2,021,415	2,021,415
Less accumulated depreciation	(13,850,958)	(12,646,485)
	33,706,255	31,837,406
Total noncurrent assets		
	47,537,622	46,170,463
Total assets		
LIABILITIES		
Current liabilities:		
Accounts payable	288,889	184,681
Accrued Liabilities	3,344	3,344
Deposits	63,709	24,712
Interest payable	20,312	21,449
Compensated absences payable	11,594	33,234
Bonds payable - current	470,000	455,000
	\$ 857,848	\$ 722,420
Total current liabilities		

The accompanying notes are an integral part of these financial statements.

**SECURITY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
Noncurrent liabilities:		
Compensated absences	\$ 239,085	\$ 218,703
Bonds payable	7,090,839	7,574,813
Total noncurrent liabilities	7,329,924	7,793,516
Total liabilities	8,187,772	8,515,936
DEFERRED INFLOW OF RESOURCES		
Unavailable revenue - property taxes	744,853	721,991
NET POSITION		
Net investment in capital assets	26,145,416	23,807,593
Restricted	72,000	72,000
Unrestricted	12,387,581	13,052,943
Total net position	\$ 38,604,997	\$ 36,932,536

The accompanying notes are an integral part of these financial statements.

SECURITY WATER DISTRICT
STATEMENTS 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 assessments	\$ 5,214,907	\$ 4,992,586
Late and reconnect charges	159,140	156,594
Other	28,617	11,905
Total operating revenues	<u>5,402,664</u>	<u>5,161,085</u>
 Operating expenses:		
Transmission and distribution	2,629,074	2,676,622
Purchased water	1,478,243	1,579,407
Maintenance	147,887	115,388
Administration and general	689,997	738,630
Depreciation	1,247,007	1,249,090
Total operating expenses	<u>6,192,208</u>	<u>6,359,137</u>
 Operating income (loss)	<u>(789,544)</u>	<u>(1,198,052)</u>
 Nonoperating revenues (expenses):		
General and specific tax revenues	804,044	812,519
Investment income	364,298	238,737
Mitigation payments	720,181	1,210,185
Rental income	97,945	91,086
Sale of meters	14,076	10,145
Gain/(loss) on disposal of assets	68,992	152,814
Interest and fiscal charges	(256,505)	(270,018)
Amortization	13,974	13,974
Total non-operating revenue (expenses)	<u>1,827,005</u>	<u>2,259,442</u>
 Income (loss) before contributions	1,037,461	1,061,390
 Capital contributions - tap fees	<u>635,000</u>	<u>436,158</u>
 Change in net position	1,672,461	1,497,548
Net position-beginning	<u>36,932,536</u>	<u>35,434,988</u>
 Net position-ending	<u>\$ 38,604,997</u>	<u>\$ 36,932,536</u>

The accompanying notes are an integral part of these financial statements.

**SECURITY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 5,361,367	\$ 5,114,924
Payments to suppliers	(3,479,430)	(4,232,905)
Payments to employees for salaries and benefits	(1,299,466)	(1,165,927)
Receipts from rent	97,945	91,086
Other receipts	762,874	1,232,235
	<u>1,443,290</u>	<u>1,039,413</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	<u>804,160</u>	<u>811,899</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions - tap fees	635,000	436,158
Proceeds from sale of capital assets	5,931	2,680
Interest paid on debt	(255,368)	(268,893)
Principal paid on debt	(455,000)	(450,000)
Acquisition and construction of capital assets	(3,117,925)	(526,496)
Insurance proceeds	63,061	202,557
	<u>(3,124,301)</u>	<u>(603,994)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,137,437)	(10,211,892)
Proceeds from sales and maturities of investments	8,360,000	8,960,000
Interest received	278,603	166,246
	<u>501,166</u>	<u>(1,085,646)</u>
Net cash provided (used) by investing activities	<u>501,166</u>	<u>(1,085,646)</u>
Net increase (decrease) in cash and cash equivalents	(375,685)	161,672
Cash and cash equivalents at beginning of year	<u>682,851</u>	<u>521,179</u>
Cash and cash equivalents at ending of year	<u>\$ 307,166</u>	<u>\$ 682,851</u>

The accompanying notes are an integral part of these financial statements.

**SECURITY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 304,666	\$ 680,351
Restricted cash and cash equivalents	2,500	2,500
Cash and cash equivalents at year end	\$ 307,166	\$ 682,851
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (789,544)	\$ (1,198,052)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	\$ 1,247,007	\$ 1,249,090
Miscellaneous nonoperating income (expense):		
Mitigation payments	720,181	1,210,185
Rental income	97,945	91,087
Sale of meters	14,076	10,145
<i>(Increase) decrease in assets:</i>		
Accounts receivable	(12,680)	(34,256)
Inventory	25,468	(98,544)
Prepaid expenses	(1,110)	(7,296)
Other assets	-	(2,663)
<i>Increase (decrease) in liabilities:</i>		
Accounts payable	104,208	(199,359)
Accrued Liabilities	-	3,344
Deposits	38,997	(1,388)
Compensated absences payable	(1,258)	17,120
Total adjustments	2,232,834	2,237,465
Net Cash Provided (Used) by Operating Activities	\$ 1,443,290	\$ 1,039,413
Schedule of non-cash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 61,211	\$ 32,955
Accretion (Amortization)	\$ 7,843	\$ 17,354

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

Security Water District is a special district governed by an elected five-member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's 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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION
(CONTINUED)*

Investments

Investments are stated at fair value.

Accounts receivable

The accounts receivable are due from a large number of customers for the purchase of water. An allowance for doubtful accounts is not required as the District holds a lien on property for unpaid water assessments.

Inventories

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

Prepaid expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2019 and 2018, are recorded as prepaid items.

Capital assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The District's capitalization threshold is \$1,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Water mains and other improvements installed upon formation of the District at the expense of developers and subdividers are not recorded in the balance sheet and depreciation thereon has not been charged against revenues as records are not available to establish valuation for such property.

Depreciation of buildings, equipment, vehicles and the water system is computed using the straight-line method over the estimated useful lives as follows:

Building and improvements	7 - 40 years
Equipment	5 - 40 years
Transmission line	10 - 40 years
Elevated tank	7 - 40 years

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION
(CONTINUED)*

Capital assets (continued)

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. The tax levy is payable in two installments due February 28 and June 15, or in one installment due April 30. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are recognized when levied to the extent they result in current receivables. The tax rates for the years ended December 31, 2019 and 2018 were 5.679 mills and 5.703 mills, respectively. The District's assessed valuations for 2019 and 2018 were \$127,132,660 and \$126,442,210 respectively.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. REVENUES AND EXPENSES (CONTINUED)

Compensated absences

A liability is recorded for vested accumulated rights to receive sick pay and vacation benefits. Vested accumulated sick leave and vacation is recorded as an expense and liability of the District as the benefits accrue to employees. Employees are fully vested after one year of service. Unvested sick leave and vacation is not material. Therefore, a liability for unvested sick leave has not been reflected in these financial statements.

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water assessments, late and reconnect charges, and inspection fees. Operating expenses include all expenses incurred to provide water services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

Budgets are adopted on a comprehensive basis of accounting other than generally accepted accounting principles. The primary differences are that bond and note proceeds are treated as a budget source and capital expenditures and bond and note principal payments are treated as a budget use. Depreciation expense is not considered a budget expense. An annual appropriated budget is adopted for the proprietary fund. All annual appropriations lapse at fiscal year end.

Expenditures may not legally exceed budgeted appropriations.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

BUDGETARY INFORMATION (CONTINUED)

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) By October 15 of each year, the manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) A public hearing is conducted by the District to obtain taxpayer comments.
- 3) Prior to December 31, the budget is legally enacted by the Board.
- 4) The manager is authorized to transfer budgeted amounts between line items of the District; however, any revisions that alter the total expenditures of the District must be approved by the Board of Directors.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—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 regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. 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 be at least equal to 102% of the uninsured deposits.

As of December 31, 2019 and 2018, the carrying amounts of the District's deposits were \$(482,041) and \$(117,080), respectively and the bank balances were \$42,494 and \$41,681, respectively.

Investments

The District is authorized by Colorado Statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- Notes or bonds issued to the "National Housing Act".
- Repurchase agreements.
- Local government investment pools.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits its investment portfolio to investment maturities not to exceed five years from the date of purchase.

Credit Risk: The District's investment policy limits investments as described above. As of December 31, 2019, the District's investments were rated Aaa by Moody's Investor Services. Standard & Poor's rated U.S. Treasuries and Agencies held by the District AA+, and all other investments AAA.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
Money Market Funds	\$ 623,558	\$ 623,558	\$ -	\$ -	\$ -
COLOTRUST	163,075	163,075	-	-	-
U.S. Treasuries	6,914,558	1,275,908	2,561,866	3,076,784	-
U.S. Agencies	4,411,421	525,277	1,782,893	2,103,251	-
Short Term Bills and Notes	<u>500,501</u>	<u>-</u>	<u>500,501</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,613,113</u>	<u>\$ 2,587,818</u>	<u>\$ 4,845,260</u>	<u>\$ 5,180,035</u>	<u>\$ -</u>

As of December 31, 2019, the District has invested \$163,075 in the Colorado Government Liquid Asset Trust (COLOTRUST). COLOTRUST is 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. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair 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 to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. Substantially all securities owned by COLOTRUST 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 COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the District does not categorize investments with COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents:		
Cash on hand	\$ 74	\$ 74
Deposits	(482,041)	(117,080)
Money Market Funds	623,558	638,044
COLOTRUST	<u>163,075</u>	<u>159,313</u>
	<u>\$ 304,666</u>	<u>\$ 680,351</u>
Investments:		
U.S. Treasuries	\$ 6,914,558	\$ 7,316,288
U.S. Agencies	4,411,421	4,663,701
Short Term Bills and Notes	<u>500,501</u>	<u>-</u>
	<u>\$ 11,826,480</u>	<u>\$ 11,979,989</u>
Restricted cash and cash equivalents:		
Deposits	<u>\$ 2,500</u>	<u>\$ 2,500</u>

NOTE 4 – FAIR VALUE MEASUREMENT

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

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique. As a basis for considering market participant assumptions in fair value measurements, GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

- Level 1 inputs reflect prices quoted in active markets.
- Level 2 inputs reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 inputs reflect prices based upon unobservable sources.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 – FAIR VALUE MEASUREMENT (CONTINUED)

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment’s risk.

Investments classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Investments classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

	December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 6,914,558	\$ -	\$ 6,914,558
Agency Notes	-	4,411,421	-	4,411,421
Short Term Bills and Notes	-	500,501	-	500,501
Total Investments - unrestricted	\$ -	\$ 11,826,480	\$ -	\$ 11,826,480

	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 7,316,288	\$ -	\$ 7,316,288
Agency Notes	-	4,663,701	-	4,663,701
Total Investments - unrestricted	\$ -	\$ 11,979,989	\$ -	\$ 11,979,989

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,904,390	\$ 4,000	\$ -	\$ 1,908,390
Water rights	9,629,488	1,412,433	-	11,041,921
Construction in progress	<u>3,744</u>	<u>598,340</u>	<u>-</u>	<u>602,084</u>
Total capital assets, not being depreciated	<u>11,537,622</u>	<u>2,014,773</u>	<u>-</u>	<u>13,552,395</u>
Capital assets, being depreciated:				
Buildings and improvements	551,307	10,641	(10,567)	551,381
Equipment	11,135,417	399,896	(34,036)	11,501,277
Transmission lines	19,238,130	692,615	-	19,930,745
Elevated tank	<u>2,021,415</u>	<u>-</u>	<u>-</u>	<u>2,021,415</u>
Total capital assets, being depreciated	32,946,269	1,103,152	(44,603)	34,004,818
Less accumulated depreciation	<u>(12,646,485)</u>	<u>(1,247,007)</u>	<u>42,534</u>	<u>(13,850,958)</u>
Total capital assets, being depreciated, net	<u>20,299,784</u>	<u>(143,855)</u>	<u>(2,069)</u>	<u>20,153,860</u>
Total capital assets, net	<u>\$ 31,837,406</u>	<u>\$ 1,870,918</u>	<u>\$ (2,069)</u>	<u>\$ 33,706,255</u>

Depreciation expense was charged to functions/programs as follows:	<u>2019</u>	<u>2018</u>
Transmission and distribution	\$ 1,243,064	\$ 1,243,326
Administration and general	<u>3,943</u>	<u>5,764</u>
Total depreciation expense	<u>\$ 1,247,007</u>	<u>\$ 1,249,090</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 – LONG-TERM LIABILITIES

General Obligation Bonds

Principal
Balance

\$9,720,000 of General Obligation Bonds Series 2012 were issued on July 18, 2012 for the purpose of funding the District’s share of the acquisition and construction of the Southern Delivery System. Principal payments are due annually through December 1, 2032. Interest payments are due semi-annually on June 1 and December 1 and accrue at an annual interest rate between 2.00% and 3.50%.

\$ 7,385,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Fiscal Year <u>Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 470,000	\$ 243,743
2021	485,000	229,642
2022	495,000	215,093
2023	510,000	200,242
2024	525,000	184,943
2025 – 2029	2,900,000	649,962
2030 – 2032	<u>2,000,000</u>	<u>137,605</u>
Total	<u>\$ 7,385,000</u>	<u>\$ 1,861,230</u>

Compensated Absences Payable

Compensated absences consisted of the following:

	<u>2019</u>	<u>2018</u>
Sick leave benefits	\$ 191,269	\$ 199,741
Vacation benefits	<u>59,410</u>	<u>52,196</u>
Total	<u>\$ 250,679</u>	<u>\$ 251,937</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Changes In Long-Term Liabilities

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2019:

	<u>Balance 12/31/18</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Balance 12/31/19</u>	<u>Due Within One year</u>
General obligation bonds	\$ 7,840,000	\$ -	\$ 455,000	\$ 7,385,000	\$ 470,000
Unamortized premium	<u>189,813</u>	<u>-</u>	<u>13,974</u>	<u>175,839</u>	<u>-</u>
	8,029,813	-	468,974	7,560,839	470,000
Compensated absences	<u>251,937</u>	<u>105,849</u>	<u>107,107</u>	<u>250,679</u>	<u>11,594</u>
Total	<u>\$ 8,281,750</u>	<u>\$ 105,849</u>	<u>\$ 575,081</u>	<u>\$ 7,811,518</u>	<u>\$ 481,594</u>

NOTE 7 – NET POSITION

Net position is reported in three separate categories—net investment in capital assets; net position-restricted; and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2019 and 2018, net investment in capital assets was as follows:

	<u>2019</u>	<u>2018</u>
Capital assets, net of depreciation	\$ 33,706,255	\$ 31,837,406
Related debt	<u>(7,560,839)</u>	<u>(8,029,813)</u>
	<u>\$ 26,145,416</u>	<u>\$ 23,807,593</u>

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). The District has established an Emergency Reserve in the amount of \$72,000 for years ended December 31, 2019 and 2018, as per Article X, Section 20 of the Colorado Constitution. This Emergency Reserve balance represents at least 3% of the governmental fiscal year spending as required.

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 – DEFINED CONTRIBUTION PENSION PLAN

Plan Description

The District contributes to the Colorado Retirement Association Retirement Plan (Retirement Plan), a cost-sharing multiple-employer defined contribution pension plan administered by the Colorado Retirement Association (CRA) formerly the Colorado County Officials and Employees Retirement Association (CCOERA). The CRA provides pension benefits and deferred compensation for members and beneficiaries. The plan was adopted by the District on November 17, 1969, with a start date of December 1969. Participation in the plan is optional for employees of record on the effective date of the plan adoption. All new employees are required to participate upon eligibility as a condition of employment. Employees regularly employed for a minimum of 20 hours per week for 5 months a year and having completed 3 months of service, are eligible for the plan. The plan was established by the State Legislature under Title 24, Article 54 of the Colorado Revised Statutes (CRS), as amended. CRA issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That report may be obtained by writing to Colorado Retirement Association, 751 Southpark Drive, Littleton, Colorado 80120 or by calling CRA at 713-9400 in the Denver metro area, or 1-800-352-0313 from outside the metro area.

Funding Policy

Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 54, Part 101 of the CRS, as amended. The District is required to contribute a minimum of 3% of the participant's base salary or wage. The District's board approved rate is 4% of compensation. Participants are required to contribute an amount equal to the District's contribution. A participant may elect to make additional after tax contributions up to certain statutory limits. Total required contributions made each by the District and participants for the years ending December 31, 2019, 2018 and 2017 were \$39,084, \$37,549, and \$34,533, respectively.

Employees also made additional voluntary contributions for the years ending December 31, 2019, 2018 and 2017 of \$56,653, \$54,532, and \$42,238.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS

Fountain Valley Authority

The Fountain Valley Authority (the Authority) was established on July 10, 1979, by a contract entered into by the City of Colorado Springs, Colorado; the City of Fountain, Colorado; the Security Water District, Colorado; and the Stratmoor Hills Water District, Colorado. Each of these separate governmental entities owns and operates existing water systems. The Authority was established to affect the development of water resources for the benefit of the governments and inhabitants of the contracting parties.

The Authority is empowered to acquire, operate, manage, and maintain all facilities required to deliver treated potable water to its customers. The customers include the City of Colorado Springs, the City of Fountain, the Security Water District, the Stratmoor Hills Water District, and the Widefield Water and Sanitation District.

The United States Department of Interior, Bureau of Reclamation (Bureau), has agreed to supply to these five customers, up to 20,100 acre-feet of water annually from the Frying Pan Arkansas Project. The Security Water District has been allocated 8.19% of this total.

In addition, the Bureau constructed a pipeline (the Fountain Valley Conduit) to transport this water from the Pueblo Reservoir to the site of each system.

The Bureau's pipeline is operated by the Authority which pays all operating expenses plus a conveyance charge. The conveyance charge is designed to amortize the cost of the pipeline over a forty-year period. At the end of this period, title to the pipeline may be transferred by Congress to the Authority. The conveyance charge is to be allocated among the governments, based on their participation percentage and scheduled water deliveries.

The Authority has constructed an 18,000,000 gallon-per-day water treatment plant located approximately 17 miles south of the City of Colorado Springs. The purpose of this treatment plant is to treat water obtained by the customers from the Frying Pan Arkansas Project. All water transmitted through the Fountain Valley Conduit is treated at this plant. All costs incurred by the Authority will be recovered through charges to be paid by the member governments.

The following payments were made by the District to the Authority during the years ended December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Filter plant bond payment	\$ 130,068	\$ 135,663
Variable costs	267,937	319,112
Conveyance charge	303,766	305,578
Fixed charges	<u>386,178</u>	<u>378,278</u>
Total	<u>\$ 1,087,949</u>	<u>\$ 1,138,631</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Fountain Valley Authority (continued)

The joint venture summary financial information as of December 31, 2019 and 2018 is as follows:

	2019	2018
Assets and Deferred Outflows of Resources	<u>\$ 60,716,253</u>	<u>\$ 59,928,697</u>
Liabilities	22,345,871	30,028,063
Net Position (deficit)	<u>38,370,382</u>	<u>29,900,634</u>
 Total Liabilities and Net Position	 <u>\$ 60,716,253</u>	 <u>\$ 59,928,697</u>
 Revenues	 \$ 16,138,867	 \$ 14,812,397
Expenditures	<u>(7,669,119)</u>	<u>(6,777,264)</u>
 Change in Net Position	 <u>\$ 8,469,748</u>	 <u>\$ 8,035,133</u>

Long-term liability activity for the year ended December 31, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Revenue bonds	\$ 880,000	\$ -	\$ 880,000	\$ -	\$ -
Unamortized Premium	<u>31,161</u>	<u>-</u>	<u>31,161</u>	<u>-</u>	<u>-</u>
	911,161	-	911,161	-	-
 Loans payable	 2,072,798	 -	 655,806	 1,416,992	 694,174
Obligations under capital lease	<u>21,137,138</u>	<u>-</u>	<u>6,197,324</u>	<u>14,939,814</u>	<u>4,878,806</u>
Total	<u>\$ 24,121,097</u>	<u>\$ -</u>	<u>\$ 7,764,291</u>	<u>\$ 16,356,806</u>	<u>\$ 5,572,980</u>

Widefield Aquifer Recharge Association

The Widefield Aquifer Recharge Association (the Association) was established on May 21, 2003 and is a joint venture between the Widefield Water and Sanitation District, The City of Fountain, and Security Water District. Each of these separate governmental entities owns and operates existing water systems and owns a 33.33% interest in the association. The Widefield Aquifer Recharge Association was formed to recharge the Widefield aquifer. The District spent \$0 in both 2019 and in 2018 for operating expenses of the venture.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 - RELATED PARTIES

The Security Sanitation District and Security Water District are separate accounting districts and have separate boards of directors. Management and office expenses are divided equally between the two Districts. The office space used by the Security Sanitation District is owned by the Security Water District. The Security Sanitation District paid \$960 for the rent of this space during 2019 and 2018.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Water Quality

In January 2016, the Security Water District became aware of the existence of Perfluorinated chemicals (“PFCs”) in its groundwater supplies through routine sampling conducted in compliance with the Environmental Protection Agency’s (EPA) Unregulated Contaminant Monitoring Rule 3. Subsequently, on May 19, 2016, the EPA issued a non-regulatory and non-enforceable Lifetime Health Advisory for two of the chemicals. Although the chemicals are not regulated, the District’s Board of Directors took immediate action to reduce and ultimately eliminate PFCs from all of the water that the District provides to its customers. In early September 2016, as a result of significant expenditures for new pipelines and additional surface water, the District was able to shift entirely to surface water sources that do not contain PFCs. The cost of ongoing capital expenditures and additional operating expenses to eliminate PFC exposure had a significant impact on the District’s financial performance since 2016, and is expected to impact the budget for the foreseeable future. The District is seeking reimbursement from several sources to help offset these costs.

As one means of seeking reimbursement, the District has filed a Federal Tort Claims Act lawsuit against the United States seeking recovery of costs associated with securing and delivering alternate sources of water. The lawsuit is in its early stages and the United States has not yet responded to the complaint. The complaint alleges that the United States committed trespass and nuisance, and has acted in a negligent manner, by releasing fire-fighting foam that contains PFCs to the environment, causing contamination of the District’s water supply. Litigation carries inherent uncertainty and there is a risk that the District’s claims will be dismissed in whole or in part, with little or no recovery of damages.

NOTE 12 - RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District carries commercial insurance for these risks of loss, including worker’s compensation and employee health and accident insurance. Settled claims have not exceeded insurance coverage during any of the last three fiscal years.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 13 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

For the required Emergency Reserve balances as of December 31, 2019 and 2018, see Note 7 – Net Position.

SUPPLEMENTAL INFORMATION

**SECURITY WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Transmission and distribution:		
Production payroll	\$ 975,396	\$ 883,538
Production cost	108,037	179,483
Insurance expense	303,496	308,943
Professional fees	115,462	130,521
Trade service	11,300	12,617
Pipeline and storage projects	27,435	22,890
Joint ventures	<u>1,087,948</u>	<u>1,138,630</u>
 TOTAL TRANSMISSION AND DISTRIBUTION	 <u>2,629,074</u>	 <u>2,676,622</u>
 PURCHASED WATER	 <u>1,478,243</u>	 <u>1,579,407</u>
 Maintenance:		
Truck expenses	44,060	37,691
Equipment, maintenance and repair	<u>103,827</u>	<u>77,697</u>
 TOTAL MAINTENANCE	 <u>147,887</u>	 <u>115,388</u>
 Administration and general:		
Office payroll	322,812	300,190
Office expense	59,286	64,679
Insurance expense	53,948	64,855
Professional fees	192,959	246,968
Trade service	21,351	21,726
Collection expense	<u>39,641</u>	<u>40,212</u>
 TOTAL ADMINISTRATION AND GENERAL	 <u>689,997</u>	 <u>738,630</u>
 DEPRECIATION	 <u>1,247,007</u>	 <u>1,249,090</u>
 TOTAL OPERATING EXPENSES	 <u><u>\$ 6,192,208</u></u>	 <u><u>\$ 6,359,137</u></u>

See accompanying independent auditors' report.

SECURITY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	<u>2018</u>	<u>2019</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
REVENUES				
Beginning fund balance	\$ 11,316,351	\$ 13,124,942	\$ 12,413,280	\$ 711,662
Water assessments	4,992,586	5,214,907	5,300,000	(85,093)
Late and reconnect charges	156,594	159,140	159,000	140
Other	11,905	28,617	51,000	(22,383)
General property taxes	720,410	715,763	721,991	(6,228)
S.O.T. taxes	91,201	87,500	84,000	3,500
Delinquent taxes	908	781	1,000	(219)
Investment income	238,737	364,298	392,500	(28,202)
Mitigation payments	1,210,185	720,181	1,265,000	(544,819)
Sale of meters	10,145	14,076	12,000	2,076
Connection fees	436,158	635,000	840,000	(205,000)
Rental income	91,086	97,945	99,000	(1,055)
Proceeds from asset sales / insurance	205,237	71,061	88,000	(16,939)
TOTAL REVENUES	<u>19,481,503</u>	<u>21,234,211</u>	<u>21,426,771</u>	<u>(192,560)</u>
EXPENDITURES				
Water purchase:				
Southern Delivery System	1,004,988	917,568	925,000	7,432
Pinello Ranch lease	(63)	-	-	-
Frying Pan/Arkansas	3,782	7,372	12,000	4,628
CSU Contract	395,223	300,488	400,000	99,512
Other	175,477	252,815	270,000	17,185
TOTAL WATER PURCHASE	<u>1,579,407</u>	<u>1,478,243</u>	<u>1,607,000</u>	<u>128,757</u>
PRODUCTION PAYROLL	<u>883,538</u>	<u>975,396</u>	<u>988,000</u>	<u>12,604</u>
Production cost:				
Electricity	69,804	19,128	95,000	75,872
Natural gas	13,104	12,780	20,000	7,220
Water quality improvement	2,446	2,965	-	(2,965)
Telephone and radios	21,171	22,319	30,000	7,681
Supplies, tools, freight	59,693	38,544	30,000	(8,544)
Chlorine	2,054	2,722	4,000	1,278
Uniforms	11,031	9,414	14,000	4,586
Other Production Costs	180	165	2,000	1,835
TOTAL PRODUCTION COST	<u>\$ 179,483</u>	<u>\$ 108,037</u>	<u>\$ 195,000</u>	<u>\$ 85,128</u>

See accompanying independent auditors' report.

SECURITY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	<u>2018</u>	<u>2019</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Truck expenses:				
Repairs and maintenance	\$ 22,257	\$ 28,187	\$ 20,000	\$ (8,187)
Gas, oil and diesel	15,434	15,873	20,000	4,127
TOTAL TRUCK EXPENSES	<u>37,691</u>	<u>44,060</u>	<u>40,000</u>	<u>(4,060)</u>
Equipment, maintenance and repair:				
Inventory, equipment and supplies	21,701	25,695	28,000	2,305
Safety equipment & supplies	-	3,145	-	(3,145)
Repairs and maintenance	8,132	5,101	20,000	14,899
Pump and well repairs	-	-	30,000	30,000
Well house maintenance	43,317	66,058	75,000	8,942
Water tank inspections & repairs	-	989	-	(989)
Office and garage maintenance	4,546	2,839	6,000	3,161
TOTAL EQUIPMENT MAINTENANCE AND REPAIR	<u>77,696</u>	<u>103,827</u>	<u>159,000</u>	<u>55,173</u>
OFFICE SALARIES	<u>300,190</u>	<u>322,812</u>	<u>348,000</u>	<u>25,188</u>
Office expense:				
Office supplies	7,981	6,035	13,000	6,965
Equipment maintenance contracts	9,542	10,130	14,000	3,870
Water quality office expense	1,379	-	6,000	6,000
Miscellaneous office expenses	17,727	13,597	20,000	6,403
Health administrative fees	1,075	1,107	-	(1,107)
Bank charges	26,974	28,417	32,000	3,583
TOTAL OFFICE EXPENSE	<u>64,678</u>	<u>59,286</u>	<u>85,000</u>	<u>25,714</u>
Insurance expense:				
Workman's compensation	13,091	13,979	24,000	10,021
Liability, errors and omissions	93,214	95,622	105,000	9,378
Health	261,734	242,455	338,000	95,545
Damages/Deductibles	500	240	2,000	1,760
PebSCO	1,475	1,925	7,500	5,575
Unum LTC	3,784	3,222	-	(3,222)
TOTAL INSURANCE EXPENSE	<u>\$ 373,798</u>	<u>\$ 357,443</u>	<u>\$ 476,500</u>	<u>\$ 119,057</u>

See accompanying independent auditors' report.

SECURITY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	<u>2018</u>	<u>2019</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Professional fees:				
Audit	\$ 13,600	\$ 14,000	\$ 14,000	\$ -
Legal	184,239	113,234	200,000	86,766
Engineering	130,521	115,462	140,000	24,538
Other professional services	49,129	65,725	55,000	(10,725)
TOTAL PROFESSIONAL FEES	<u>377,489</u>	<u>308,421</u>	<u>409,000</u>	<u>100,579</u>
Trade service:				
Dues and membership	21,726	21,351	26,000	4,649
Schools and seminars	12,617	11,300	20,000	8,700
TOTAL TRADE SERVICE	<u>34,343</u>	<u>32,651</u>	<u>46,000</u>	<u>13,349</u>
Collection expense:				
Trade Service	184	-	-	-
Billing forms	7,994	8,875	14,000	5,125
Advertising	2,993	2,957	3,000	43
Postage	18,218	17,024	25,000	7,976
Tax collection fees	10,824	10,785	15,000	4,215
TOTAL COLLECTION EXPENSE	<u>40,213</u>	<u>39,641</u>	<u>57,000</u>	<u>17,359</u>
PIPELINE AND STORAGE PROJECTS	<u>22,890</u>	<u>27,435</u>	<u>57,000</u>	<u>29,565</u>
TOTAL JOINT VENTURES	<u>1,138,631</u>	<u>1,087,949</u>	<u>1,346,603</u>	<u>258,654</u>
CAPITAL OUTLAYS	<u>526,496</u>	<u>3,117,925</u>	<u>4,075,500</u>	<u>957,575</u>
INTEREST EXPENSE	<u>270,018</u>	<u>256,505</u>	<u>257,393</u>	<u>888</u>
DEBT PRINCIPAL PAYMENT	<u>450,000</u>	<u>455,000</u>	<u>455,000</u>	<u>-</u>
BOND COSTS	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>
TOTAL EXPENDITURES	<u>\$ 6,356,561</u>	<u>\$ 8,774,631</u>	<u>\$ 10,602,496</u>	<u>\$ 1,826,030</u>

See accompanying independent auditors' report.

SECURITY WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	<u>2018</u>	<u>2019</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 13,124,942	\$ 12,459,580	<u>\$ 10,824,275</u>	<u>\$ 1,633,470</u>
Less:				
Proceeds from sales of capital assets	-	-		
Depreciation	(1,249,090)	(1,247,007)		
Beginning fund balance	(11,316,351)	(13,124,942)		
Add:				
Amortization	13,974	13,974		
Debt principal payment	450,000	455,000		
Capital outlay	526,496	3,117,925		
Gain (loss) on sale of assets	<u>(52,423)</u>	<u>(2,069)</u>		
CHANGE IN NET POSITION	<u>\$ 1,497,548</u>	<u>\$ 1,672,461</u>		

Ending fund balance is calculated as follows:

Current assets	14,333,057	13,831,367
Current liabilities	(722,420)	(857,848)
Deferred inflows	(721,991)	(744,853)
Bonds payable - current	455,000	470,000
Compensated absences	<u>(218,704)</u>	<u>(239,086)</u>
	<u>\$ 13,124,942</u>	<u>\$ 12,459,580</u>

See accompanying independent auditors' report.

SECURITY WATER DISTRICT
SCHEDULE OF SOURCES AND USES (NON-GAAP)
GOVERNMENT & ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Actual	General Fund	Enterprise Fund
Budget sources:			
Water assessments	\$ 5,214,907	\$ -	\$ 5,214,907
Late and reconnect charges	159,140	-	159,140
General and specific tax revenues	804,044	804,044	-
Investment income	364,298	-	364,298
Mitigation payments	720,181	-	720,181
Sale of meters	14,076	-	14,076
Connection fees	635,000	-	635,000
Rental income	97,945	-	97,945
Other	28,617	-	28,617
Proceeds from asset sales / insurance	68,992	-	68,992
TOTAL BUDGET SOURCES	8,107,200	804,044	7,303,156
Budget uses:			
Water purchase	1,478,243	-	1,478,243
Production payroll	975,396	-	975,396
Production cost	108,037	1,699	106,338
Truck expenses	44,060	104	43,956
Equipment, maintenance and repair	103,827	1,420	102,407
Office payroll	322,812	161,406	161,406
Office expense	59,286	59,286	-
Insurance expense	357,443	58,704	298,739
Professional fees	308,421	127,234	181,187
Trade service	32,651	21,351	11,300
Collection expense	39,641	36,684	2,957
Pipeline and Storage projects	27,435	-	27,435
Capital outlay	3,117,925	2,209	3,115,716
Interest expense	256,505	256,505	-
Bond principal payment	455,000	455,000	-
Joint ventures	1,087,949	-	1,087,949
TOTAL BUDGET USES	8,774,631	1,181,602	7,593,029
Budget sources over uses before interest allocation	(667,431)	(377,558)	(289,873)
Interest allocation	-	123,317	(123,317)
Budget sources over uses after interest allocation	(667,431)	(254,241)	(413,190)
Transfer equal to 9% of Enterprise fund revenue	-	(646,186)	646,186
BUDGET SOURCES OVER USES	\$ (667,431)	\$ (900,427)	\$ 232,996

See accompanying independent auditors' report.