

SECURITY WATER DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2020 and 2019

**SECURITY WATER DISTRICT
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DECEMBER 31, 2020 AND 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2021

SECURITY WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2020

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, 2020. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$52,931,939 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$44,507,841 (*net position*). Of this amount, \$13,979,482 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 \$3,173,643.
- Capital assets net of depreciation increased by \$3,826,969 from the prior year.
- The District's total outstanding long-term debt decreased by \$483,974 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, 2020, the District's assets exceeded liabilities and deferred inflows by \$44,507,841 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 15,398,715	\$ 14,366,414
Capital assets, net	<u>37,533,224</u>	<u>35,900,409</u>
Total assets	<u>52,931,939</u>	<u>50,266,823</u>
Current and other liabilities	826,887	857,848
Long-term liabilities	<u>6,856,421</u>	<u>7,329,924</u>
Total liabilities	<u>7,683,308</u>	<u>8,187,772</u>
Deferred inflow of resources	<u>740,790</u>	<u>744,853</u>
Net position:		
Net investment in capital assets	30,456,359	28,339,570
Restricted	72,000	72,000
Unrestricted	<u>13,979,482</u>	<u>12,922,628</u>
Total net position	<u>\$ 44,507,841</u>	<u>\$ 41,334,198</u>

Unrestricted net position of the District at the end of the year was \$13,979,482, an increase of \$1,056,854 from the prior year.

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

	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 6,046,070	\$ 5,402,664
Operating expenses	<u>(6,777,078)</u>	<u>(6,192,208)</u>
Operating income (loss)	(731,008)	(789,544)
Non-operating revenues and expenses, net	<u>2,453,380</u>	<u>2,362,052</u>
Income (Loss) before contributions	1,722,372	1,572,508
Capital contributions – tap fees	<u>1,451,271</u>	<u>635,000</u>
Change in net position	3,173,643	2,207,508
Net position, beginning, as re-stated	<u>41,334,198</u>	<u>39,126,690</u>
Net position, ending	<u>\$ 44,507,841</u>	<u>\$ 41,334,198</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2020 amounts to \$37,533,224. This investment in capital assets includes land, water rights, buildings and improvements, equipment, transmission lines, and elevated tanks.

	<u>2020</u>	<u>2019</u>
Capital assets, not being depreciated	\$ 13,984,522	\$ 13,552,395
Capital assets, being depreciated	39,050,770	36,586,176
Less accumulated depreciation	<u>(15,502,068)</u>	<u>(14,238,162)</u>
Total capital assets, net	<u>\$ 37,533,224</u>	<u>\$ 35,900,409</u>

Major capital assets acquired during the year included capital construction to improve the water distribution system as well as additional water rights purchases.

Long-Term Debt

Outstanding debt at December 31, 2020 was \$7,076,865 and consisted of general obligation bonds.

	<u>2020</u>	<u>2019</u>
General obligation bonds, net	<u>\$ 7,076,865</u>	<u>\$ 7,560,839</u>
Total long-term debt	<u>\$ 7,076,865</u>	<u>\$ 7,560,839</u>

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – The District's water rates will remain very competitive, and the substantial rate increases of the past are expected to moderate. Modest rate increases will still 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 impact on future water rates.

Economic and Environmental Factors – Development within the District continued to be slow in 2020, however there are several projects within the District that may be initiated in the near-term. Water quality, drought and climate change 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 affected the world, the region, and the District in 2020. The pandemic is expected to have a continued impact into 2021, however the financial effect of COVID-19 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, 2020 AND 2019**

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,357,597	\$ 304,666
Investments	11,758,219	11,826,480
Accounts receivable	410,711	352,536
Other receivables	556,041	535,547
Due from county treasurer	6,535	7,890
Interest receivable	44,878	71,524
Property taxes receivable	740,790	744,853
Inventory, at cost	164,771	175,956
Prepaid expenses	353,687	341,799
Restricted cash and cash equivalents	2,823	2,500
Other assets	2,663	2,663
	15,398,715	14,366,414
Noncurrent assets:		
Capital assets:		
Land	1,908,390	1,908,390
Water rights	11,431,921	11,041,921
Construction in progress	644,211	602,084
Buildings and land improvements	3,721,282	3,132,739
Equipment	12,009,836	11,501,277
Transmission lines	21,298,237	19,930,745
Elevated tank	2,021,415	2,021,415
Less accumulated depreciation	(15,502,068)	(14,238,162)
	37,533,224	35,900,409
Total noncurrent assets	37,533,224	35,900,409
Total assets	52,931,939	50,266,823
LIABILITIES		
Current liabilities:		
Accounts payable	232,147	288,889
Accrued Liabilities	3,251	3,344
Deposits	70,587	63,709
Interest payable	19,137	20,312
Compensated absences payable	16,765	11,594
Bonds payable - current	485,000	470,000
	\$ 826,887	\$ 857,848
Total current liabilities	\$ 826,887	\$ 857,848

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

**SECURITY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019**

	2020	2019
Noncurrent liabilities:		
Compensated absences	\$ 264,556	\$ 239,085
Bonds payable	6,591,865	7,090,839
Total noncurrent liabilities	6,856,421	7,329,924
Total liabilities	7,683,308	8,187,772
DEFERRED INFLOW OF RESOURCES		
Unavailable revenue - property taxes	740,790	744,853
NET POSITION		
Net investment in capital assets	30,456,359	28,339,570
Restricted	72,000	72,000
Unrestricted	13,979,482	12,922,628
Total net position	\$ 44,507,841	\$ 41,334,198

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Water assessments	\$ 5,999,887	\$ 5,214,907
Late and reconnect charges	26,805	159,140
Other	19,378	28,617
Total operating revenues	<u>6,046,070</u>	<u>5,402,664</u>
 Operating expenses:		
Transmission and distribution	2,714,992	2,629,074
Purchased water	1,869,158	1,478,243
Maintenance	148,148	147,887
Administration and general	681,747	689,997
Depreciation	1,363,033	1,247,007
Total operating expenses	<u>6,777,078</u>	<u>6,192,208</u>
 Operating income (loss)	<u>(731,008)</u>	<u>(789,544)</u>
 Nonoperating revenues (expenses):		
General and specific tax revenues	824,566	804,044
Investment income	200,063	364,298
Mitigation payments	1,491,636	1,255,228
Rental income	101,575	97,945
Sale of meters	31,088	14,076
Gain/(loss) on disposal of assets	33,295	68,992
Interest and fiscal charges	(242,817)	(256,505)
Amortization	13,974	13,974
Total non-operating revenue (expenses)	<u>2,453,380</u>	<u>2,362,052</u>
 Income (loss) before contributions	1,722,372	1,572,508
 Capital contributions - tap fees	<u>1,451,271</u>	<u>635,000</u>
 Change in net position	3,173,643	2,207,508
Net position-beginning, as re-stated	<u>41,334,198</u>	<u>39,126,690</u>
 Net position-ending	<u>\$ 44,507,841</u>	<u>\$ 41,334,198</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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 5,948,022	\$ 5,361,367
Payments to suppliers	(4,166,939)	(3,479,430)
Payments to employees for salaries and benefits	(1,267,123)	(1,299,466)
Receipts from rent	101,575	97,945
Other receipts	1,542,102	762,874
	<u>2,157,637</u>	<u>1,443,290</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	<u>825,921</u>	<u>804,160</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions - tap fees	1,451,271	635,000
Proceeds from sale of capital assets	-	5,931
Interest paid on debt	(241,643)	(255,368)
Principal paid on debt	(470,000)	(455,000)
Acquisition and construction of capital assets	(2,999,431)	(3,117,925)
Insurance proceeds	33,295	63,061
	<u>(2,226,508)</u>	<u>(3,124,301)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,086,775)	(8,137,437)
Proceeds from sales and maturities of investments	8,115,000	8,360,000
Interest received	267,979	278,603
	<u>296,204</u>	<u>501,166</u>
Net cash provided (used) by investing activities	<u>296,204</u>	<u>501,166</u>
Net increase (decrease) in cash and cash equivalents	1,053,254	(375,685)
Cash and cash equivalents at beginning of year	<u>307,166</u>	<u>682,851</u>
Cash and cash equivalents at ending of year	<u>\$ 1,360,420</u>	<u>\$ 307,166</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, 2020 AND 2019**

	2020	2019
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 1,357,597	\$ 304,666
Restricted cash and cash equivalents	2,823	2,500
Cash and cash equivalents at year end	\$ 1,360,420	\$ 307,166
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (731,008)	\$ (789,544)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	\$ 1,363,033	\$ 1,247,007
Miscellaneous nonoperating income (expense):		
Mitigation payments	1,491,636	720,181
Rental income	101,575	97,945
Sale of meters	31,088	14,076
<i>(Increase) decrease in assets:</i>		
Accounts receivable	(58,175)	(12,680)
Accounts receivable - other	(20,495)	-
Inventory	11,185	25,468
Prepaid expenses	(11,887)	(1,110)
<i>Increase (decrease) in liabilities:</i>		
Accounts payable	(56,742)	104,208
Accrued liabilities	(93)	-
Deposits	6,878	38,997
Compensated absences payable	30,642	(1,258)
Total adjustments	2,888,645	2,232,834
Net Cash Provided (Used) by Operating Activities	\$ 2,157,637	\$ 1,443,290
Schedule of non-cash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 71,277	\$ 61,211
Accretion (Amortization)	\$ 31,063	\$ 7,843

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

NOTES TO FINANCIAL STATEMENTS

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are valued at the pool's share price, the price at which the investment could be sold.

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, 2020 and 2019, 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.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital assets (continued)

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

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.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2020 and 2019 were 5.007 mills and 5.679 mills, respectively. The District's assessed valuations for 2020 and 2019 were \$148,758,380 and \$127,132,660 respectively.

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.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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.

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, 2020 and 2019, the carrying amounts of the District's deposits were \$(176,117) and \$(482,041), respectively and the bank balances were \$38,527 and \$42,494, 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, 2020 AND 2019**

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, 2020, 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, 2020 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	\$ 1,369,374	\$ 1,369,374	\$ -	\$ -	\$ -
COLOTRUST	164,266	164,266	-	-	-
U.S. Treasuries	5,145,130	1,052,664	3,078,501	1,013,965	-
U.S. Agencies	<u>6,613,089</u>	<u>541,413</u>	<u>1,535,288</u>	<u>2,005,042</u>	<u>2,531,346</u>
Total	<u>\$ 13,291,859</u>	<u>\$ 3,127,717</u>	<u>\$ 4,613,789</u>	<u>\$ 3,019,007</u>	<u>\$ 2,531,346</u>

As of December 31, 2020, the District has invested \$164,266 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, 2020 AND 2019**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents:		
Cash on hand	\$ 74	\$ 74
Deposits	(176,117)	(482,041)
Money Market Funds	1,369,374	623,558
COLOTRUST	<u>164,266</u>	<u>163,075</u>
	<u>\$ 1,357,597</u>	<u>\$ 304,666</u>
Investments:		
U.S. Treasuries	\$ 5,145,130	\$ 6,914,558
U.S. Agencies	6,613,089	4,411,421
Short Term Bills and Notes	<u>-</u>	<u>500,501</u>
	<u>\$ 11,758,219</u>	<u>\$ 11,826,480</u>
Restricted cash and cash equivalents:		
Deposits	<u>\$ 2,823</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, 2020 AND 2019**

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, 2020			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 5,145,130	\$ -	\$ 5,145,130
Agency Notes	-	6,613,089	-	6,613,089
Total Investments - unrestricted	\$ -	\$ 11,758,219	\$ -	\$ 11,758,219

	December 31, 2019			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</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

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 1,908,390	\$ -	\$ -	\$ 1,908,390
Water rights	11,041,921	390,000	-	11,431,921
Construction in progress	<u>602,084</u>	<u>346,067</u>	<u>(303,940)</u>	<u>644,211</u>
Total capital assets, not being depreciated	<u>13,552,395</u>	<u>736,067</u>	<u>(303,940)</u>	<u>13,984,522</u>
Capital assets, being depreciated:				
Buildings and improvements	3,132,739	588,543	-	3,721,282
Equipment	11,501,277	611,271	(102,712)	12,009,836
Transmission lines	19,930,745	1,367,492	-	21,298,237
Elevated tank	<u>2,021,415</u>	<u>-</u>	<u>-</u>	<u>2,021,415</u>
Total capital assets, being depreciated	36,586,176	2,567,306	(102,712)	39,050,770
Less accumulated depreciation	<u>(14,238,162)</u>	<u>(1,363,033)</u>	<u>99,127</u>	<u>(15,502,068)</u>
Total capital assets, being depreciated, net	<u>22,348,014</u>	<u>1,204,273</u>	<u>(3,585)</u>	<u>23,548,702</u>
Total capital assets, net	<u>\$ 35,900,409</u>	<u>\$ 1,940,340</u>	<u>\$ (307,525)</u>	<u>\$ 37,533,224</u>

NOTE 6 – LONG-TERM LIABILITIES

General Obligation Bonds

\$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%.

Principal
Balance

\$ 6,915,000

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

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>
2021	\$ 485,000	\$ 229,642
2022	495,000	215,093
2023	510,000	200,242
2024	525,000	184,943
2025	540,000	169,193
2026 – 2030	3,005,000	548,463
2031 – 2032	<u>1,355,000</u>	<u>69,912</u>
Total	<u>\$ 6,915,000</u>	<u>\$ 1,617,488</u>

Compensated Absences Payable

Compensated absences consisted of the following:

	<u>2020</u>	<u>2019</u>
Sick leave benefits	\$ 216,063	\$ 191,269
Vacation benefits	<u>65,258</u>	<u>59,410</u>
Total	<u>\$ 281,321</u>	<u>\$ 250,679</u>

Changes In Long-Term Liabilities

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2020:

	<u>Balance 12/31/19</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Balance 12/31/20</u>	<u>Due Within One year</u>
General obligation bonds	\$ 7,385,000	\$ -	\$ 470,000	\$ 6,915,000	\$ 485,000
Unamortized premium	<u>175,839</u>	<u>-</u>	<u>13,974</u>	<u>161,865</u>	<u>-</u>
	7,560,839	-	483,974	7,076,865	485,000
Compensated absences	<u>250,679</u>	<u>110,095</u>	<u>79,453</u>	<u>281,321</u>	<u>16,765</u>
Total	<u>\$ 7,811,518</u>	<u>\$ 110,095</u>	<u>\$ 563,427</u>	<u>\$ 7,358,186</u>	<u>\$ 501,765</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 and 2019, net investment in capital assets was as follows:

	2020	2019
Capital assets, net of depreciation	\$ 37,533,224	\$ 35,900,409
Related debt	(7,076,865)	(7,560,839)
	\$ 30,456,359	\$ 28,339,570

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, 2020 and 2019, 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.

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. All 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 80210 or by calling CRA at 713-9400 in the Denver metro area, or 1-(800) 352-0313 from outside the metro area.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 – DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)

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. Employees are immediately vested in their own contributions and investment earnings. Employees vest in District contributions and in the earnings, losses, and changes in fair value of retirement plan assets at rates ranging from 10% per year to immediately. Any District contribution forfeited by a participant due to termination of employment before becoming fully vested is available to the District to offset against future contributions or to be allocated to remaining participants. Total required contributions made each by the District and participants for the years ending December 31, 2020, 2019 and 2018 were \$40,226, \$39,084, and \$37,549, respectively. Employees also made additional contributions for the years ending December 31, 2020, 2019 and 2018 of \$66,020, \$56,653, and \$54,532. No material liability exists as of the report date.

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.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Fountain Valley Authority (continued)

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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Filter plant bond payment	\$ 39,442	\$ 130,068
Variable costs	292,640	267,937
Conveyance charge	301,214	303,766
Fixed charges	<u>451,568</u>	<u>386,178</u>
Total	<u>\$ 1,084,864</u>	<u>\$ 1,087,949</u>

The joint venture summary financial information as of December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Assets and Deferred Outflows of Resources	<u>\$ 61,396,109</u>	<u>\$ 60,716,253</u>
Liabilities	13,979,981	22,345,871
Net Position (deficit)	<u>47,416,128</u>	<u>38,370,382</u>
Total Liabilities and Net Position	<u>\$ 61,396,109</u>	<u>\$ 60,716,253</u>
Revenues	\$ 16,677,599	\$ 16,138,867
Expenditures	<u>(7,631,853)</u>	<u>(7,669,119)</u>
Change in Net Position	<u>\$ 9,045,746</u>	<u>\$ 8,469,748</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

Fountain Valley Authority (continued)

Long-term liability activity for the year ended December 31, 2020 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Loans payable	\$ 1,416,992	\$ -	\$ 694,174	\$ 722,818	\$ 168,097
Obligations under capital lease	<u>14,939,814</u>	<u>-</u>	<u>7,619,349</u>	<u>7,320,465</u>	<u>5,113,557</u>
Total	<u>\$ 16,356,806</u>	<u>\$ -</u>	<u>\$ 8,313,523</u>	<u>\$ 8,043,283</u>	<u>\$ 5,281,654</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 \$7,000 and \$0 respectively in 2020 and in 2019 for operating expenses of the venture.

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 2020 and 2019.

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.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 11 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Water Quality (Continued)

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.

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, 2020 and 2019, see Note 7 – Net Position.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 14 - PRIOR PERIOD ADJUSTMENT

Correction of an error

During the year, it was determined that prior year PFC mitigation revenue was understated and a contributed asset was not recorded. As a result, the beginning net position has been restated to reflect the cumulative effect of the corrections.

Restatements had the following impact on previously reported balances:

	<u>2019</u>	<u>2018</u>
Fund balance, December 31, as originally stated	\$ 38,604,997	\$ 36,932,536
PFC mitigation revenue	535,047	-
Contributed asset	<u>2,194,154</u>	<u>2,194,154</u>
Fund Balance, December 31, as restated	<u>\$ 41,334,198</u>	<u>\$ 39,126,690</u>

SUPPLEMENTAL INFORMATION

**SECURITY WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Transmission and distribution:		
Production payroll	\$ 944,201	\$ 975,396
Production cost	158,176	108,037
Insurance expense	343,800	303,496
Professional fees	139,750	115,462
Trade service	3,980	11,300
Pipeline and storage projects	33,222	27,435
Joint ventures	<u>1,091,863</u>	<u>1,087,948</u>
 TOTAL TRANSMISSION AND DISTRIBUTION	 <u>2,714,992</u>	 <u>2,629,074</u>
 PURCHASED WATER	 <u>1,869,158</u>	 <u>1,478,243</u>
 Maintenance:		
Truck expenses	30,959	44,060
Equipment, maintenance and repair	<u>117,189</u>	<u>103,827</u>
 TOTAL MAINTENANCE	 <u>148,148</u>	 <u>147,887</u>
 Administration and general:		
Office payroll	353,471	322,812
Office expense	62,198	59,286
Insurance expense	59,219	53,948
Professional fees	142,083	192,959
Trade service	21,523	21,351
Collection expense	<u>43,253</u>	<u>39,641</u>
 TOTAL ADMINISTRATION AND GENERAL	 <u>681,747</u>	 <u>689,997</u>
 DEPRECIATION	 <u>1,363,033</u>	 <u>1,247,007</u>
 TOTAL OPERATING EXPENSES	 <u><u>\$ 6,777,078</u></u>	 <u><u>\$ 6,192,208</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, 2020
(With comparative actuals for the year ended December 31, 2019)

	2019	2020	Budget	Variance Favorable (Unfavorable)
REVENUES				
Beginning fund balance	\$ 13,124,942	\$ 12,994,627	\$ 12,760,084	\$ 234,543
Water assessments	5,214,907	5,999,887	6,000,000	(113)
Late and reconnect charges	159,140	26,805	27,600	(795)
Other	28,617	19,378	39,000	(19,622)
General property taxes	715,763	742,959	744,853	(1,894)
S.O.T. taxes	87,500	81,044	84,000	(2,956)
Delinquent taxes	781	563	2,000	(1,437)
Investment income	364,298	200,063	203,500	(3,437)
Mitigation payments	1,255,228	1,491,636	2,100,000	(608,364)
Sale of meters	14,076	31,088	35,000	(3,912)
Connection fees	635,000	1,451,271	1,565,600	(114,329)
Rental income	97,945	101,575	101,000	575
Proceeds from asset sales / insurance	71,061	36,879	2,000	34,879
TOTAL REVENUES	21,769,258	23,177,775	23,664,637	(486,862)
EXPENDITURES				
Water purchase:				
Southern Delivery System	917,568	1,033,747	1,000,000	(33,747)
Pinello Ranch lease	-	-	10,000	10,000
Frying Pan/Arkansas	7,372	3,748	12,000	8,252
CSU Contract	300,488	582,126	400,000	(182,126)
Other	252,815	249,537	305,000	55,463
TOTAL WATER PURCHASE	1,478,243	1,869,158	1,727,000	(142,158)
PRODUCTION PAYROLL	975,396	944,201	1,054,000	109,799
Production cost:				
Electricity	19,128	45,810	70,000	24,190
Natural gas	12,780	12,435	19,000	6,565
Water quality improvement	2,965	2,710	-	(2,710)
Telephone and radios	22,319	28,427	28,000	(427)
Supplies, tools, freight	38,544	54,953	30,000	(24,953)
Chlorine	2,722	3,695	4,000	305
Uniforms	9,414	9,958	14,000	4,042
Other Production Costs	165	189	2,000	1,811
TOTAL PRODUCTION COST	\$ 108,037	\$ 158,177	\$ 167,000	\$ 7,012

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, 2020
(With comparative actuals for the year ended December 31, 2019)

	2019	2020	Budget	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Truck expenses:				
Repairs and maintenance	\$ 28,187	\$ 17,262	\$ 25,000	\$ 7,738
Gas, oil and diesel	15,873	13,697	20,000	6,303
TOTAL TRUCK EXPENSES	44,060	30,959	45,000	14,041
Equipment, maintenance and repair:				
Inventory, equipment and supplies	25,695	12,694	26,000	13,306
Safety equipment & supplies	3,145	5,131	5,000	(131)
Repairs and maintenance	5,101	15,166	20,000	4,834
Pump and well repairs	-	-	30,000	30,000
Well house maintenance	66,058	73,277	75,000	1,723
Water tank inspections & repairs	989	7,250	-	(7,250)
Office and garage maintenance	2,839	3,671	6,000	2,329
TOTAL EQUIPMENT MAINTENANCE AND REPAIR	103,827	117,189	162,000	44,811
OFFICE SALARIES	322,812	353,471	371,000	17,529
Office expense:				
Office supplies	6,035	6,279	12,000	5,721
Equipment maintenance contracts	10,130	11,863	14,000	2,137
Water quality office expense	-	2,240	5,000	2,760
Miscellaneous office expenses	13,597	14,289	20,000	5,711
Election	-	131	4,000	3,869
Health administrative fees	1,107	901	-	(901)
Bank charges	28,417	26,494	34,000	7,506
TOTAL OFFICE EXPENSE	59,286	62,197	89,000	26,803
Insurance expense:				
Workman's compensation	13,979	14,433	14,500	67
Liability, errors and omissions	95,622	108,238	110,000	1,762
Health	242,455	275,185	373,000	97,815
Damages/Deductibles	240	-	2,000	2,000
Pebasco	1,925	1,875	-	(1,875)
Unum LTC	3,222	3,288	8,000	4,712
TOTAL INSURANCE EXPENSE	\$ 357,443	\$ 403,019	\$ 507,500	\$ 104,481

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, 2020
(With comparative actuals for the year ended December 31, 2019)

	2019	2020	Budget	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Professional fees:				
Audit	\$ 14,000	\$ 14,500	\$ 14,500	\$ -
Legal	113,234	104,344	180,000	75,656
Engineering	115,462	139,750	150,000	10,250
Other professional services	65,725	23,238	50,000	26,762
TOTAL PROFESSIONAL FEES	308,421	281,832	394,500	112,668
Trade service:				
Dues and membership	21,351	21,523	26,000	4,477
Schools and seminars	11,300	3,980	20,000	16,020
TOTAL TRADE SERVICE	32,651	25,503	46,000	20,497
Collection expense:				
Billing forms	8,875	12,977	15,000	2,023
Advertising	2,957	2,388	3,000	612
Postage	17,024	16,735	22,000	5,265
Tax collection fees	10,785	11,153	16,000	4,847
TOTAL COLLECTION EXPENSE	39,641	43,253	56,000	12,747
PIPELINE AND STORAGE PROJECTS	27,435	33,222	38,000	4,778
Joint Ventures:				
Fountain Valley Authority	1,087,949	1,084,864	1,264,538	179,674
Widefield Aquifer Recharge Assoc.	-	7,000	20,000	13,000
TOTAL JOINT VENTURES	1,087,949	1,091,864	1,284,538	192,674
CAPITAL OUTLAYS	3,117,925	2,999,431	4,220,000	1,220,569
INTEREST EXPENSE	256,505	242,817	243,743	926
DEBT PRINCIPAL PAYMENT	455,000	470,000	470,000	-
BOND COSTS	-	-	250	250
TOTAL EXPENDITURES	\$ 8,774,631	\$ 9,126,293	\$ 10,875,531	\$ 1,747,427

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, 2020
(With comparative actuals for the year ended December 31, 2019)

	2019	2020	Budget	Variance Favorable (Unfavorable)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 12,994,627	\$ 14,051,482	\$ 12,789,106	\$ 1,260,565
Less:				
Depreciation	(1,247,007)	(1,363,033)		
Beginning fund balance	(13,124,942)	(12,994,627)		
Add:				
Amortization	13,974	13,974		
Debt principal payment	455,000	470,000		
Capital outlay	3,117,925	2,999,431		
Gain (loss) on sale of assets	(2,069)	(3,584)		
CHANGE IN NET POSITION	\$ 2,207,508	\$ 3,173,643		

Ending fund balance is calculated as follows:

Current assets	\$ 14,366,414	\$ 15,398,715
Current liabilities	(857,848)	(826,887)
Deferred inflows	(744,853)	(740,790)
Bonds payable - current	470,000	485,000
Compensated absences	(239,086)	(264,556)
	\$ 12,994,627	\$ 14,051,482

See accompanying independent auditors' report.

SECURITY WATER DISTRICT
SCHEDULE OF SOURCES AND USES (NON-GAAP)
GOVERNMENT & ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Actual	General Fund	Enterprise Fund
Budget sources:			
Water assessments	\$ 5,999,887	\$ -	\$ 5,999,887
Late and reconnect charges	26,805	-	26,805
General and specific tax revenues	824,566	824,566	-
Investment income	200,063	-	200,063
Mitigation payments	1,491,636	-	1,491,636
Sale of meters	31,088	-	31,088
Connection fees	1,451,271	-	1,451,271
Rental income	101,575	-	101,575
Other	19,378	-	19,378
Proceeds from asset sales / insurance	33,295	-	33,295
TOTAL BUDGET SOURCES	10,179,564	824,566	9,354,998
Budget uses:			
Water purchase	1,869,158	-	1,869,158
Production payroll	944,201	-	944,201
Production cost	158,177	1,309	156,868
Truck expenses	30,959	68	30,891
Equipment, maintenance and repair	117,189	1,836	115,353
Office payroll	353,471	176,736	176,735
Office expense	62,197	31,166	31,031
Insurance expense	403,019	64,557	338,462
Professional fees	281,832	57,977	223,855
Trade service	25,503	10,762	14,741
Collection expense	43,253	15,798	27,455
Pipeline and Storage projects	33,222	-	33,222
Capital outlay	2,999,431	3,943	2,995,488
Interest expense	242,817	242,817	-
Bond principal payment	470,000	470,000	-
Joint ventures	1,091,864	-	1,091,864
TOTAL BUDGET USES	9,126,293	1,076,969	8,049,324
Budget sources over uses before interest allocation	1,053,271	(252,403)	1,305,674
Interest allocation	-	82,114	(82,114)
Budget sources over uses after interest allocation	1,053,271	(170,289)	1,223,560
Transfer equal to 9% of Enterprise fund revenue	-	(834,560)	834,560
BUDGET SOURCES OVER USES	\$ 1,053,271	\$ (1,004,849)	\$ 2,058,120

See accompanying independent auditors' report.