

SECURITY WATER DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2023 and 2022

**SECURITY WATER DISTRICT
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DECEMBER 31, 2023 AND 2022**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Security Water District

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Security Water District, as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Security Water District's basic financial statements as listed in the table of contents

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, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Security Water District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Security Water District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Security Water District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Security Water District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Hoelting & Company Inc.

Colorado Springs, Colorado
June 18, 2024

SECURITY WATER DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2023

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, 2023. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District’s total assets of \$57,014,434 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$49,412,178 (*net position*). Of this amount, \$17,652,188 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 \$1,453,460.
- Capital assets net of depreciation decreased by \$148,085 from the prior year.
- The District’s total outstanding long-term debt decreased by \$523,974 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, 2023, the District's assets exceeded liabilities and deferred inflows by \$ \$49,412,178 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 19,781,501	\$ 18,658,901
Capital assets, net	<u>37,232,933</u>	<u>37,381,018</u>
Total assets	<u>57,014,434</u>	<u>56,039,919</u>
Current and other liabilities	1,012,512	971,253
Long-term liabilities	<u>5,264,079</u>	<u>5,799,979</u>
Total liabilities	<u>6,276,591</u>	<u>6,771,232</u>
Deferred inflow of resources	<u>1,325,665</u>	<u>1,309,969</u>
Net position:		
Net investment in capital assets	31,687,990	31,312,101
Restricted	72,000	72,000
Unrestricted	<u>17,652,188</u>	<u>16,574,617</u>
Total net position	<u>\$ 49,412,178</u>	<u>\$ 47,958,718</u>

Unrestricted net position of the District at the end of the year was \$17,652,188 an increase of \$1,077,571 from the prior year.

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

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 5,926,551	\$ 6,286,977
Operating expenses	<u>(6,645,714)</u>	<u>(6,060,294)</u>
Operating income (loss)	(719,163)	226,683
Non-operating revenues and expenses, net	<u>1,892,172</u>	<u>1,201,461</u>
Income (Loss) before contributions	1,173,009	1,428,144
Capital contributions – tap fees	<u>280,451</u>	<u>23,260</u>
Change in net position	1,453,460	1,451,404
Net position, beginning	<u>47,958,718</u>	<u>46,507,314</u>
Net position, ending	<u>\$ 49,412,178</u>	<u>\$ 47,958,718</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2023 amounts to \$37,232,933. This investment in capital assets includes land, water rights, buildings and improvements, equipment, transmission lines, and elevated tanks.

	<u>2023</u>	<u>2022</u>
Capital assets, not being depreciated	\$ 13,450,381	\$ 13,417,131
Capital assets, being depreciated	41,952,274	40,603,649
Less accumulated depreciation	<u>(18,169,722)</u>	<u>(16,639,762)</u>
Total capital assets, net	<u>\$ 37,232,933</u>	<u>\$ 37,381,018</u>

Major capital assets acquired during the year included capital construction to improve the water distribution system, programmed water meter replacements and treatment improvements to mitigate PFAS source water contamination.

Long-Term Debt

Outstanding debt at December 31, 2023 was \$5,544,943 and consisted of general obligation bonds.

	<u>2023</u>	<u>2022</u>
General obligation bonds, net	<u>\$ 5,544,943</u>	<u>\$ 6,068,917</u>
Total long-term debt	<u>\$ 5,544,943</u>	<u>\$ 6,068,917</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 may 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 per- and polyfluoroalkyl substances (PFAS) in groundwater supplies. The costs incurred to eliminate PFAS 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 removes PFOA and PFOS chemicals to levels below detectible levels. The mitigation facility became fully operational in 2022 and the District was therefore able to resume full utilization of its groundwater resources in 2022, allowing for the discontinuance of purchasing replacement water. Although Air Force payments for water and for the operational costs of the mitigation facility are expected in the future, the PFAS 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 PFAS mitigation will have an impact on future water rates.

Economic and Environmental Factors – Development within the District continued to be slow in 2023, 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.

The general economy within the region remains strong, and the impacts to the District of COVID-19 and world and national economic issues, including inflation and supply chain disruptions subsided somewhat in 2023. Certain economic factors may continue to create challenges into 2024, however the financial effects are 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, 2023 AND 2022**

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 223,216	\$ 1,315,317
Investments	17,002,465	14,671,309
Accounts receivable	451,489	430,744
Lease receivables	510,762	-
Other receivables	78,276	834,909
Due from county treasurer	6,267	6,617
Interest receivable	152,348	72,126
Property taxes receivable	814,904	777,135
Inventory, at cost	316,619	276,917
Prepaid expenses	225,155	273,827
	19,781,501	18,658,901
Noncurrent assets:		
Capital assets:		
Land	1,908,390	1,908,390
Water rights	11,508,741	11,508,741
Construction in progress	33,250	-
Buildings and land improvements	3,691,545	3,721,282
Equipment	12,257,716	11,642,743
Transmission lines	23,982,110	23,218,721
Elevated tank	2,020,903	2,020,903
Less accumulated depreciation	(18,169,722)	(16,639,762)
	37,232,933	37,381,018
Total noncurrent assets	37,232,933	37,381,018
Total assets	57,014,434	56,039,919
LIABILITIES		
Current liabilities:		
Accounts payable	368,599	342,063
Accrued liabilities	3,352	3,260
Deposits	86,087	86,087
Interest payable	15,412	16,687
Compensated absences payable	14,062	13,156
Bonds payable - current	525,000	510,000
	1,012,512	971,253
Total current liabilities	\$ 1,012,512	\$ 971,253

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

**SECURITY WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

	2023	2022
Noncurrent liabilities:		
Compensated absences	\$ 244,136	\$ 241,062
Bonds payable	5,019,943	5,558,917
Total noncurrent liabilities	5,264,079	5,799,979
Total liabilities	6,276,591	6,771,232
 DEFERRED INFLOW OF RESOURCES		
Unavailable revenue - property taxes	814,903	777,135
Unavailable revenue - leases	510,762	532,834
Total deferred inflow of resources	1,325,665	1,309,969
 NET POSITION		
Net investment in capital assets	31,687,990	31,312,101
Restricted	72,000	72,000
Unrestricted	17,652,188	16,574,617
Total net position	\$ 49,412,178	\$ 47,958,718

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, 2023 AND 2022

	2023	2022
Operating revenues:		
Water assessments	\$ 5,692,741	\$ 6,096,042
Late and reconnect charges	166,750	159,298
Other	67,060	31,637
Total operating revenues	5,926,551	6,286,977
Operating expenses:		
Transmission and distribution	3,338,279	2,716,237
Purchased water	619,154	904,696
Maintenance	256,339	236,839
Administration and general	838,236	773,096
Depreciation	1,593,706	1,429,426
Total operating expenses	6,645,714	6,060,294
Operating income (loss)	(719,163)	226,683
Nonoperating revenues (expenses):		
General and specific tax revenues	859,063	855,923
Investment income	870,487	(86,846)
Mitigation payments	158,525	517,240
Rental income	183,254	166,207
Sale of meters	7,227	3,613
Gain/(loss) on disposal of assets	(1,141)	(54,546)
Interest and fiscal charges	(199,217)	(214,104)
Amortization	13,974	13,974
Total non-operating revenue (expenses)	1,892,172	1,201,461
Income (loss) before contributions	1,173,009	1,428,144
Capital contributions - tap fees	280,451	23,260
Change in net position	1,453,460	1,451,404
Net position-beginning	47,958,718	46,507,314
Net position-ending	\$ 49,412,178	\$ 47,958,718

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

**SECURITY WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 6,062,545	\$ 6,090,421
Payments to suppliers	(3,499,694)	(3,224,644)
Payments to employees for salaries and benefits	(1,512,735)	(1,384,882)
Receipts from rent	183,254	166,207
Other receipts	232,812	552,490
	<u>1,466,182</u>	<u>2,199,592</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	859,411	856,183
	<u>859,411</u>	<u>856,183</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions - tap fees	280,452	23,261
Proceeds from sale of capital assets	4,000	-
Interest paid on debt	(200,493)	(215,342)
Principal paid on debt	(510,000)	(495,000)
Acquisition and construction of capital assets	(1,450,762)	(1,840,598)
	<u>(1,876,803)</u>	<u>(2,527,679)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(9,801,931)	(8,275,680)
Proceeds from sales and maturities of investments	7,810,000	7,610,000
Interest received	451,040	218,834
	<u>(1,540,891)</u>	<u>(446,846)</u>
Net cash provided (used) by investing activities	<u>(1,540,891)</u>	<u>(446,846)</u>
Net increase (decrease) in cash and cash equivalents	(1,092,101)	81,250
Cash and cash equivalents at beginning of year	1,315,317	1,234,067
Cash and cash equivalents at ending of year	<u>\$ 223,216</u>	<u>\$ 1,315,317</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, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 223,216	\$ 1,315,317
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (719,163)	\$ 226,683
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	\$ 1,593,706	\$ 1,429,426
Miscellaneous nonoperating income (expense):		
Mitigation payments	158,525	517,240
Rental income	183,254	166,207
Sale of meters	7,227	3,612
 <i>(Increase) decrease in assets:</i>		
Accounts receivable	(20,745)	(42,238)
Accounts receivable - other	223,799	(122,680)
Inventory	(39,702)	(9,954)
Prepaid expenses	48,674	59,424
Other assets	-	2,663
 <i>Increase (decrease) in liabilities:</i>		
Accounts payable	26,535	(31,635)
Accrued liabilities	92	-
Deposits	-	18,500
Compensated absences payable	3,980	(17,656)
 Total adjustments	<u>2,185,345</u>	<u>1,972,909</u>
 Net Cash Provided (Used) by Operating Activities	<u>\$ 1,466,182</u>	<u>\$ 2,199,592</u>
Schedule of non-cash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 415,462	\$ (428,034)
Accretion (Amortization)	\$ (76,237)	\$ 89,054

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

NOTES TO FINANCIAL STATEMENTS

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, 2023 and 2022, 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 \$5,000.

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, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, 2023 AND 2022**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Lessee: The District recognizes a lease liability and an intangible right-to-use lease assets in the financial statements. The District recognizes lease liabilities with an initial, individual value of \$50,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Lessor: The District is a lessor for noncancellable leases. The District recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The District monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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, 2023 and 2022 were 4.292 mills and 4.283 mills, respectively. The District's assessed valuations for 2023 and 2022 were \$181,069,600 and \$181,378,320 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, 2023 AND 2022**

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, 2023 and 2022, the carrying amounts of the District's deposits were \$(630,186) and \$(470,952), respectively and the bank balances were \$47,814 and \$124,680, 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, 2023 AND 2022**

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, 2023, 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, 2023 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	\$ 677,171	\$ 677,171	\$ -	\$ -	\$ -
COLOTRUST	176,157	176,157	-	-	-
U.S. Treasuries	8,555,902	1,007,148	1,659,159	3,684,843	2,204,752
U.S. Agencies	<u>8,446,563</u>	<u>522,903</u>	<u>3,168,973</u>	<u>1,622,406</u>	<u>3,132,281</u>
Total	<u>\$ 17,855,793</u>	<u>\$ 2,383,379</u>	<u>\$ 4,828,132</u>	<u>\$ 5,307,249</u>	<u>\$ 5,337,033</u>

As of December 31, 2023, the District has invested \$176,157 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, 2023 AND 2022**

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents:		
Cash on hand	\$ 74	\$ 75
Deposits	(630,186)	(470,952)
Money Market Funds	677,171	1,618,974
COLOTRUST	<u>176,157</u>	<u>167,220</u>
	<u>\$ 223,216</u>	<u>\$ 1,315,317</u>
Investments:		
U.S. Treasuries	\$ 8,555,902	\$ 6,505,179
U.S Agencies	<u>8,446,563</u>	<u>8,166,130</u>
	<u>\$ 17,002,465</u>	<u>\$ 14,671,309</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.

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.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 – FAIR VALUE MEASUREMENT

	December 31, 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 8,555,902	\$ -	\$ 8,555,902
Agency Notes	-	8,446,563	-	8,446,563
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 17,002,465</u>	<u>\$ -</u>	<u>\$ 17,002,465</u>

	December 31, 2022			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 6,505,179	\$ -	\$ 6,505,179
Agency Notes	-	8,166,130	-	8,166,130
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 14,671,309</u>	<u>\$ -</u>	<u>\$ 14,671,309</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2023 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	11,508,741	-	-	11,508,741
Construction in progress	-	33,250	-	33,250
Total capital assets, not being depreciated	<u>13,417,131</u>	<u>33,250</u>	<u>-</u>	<u>13,450,381</u>
Capital assets, being depreciated:				
Buildings and improvements	3,721,282	-	(29,737)	3,691,545
Equipment	11,642,743	654,124	(39,151)	12,257,716
Transmission lines	23,218,721	763,389	-	23,982,110
Elevated tank	2,020,903	-	-	2,020,903
Total capital assets, being depreciated	40,603,649	1,417,513	(68,888)	41,952,274
Less accumulated depreciation	<u>(16,639,762)</u>	<u>(1,593,706)</u>	<u>63,746</u>	<u>(18,169,722)</u>
Total capital assets, being depreciated, net	<u>23,963,887</u>	<u>(176,193)</u>	<u>(5,142)</u>	<u>23,782,552</u>
Total capital assets, net	<u>\$ 37,381,018</u>	<u>\$ (142,943)</u>	<u>\$ (5,142)</u>	<u>\$ 37,232,933</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 6 – LEASES

District as lessor

The District, as a lessor, has entered into lease agreements with third parties involving land and cellphone towers. The lease terms range from for 5 to 25 years and the District will receive monthly payments of \$2,613. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows, recognized during the fiscal year was \$48,714. As of December 31, 2023, the District receivable for lease payments was \$510,762. Also, the District has a deferred inflow of resources associated with this lease that will be recognized as revenue over the lease term. As of December 31, 2023, the balance of the deferred inflow of resources was \$510,762.

NOTE 7 – 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

\$ 5,425,000

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

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 525,000	\$ 184,943
2025	540,000	169,193
2026	560,000	150,292
2027	580,000	130,692
2028	600,000	110,392
2029 – 2032	<u>2,620,000</u>	<u>226,998</u>
Total	<u>\$ 5,425,000</u>	<u>\$ 972,510</u>

Compensated Absences Payable

Compensated absences consisted of the following:

	<u>2023</u>	<u>2022</u>
Sick leave benefits	\$ 199,570	\$ 194,716
Vacation benefits	<u>58,628</u>	<u>59,502</u>
Total	<u>\$ 258,198</u>	<u>\$ 254,218</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 7 – 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, 2023:

	<u>Balance 12/31/22</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Balance 12/31/23</u>	<u>Due Within One year</u>
General obligation bonds	\$ 5,935,000	\$ -	\$ 510,000	\$ 5,425,000	\$ 525,000
Unamortized premium	<u>133,917</u>	<u>-</u>	<u>13,974</u>	<u>119,943</u>	<u>-</u>
	6,068,917	-	523,974	5,544,943	525,000
Compensated absences	<u>254,218</u>	<u>125,226</u>	<u>121,246</u>	<u>258,198</u>	<u>14,062</u>
Total	<u>\$ 6,323,135</u>	<u>\$ 125,226</u>	<u>\$ 645,220</u>	<u>\$ 5,083,141</u>	<u>\$ 539,062</u>

NOTE 8 – 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, 2023 and 2022, net investment in capital assets was as follows:

	<u>2023</u>	<u>2022</u>
Capital assets, net of depreciation	\$ 37,232,933	\$ 37,381,018
Related debt	<u>(5,544,943)</u>	<u>(6,068,917)</u>
	<u>\$ 31,687,990</u>	<u>\$ 31,312,101</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, 2023 and 2022, 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, 2023 AND 2022**

NOTE 9 – 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.

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, 2023, 2022 and 2021 were \$47,969, \$42,686, and \$40,364, respectively. Employees also made additional contributions for the years ending December 31, 2023, 2022 and 2021 of \$44,132, \$47,412 and \$48,818. No material liability exists as of the report date.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 10 - 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, which was paid in full as of fiscal year ended December 31, 2022, was 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 was 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, 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Filter plant bond payment	\$ 14,837	\$ 16,314
Variable costs	191,023	152,101
Conveyance charge	11,965	263,163
Fixed charges	<u>496,849</u>	<u>532,323</u>
Total	<u>\$ 714,674</u>	<u>\$ 963,901</u>

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS (CONTINUED)

The joint venture summary financial information as of December 31, 2023 and 2022 is as follows:

	2023	2022
Assets and Deferred Outflows of Resources	<u>\$ 71,046,256</u>	<u>\$ 64,874,587</u>
Liabilities	769,425	1,129,997
Net Position (deficit)	<u>70,276,831</u>	<u>63,744,590</u>
 Total Liabilities and Net Position	 <u>\$ 71,046,256</u>	 <u>\$ 64,874,587</u>
 Revenues	 \$ 13,286,105	 \$ 14,636,923
Expenditures	<u>(6,753,864)</u>	<u>(6,178,455)</u>
 Change in Net Position	 <u>\$ 6,532,241</u>	 <u>\$ 8,458,468</u>

Long-term liability activity for the year ended December 31, 2023 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Loans payable	<u>\$ 381,020</u>	<u>\$ -</u>	<u>\$ 184,907</u>	<u>\$ 196,113</u>	<u>\$ 196,113</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 and \$13,333 in 2023 and in 2022, respectively, for operating expenses of the venture.

**SECURITY WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 11 - 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 2023 and 2022.

NOTE 12 – 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, ultimately to a level of non-detect, 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 13 - 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, 2023 AND 2022**

NOTE 14 - 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, 2023 and 2022, see Note 8 – Net Position.

SUPPLEMENTARY INFORMATION

**SECURITY WATER DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Transmission and distribution:		
Production payroll	\$ 1,044,708	\$ 931,018
Production cost	467,554	256,575
Insurance expense	409,512	356,683
Professional fees	121,825	106,957
Trade service	35,498	23,775
Pipeline and storage projects	121,400	63,995
Joint ventures	1,137,782	977,234
	<u>3,338,279</u>	<u>2,716,237</u>
 TOTAL TRANSMISSION AND DISTRIBUTION		
	<u>619,154</u>	<u>904,696</u>
 PURCHASED WATER		
Maintenance:		
Truck expenses	50,897	40,003
Equipment, maintenance and repair	205,442	196,836
	<u>256,339</u>	<u>236,839</u>
 TOTAL MAINTENANCE		
	<u>838,236</u>	<u>773,096</u>
 Administration and general:		
Office payroll	472,099	438,871
Office expense	84,299	71,814
Insurance expense	86,050	70,277
Professional fees	141,020	128,077
Trade service	13,965	22,345
Collection expense	40,803	41,712
	<u>838,236</u>	<u>773,096</u>
 TOTAL ADMINISTRATION AND GENERAL		
	<u>1,593,706</u>	<u>1,429,426</u>
 DEPRECIATION		
	<u>6,645,714</u>	<u>6,060,294</u>
 TOTAL OPERATING EXPENSES	<u><u>\$ 6,645,714</u></u>	<u><u>\$ 6,060,294</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, 2023
(With comparative actuals for the year ended December 31, 2022)

	2022	2023	Budget	Variance with Final Budget
REVENUES				
Beginning fund balance	\$ 16,060,813	\$ 16,646,617	\$ 17,233,586	\$ (586,969)
Water assessments	6,096,042	5,692,741	6,300,000	(607,259)
Late and reconnect charges	159,298	166,750	165,000	1,750
Other	31,637	67,060	47,000	20,060
General property taxes	774,265	776,852	777,135	(283)
S.O.T. taxes	80,924	81,567	90,000	(8,433)
Delinquent taxes	734	644	2,000	(1,356)
Investment income	(86,846)	870,487	64,000	806,487
Mitigation payments	517,240	158,525	500,000	(341,475)
Grants	-	-	600,000	(600,000)
Sale of meters	3,613	7,227	10,000	(2,773)
Connection fees	23,260	280,451	164,000	116,451
Rental income	166,207	183,254	167,000	16,254
Proceeds from asset sales / insurance	-	4,000	2,000	2,000
TOTAL REVENUES	23,827,187	24,936,175	26,121,721	(1,185,546)
EXPENDITURES				
Water purchase:				
Southern Delivery System	209,263	123,817	250,000	126,183
Pinello Ranch lease	75,000	74,998	100,000	25,002
Frying Pan/Arkansas	4,984	1,744	11,000	9,256
CSU Contract	90,876	27,588	50,000	22,412
Other	524,573	391,007	449,000	57,993
TOTAL WATER PURCHASE	904,696	619,154	860,000	240,846
PRODUCTION PAYROLL	931,018	1,044,708	1,085,800	41,092
Production cost:				
Electricity	84,334	185,042	200,000	14,958
Natural gas	27,621	21,189	35,000	13,811
Water quality improvement	5,435	8,380	-	(8,380)
Telephone and radios	31,336	33,715	38,000	4,285
Supplies, tools, freight	59,530	157,844	55,000	(102,844)
Chlorine	35,743	45,469	35,000	(10,469)
Uniforms	12,322	15,348	14,000	(1,348)
Other Production Costs	254	567	-	(567)
TOTAL PRODUCTION COST	\$ 256,575	\$ 467,554	\$ 377,000	\$ (89,987)

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, 2023
(With comparative actuals for the year ended December 31, 2022)

	2022	2023	Budget	Variance with Final Budget
EXPENDITURES (continued)				
Truck expenses:				
Repairs and maintenance	\$ 15,861	\$ 26,926	\$ 25,000	\$ (1,926)
Gas, oil and diesel	24,141	23,971	30,000	6,029
TOTAL TRUCK EXPENSES	40,002	50,897	55,000	4,103
Equipment, maintenance and repair:				
Inventory, equipment and supplies	29,891	49,572	32,000	(17,572)
Safety equipment & supplies	2,945	1,648	5,000	3,352
Repairs and maintenance	67,073	48,750	22,000	(26,750)
Asphalt & street repairs	-	13,681	-	-13681
Pump and well repairs	2,632	-	15,000	15,000
Well house maintenance	84,216	88,941	120,000	31,059
Water tank inspections & repairs	578	-	20,000	20,000
Office and garage maintenance	9,502	2,850	7,000	4,150
TOTAL EQUIPMENT MAINTENANCE AND REPAIR	196,837	205,442	221,000	15,558
OFFICE SALARIES	438,871	472,099	565,500	93,401
Office expense:				
Office supplies	7,082	5,917	10,000	4,083
Equipment maintenance contracts	10,891	14,525	12,000	(2,525)
Miscellaneous office expenses	21,942	30,709	20,000	(10,709)
Health administrative fees	73	-	-	-
Bank charges	31,898	33,148	34,000	852
TOTAL OFFICE EXPENSE	71,886	84,299	78,000	(6,299)
Insurance expense:				
Workman's compensation	14,120	12,278	16,000	3,722
Liability, errors and omissions	158,965	183,758	190,000	6,242
Health	249,403	294,508	298,000	3,492
Damages/Deductibles	-	-	2,000	2,000
Pebasco	2,250	2,800	4,000	1,200
Unum LTC	2,150	2,218	3,000	782
TOTAL INSURANCE EXPENSE	\$ 426,888	\$ 495,562	\$ 513,000	\$ 17,438

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, 2023
(With comparative actuals for the year ended December 31, 2022)

	2022	2023	Budget	Variance with Final Budget
EXPENDITURES (continued)				
Professional fees:				
Audit	\$ 15,625	\$ 16,800	\$ 16,800	\$ -
Legal	57,572	51,313	85,000	33,687
Engineering	106,957	121,825	110,000	(11,825)
Other professional services	54,880	72,907	75,000	2,093
TOTAL PROFESSIONAL FEES	235,034	262,845	286,800	23,955
Trade service:				
Dues and membership	22,345	13,965	32,000	18,035
Schools and seminars	23,775	35,498	24,000	(11,498)
TOTAL TRADE SERVICE	46,120	49,463	56,000	6,537
Collection expense:				
Billing forms	10,074	8,088	15,000	6,912
Advertising	2,889	2,430	3,500	1,070
Postage	17,103	18,623	22,000	3,377
Tax collection fees	11,646	11,662	15,000	3,338
TOTAL COLLECTION EXPENSE	41,712	40,803	55,500	14,697
PIPELINE AND STORAGE PROJECTS	63,995	121,400	60,000	(61,400)
Joint Ventures:				
Fountain Valley Authority	963,901	1,137,782	1,514,622	376,840
Widefield Aquifer Recharge Assoc.	13,333	-	-	-
TOTAL JOINT VENTURES	977,234	1,137,782	1,514,622	376,840
CAPITAL OUTLAYS	1,840,598	1,450,762	5,038,500	3,587,738
INTEREST EXPENSE	214,104	199,217	200,243	1,026
DEBT PRINCIPAL PAYMENT	495,000	510,000	510,000	-
BOND COSTS	-	-	250	250
TOTAL EXPENDITURES	\$ 7,180,570	\$ 7,211,987	\$ 11,477,215	\$ 4,265,795

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, 2023
(With comparative actuals for the year ended December 31, 2022)

	<u>2022</u>	<u>2023</u>	<u>Budget</u>	<u>Variance with Final Budget</u>
EXCESS OF REVENUE OVER EXPENDITURES	\$ 16,646,617	\$ 17,724,188	<u>\$ 14,644,506</u>	<u>\$ 3,080,249</u>
Less:				
Gain/loss on disposal of assets	(54,546)	(5,141)		
Depreciation	(1,429,426)	(1,593,706)		
Beginning fund balance	(16,060,813)	(16,646,617)		
Add:				
Amortization	13,974	13,974		
Debt principal payment	495,000	510,000		
Capital outlay	<u>1,840,598</u>	<u>1,450,762</u>		
CHANGE IN NET POSITION	<u>\$ 1,451,404</u>	<u>\$ 1,453,460</u>		

Ending fund balance is calculated as follows:

Current assets	\$ 18,658,901	\$ 19,781,501
Current liabilities	(971,253)	(1,012,512)
Deferred inflows	(1,309,969)	(1,325,665)
Bonds payable - current	510,000	525,000
Compensated absences	<u>(241,062)</u>	<u>(244,136)</u>
	<u>\$ 16,646,617</u>	<u>\$ 17,724,188</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, 2023

	Actual	General Fund	Enterprise Fund
Budget sources:			
Water assessments	\$ 5,692,741	\$ -	\$ 5,692,741
Late and reconnect charges	166,750	-	166,750
General and specific tax revenues	859,063	859,063	-
Investment income	870,487	-	870,487
Mitigation payments	158,525	-	158,525
Sale of meters	7,227	-	7,227
Connection fees	280,451	-	280,451
Rental income	183,254	-	183,254
Other	67,060	-	67,060
Proceeds from asset sales / insurance	4,000	-	4,000
TOTAL BUDGET SOURCES	8,289,558	859,063	7,430,495
Budget uses:			
Water purchase	619,154	-	619,154
Production payroll	1,044,708	-	1,044,708
Production cost	467,554	2,995	464,559
Truck expenses	50,896	121	50,775
Equipment, maintenance and repair	205,442	4,751	200,691
Office payroll	472,099	219,436	252,663
Office expense	84,298	35,943	48,355
Insurance expense	495,563	76,139	419,424
Professional fees	262,845	39,613	223,232
Trade service	49,462	11,173	38,289
Collection expense	40,803	16,074	24,729
Pipeline and Storage projects	121,400	-	121,400
Capital outlay	1,470,775	-	1,470,775
Interest expense	199,218	199,218	-
Bond principal payment	510,000	510,000	-
Joint ventures	1,137,782	-	1,137,782
TOTAL BUDGET USES	7,231,999	1,115,463	6,116,536
Budget sources over uses before interest allocation	1,057,559	(256,400)	1,313,959
Interest allocation	-	40,452	(40,452)
Budget sources over uses after interest allocation	1,057,559	(215,948)	1,273,507
Transfer equal to 9% of Enterprise fund revenue	-	(613,294)	613,294
BUDGET SOURCES OVER USES	\$ 1,057,559	\$ (829,242)	\$ 1,886,801

See accompanying independent auditors' report.