

# Southeastern Colorado Water Conservancy District



2012 Annual Financial Report



**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**DECEMBER 31, 2012**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Southeastern Colorado Water Conservancy District  
Pueblo, Colorado

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Southeastern Colorado Water Conservancy District (District) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to an entity's preparation and fair presentation of the financial statement 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 an 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 opinions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INTRODUCTION

This discussion and analysis is to provide an overview of the Southeastern Colorado Water Conservancy District financial condition and operating results of the past year and to inform our constituents about District financial issues and activities. We encourage readers to consider all of the information presented here including the independent auditors' report, the basic financial statements, Notes, and supplementary information.

Government-wide activities and assets include both the Governmental (District) and the Proprietary (Enterprise) Fund. The District functions as a Government Fund with one set of standard accounting policies and the Enterprise functions as a business-type proprietary fund with a different set of standard accounting policies both in accordance with the Generally Accepted Accounting Principles. These policies are discussed in the summary of significant accounting policies in Note one to the financial statements. Reconciliation for the Government Fund is necessary in order to make a consolidated presentation.

### FINANCIAL HIGHLIGHTS

1. Government-wide assets exceed its liabilities and deferred inflows by \$107,330,368 at December 31, 2012. The District's ongoing obligations may use the unrestricted net position of the governmental activities totaling \$9,481,285 at December 31, 2012. Unrestricted net position of the business-type activity totals \$10,135,390 at December 31, 2012 and may be used to meet ongoing obligations. The combined total of unrestricted net position available to meet ongoing obligations is \$19,616,675.
2. The District's net position (Government-wide) increased from \$102,485,722 at December 31, 2011 to \$107,330,368 at December 31, 2012. This is an increase of \$4,844,646 or 4.73 percent during the year ended December 31, 2012.
3. The most significant asset of the District is its perpetual water rights that are reported at \$132,237,478. Note four presents more detail relating to the District's capital assets. To calculate Government-wide Net Position of \$107,330,368, the value of the perpetual water rights and land is combined with other assets and long-term liabilities, along with deferred inflows of resources. The Statement of Net Position clearly illustrates these details.
4. The District's debt consists primarily of the amounts due to the U.S. Bureau of Reclamation (Reclamation) totaling \$46,098,071 at December 31, 2012. This includes both the obligation related to the Fryingpan-Arkansas Construction Contract and the Safety of Dams obligation. This represents a decrease of \$4,984,172 during the year ended December 31, 2012. Note five presents the detail of these obligations.

- The Notes to the financial statements provide additional disclosures required by Generally Accepted Accounting Principles and provide information to assist the reader in understanding the District's financial condition.

The MD&A is intended to explain the significant changes in the financial position and differences in operations between current and prior years. The MD&A includes currently known information that management is aware of at the date of the auditor's report. Please read it in conjunction with the District's financial statements that follow this section.

#### GOVERNMENT-WIDE

The District had a successful year in 2012. We continued to make timely repayments on our long-term debt while maintaining our capital assets and our financial investment reserves. The Total Net Position is the best indicator in this presentation of a successful year as it displays the increased net position at December 31, 2012.

Government-Wide  
Condensed Statement of Net Position  
December 31

	2012	2011	Dollar Change
Current assets	\$ 33,343,645	\$ 33,264,458	\$ 79,187
Capital assets, net	132,990,944	133,023,373	(32,429)
<b>Total Assets</b>	<b>166,334,589</b>	<b>166,287,831</b>	<b>46,758</b>
Current liabilities	11,673,254	11,469,266	203,988
Long-term liabilities	40,490,673	45,593,176	(5,102,503)
<b>Total Liabilities</b>	<b>52,163,927</b>	<b>57,062,442</b>	<b>(4,898,515)</b>
Deferred inflows of resources	6,840,294	6,739,667	100,627
Net investment in capital assets	87,563,693	82,671,950	4,891,743
Restricted for TABOR	150,000	150,000	0
Unrestricted	19,616,675	19,663,772	(47,097)
<b>Total Net Assets</b>	<b>\$ 107,330,368</b>	<b>\$102,485,722</b>	<b>\$ 4,844,646</b>

A smaller portion of collected miscellaneous revenue continues to be used towards the primary debt of the Fryingpan-Arkansas Project. The future use of funds will be applied towards the Arkansas Valley Conduit, a feature that has not yet been completed, but part of the original contract. Reclamation estimates the repayment of this project to begin in 2020.

A decrease in property tax revenues reflects the down turn in the local economy. Assessments are done in the year prior to receipt of ad valorem tax. Home prices dropped significantly in the third quarter of 2011 through the second quarter of 2012. This had an impact of \$235,382 on revenue used to repay the primary debt. However, Specific Ownership taxes increased in 2012, which reflects the ongoing economic recovery towards the end of 2012.

The decreases in general government expense is attributable to two items of note. The Fryingpan-Arkansas Project annual payment is proportionate to the collection of tax revenues. Due to a decrease in tax levy, the payment was reduced. The District also hired legal counsel on staff. The net effect was a reduction in expenses of \$64,000.

#### BUSINESS TYPE ACTIVITIES

The following table compares revenues and expenses for the business-type activities for 2011 and 2012.

	<u>2012</u>	<u>2011</u>	<u>Change</u>
<b>Revenues</b>			
<b>Program Revenues</b>			
Charges for services & sales	\$ 1,021,555	\$ 2,415,184	\$(1,393,629)
Intergovernmental revenue	237,263	118,154	119,109
<b>General Revenues</b>			
Investment earnings	74,106	154,800	(80,694)
<b>Total Revenues</b>	<u>1,332,924</u>	<u>2,688,138</u>	<u>(1,355,214)</u>
<b>Expenses</b>			
Water Activity Enterprise	<u>1,467,927</u>	<u>2,133,148</u>	<u>(665,221)</u>
<b>Total Expenses</b>	<u>1,467,927</u>	<u>2,133,148</u>	<u>(665,221)</u>
<b>Change in net position</b>	(135,003)	554,990	(689,993)
<b>Net position, January 1</b>	<u>10,270,393</u>	<u>9,715,403</u>	<u>554,990</u>
<b>Net position, December 31</b>	<u>\$10,135,390</u>	<u>\$10,270,393</u>	<u>\$ (135,003)</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

At December 31, 2012 and 2011, the District had \$132,237,478 invested in perpetual water rights classified as a non-depreciable capital asset. Office furniture and equipment was inventoried and obsolete items removed from the asset list. Note four details the capital assets.

### Capital Assets as of December 31

	<u>2012</u>	<u>2011</u>
<b>Nondepreciable Assets</b>		
Perpetual water rights	132,237,478	132,237,478
Land	20,092	20,092
	<u>132,257,570</u>	<u>132,257,570</u>
<b>Depreciable Assets</b>		
Buildings and Improvements	1,192,649	1,192,649
Furniture & Equipment	405,104	406,849
	<u>1,597,753</u>	<u>1,599,498</u>
Accumulated Depreciation	<u>(864,379)</u>	<u>(833,695)</u>
Capital Asset, Net	<u>\$ 132,990,944</u>	<u>\$ 133,023,373</u>

The contract between the District and Reclamation stipulates that the District is responsible for repayment of a portion of the costs of the Fryingpan-Arkansas Project. The total estimated repayment obligation for the District in 1981 was \$132,237,478. This represented \$74,348,993 allocated to agriculture and \$57,888,485 allocated to municipal and industrial. Each year the District also incurs operating and maintenance costs.

The District utilizes the collection of ad valorem property tax and Winter-water storage charges to retire the debt. Reclamation credits miscellaneous revenue to the repayment of the Project debt based on contracts for use of Fryingpan-Arkansas facilities for storage and delivery of non-Project water.

The repayment contract period is for 40 years with an extension of ten years. The District is well within this time period with an estimated principal balance owed at December 31, 2012 of \$45,427,251. Because the balance owed is less than the original cost allocated to municipal and industrial users, future payments will be applied to operating and maintenance cost first, and then to the agriculture portion of the original construction which is free of interest.

In addition to the obligation for the original reimbursable construction costs, another contract was entered into on July 15, 1998 with Reclamation for the repayment of funds expended for a



## **BASIC FINANCIAL STATEMENTS**

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,660,911	\$ 1,245,915	\$ 4,906,826
Investments	6,104,934	9,733,664	15,838,598
Receivables	6,902,916	216,872	7,119,788
Prepaid contract obligation and other assets	5,372,138	106,295	5,478,433
Capital assets -			
Land and nondepreciable capital assets	132,257,570	-	132,257,570
Other capital assets, net of accumulated depreciation	733,374	-	733,374
Total Capital Assets	<u>132,990,944</u>	<u>-</u>	<u>132,990,944</u>
<b>TOTAL ASSETS</b>	<u>155,031,843</u>	<u>11,302,746</u>	<u>166,334,589</u>
<b>LIABILITIES</b>			
Accounts payable	27,513	107,475	134,988
Advance on contract obligation	5,352,960	-	5,352,960
Outside agency deposits	-	389,061	389,061
Long-term liabilities -			
Due within one year -			
Contracts	5,659,178	60,000	5,719,178
Compensated absences	77,067	-	77,067
Due in more than one year -			
Contracts	39,768,073	610,820	40,378,893
Compensated absences	111,780	-	111,780
TOTAL LIABILITIES	<u>50,996,571</u>	<u>1,167,356</u>	<u>52,163,927</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes	<u>6,840,294</u>	<u>-</u>	<u>6,840,294</u>
<b>NET POSITION</b>			
Net investment in capital assets	87,563,693	-	87,563,693
Restricted for labor	150,000	-	150,000
Unrestricted	<u>9,481,285</u>	<u>10,135,390</u>	<u>19,616,675</u>
<b>TOTAL NET POSITION</b>	<u>\$ 97,194,978</u>	<u>\$ 10,135,390</u>	<u>\$ 107,330,368</u>

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue  
and Change in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (2,413,184)	\$ -	\$ (2,413,184)
<u>(2,413,184)</u>	<u>-</u>	<u>(2,413,184)</u>
-	(209,109)	(209,109)
-	(209,109)	(209,109)
<u>(2,413,184)</u>	<u>(209,109)</u>	<u>(2,622,293)</u>
247,375	-	247,375
6,440,045	-	6,440,045
620,235	-	620,235
72,134	74,106	146,240
13,044	-	13,044
<u>7,392,833</u>	<u>74,106</u>	<u>7,466,939</u>
4,979,649	(135,003)	4,844,646
<u>92,215,329</u>	<u>10,270,393</u>	<u>102,485,722</u>
<u>\$ 97,194,978</u>	<u>\$ 10,135,390</u>	<u>\$ 107,330,368</u>

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

Total fund balance - governmental fund		\$ 9,820,132
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund. The cost of these assets is capitalized and expensed over their estimated useful lives in the statement of net position and the statement of activities

Cost of capital assets	\$ 133,855,323		
Accumulated depreciation	<u>(864,379)</u>	132,990,944	

Liabilities that are not due and payable in the current period are not reported in the governmental fund but are reported in the statement of net position as follows:

Contract payable	(45,427,251)		
Compensated absences	<u>(188,847)</u>	<u>(45,616,098)</u>	

Total net position - governmental activities		<u>\$ 97,194,978</u>
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The accompanying notes are an integral part of this statement.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2012**

Net change in fund balance - governmental fund \$ 108,427

Accounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in the governmental fund as expenditures; however, these costs are reported in the statement of net position and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay

Depreciation expense	\$ (57,399)	
Capital outlay	<u>24,970</u>	(32,429)

In the statement of activities, revenues received by the Bureau of Reclamation from other entities are reported as program revenues since these revenues reduce the District's contract obligation. However, these amounts do not represent current financial resources and thus are not reported in the fund 668,203

The governmental fund reports the principal repayment of the contract obligation as an expenditure 4,255,970

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures for these items are measured by the amounts actually paid. This year the amount earned \$97,589 exceeded the amount paid \$77,067 (20,522)

Change in net position - governmental activities \$ 4,979,649

The accompanying notes are an integral part of this statement.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
YEAR ENDED DECEMBER 31, 2012**

	<u>Enterprise Fund</u>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 1,021,555
<b>TOTAL OPERATING REVENUES</b>	<u>1,021,555</u>
<b>OPERATING EXPENSES</b>	
Outside services	364,996
Office and administrative expenses	872,626
Travel and related expenses	4,532
Legislative and water education	225,773
<b>TOTAL OPERATING EXPENSES</b>	<u>1,467,927</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(446,372)</u>
<b>NONOPERATING REVENUES</b>	
Intergovernmental revenue	237,263
Interest revenue	74,106
<b>TOTAL NONOPERATING REVENUES</b>	<u>311,369</u>
<b>CHANGE IN NET POSITION</b>	(135,003)
<b>NET POSITION, January 1</b>	<u>10,270,393</u>
<b>NET POSITION, December 31</b>	<u>\$ 10,135,390</u>

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

The government-wide focus is more on the sustainability of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fund financial statements for the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied, while grants and similar items are recognized as revenue when all eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenue to be available if collected within 60 days of the end of the fiscal year. Expenditures generally are recorded when a liability is incurred as is the case with accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due. General capital asset acquisitions are reported as expenditures in the governmental fund, while proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, specific ownership taxes, interest and charges for services are considered revenues susceptible to accrual. Contributions and miscellaneous revenue are recorded as revenues when received in cash because they are not generally measurable until received in cash.

Business-type activities and the proprietary fund are accounted for using the flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the activity or fund are included on the statement of net position. The proprietary fund-type operating statement presents increases (revenues) and decreases (expenses) in net position. The proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operation. The principal operating revenues of the District's water activity enterprise are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, along with administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**E. CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents consist of interest and non-interest-bearing demand deposits and money market mutual funds held at a brokerage. Investments include U.S. Treasury notes and agency securities that are reported at fair value based on quoted market prices. Any related unrealized gain or loss is included as part of investment revenue.

**F. PROPERTY TAXES**

Property taxes are levied by December 15 of each year based on the assessed value of property as certified by the County Assessor in each county within the District's boundaries by the previous December 10<sup>th</sup>. Assessed values are a percentage of actual values and a reevaluation of all property must be made every two years. The last reevaluation date was January 1, 2012 for the 2010 base year specified by state law.

The taxes levied by December 15, 2012 reflect 2012 property taxes that will be collected in 2013 by the County Treasurer in each county within the District's boundaries. Taxes collected by each Treasurer are remitted to the District on a monthly basis. These taxes are due January 2, 2013 and may be paid in two installments (February 28 and June 15) or they may be paid in full April 30. Taxes not paid in accordance with this schedule accrue interest and penalty charges and are subject to liens if not paid by November.

**G. INTERFUND RECEIVABLES/PAYABLES**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified, if applicable, as "due from other funds" and "due to other funds" in the fund financial statements.

**H. PREPAID ITEMS**

Prepaid items represent payments made for expenditures to be charged to a future accounting period. The prepaid contract obligation reported in the governmental activities and the general fund are also reported as a liability since the collection of the funds occurs prior to the accounting period for which it is effective and is characterized as an exchange transaction under generally accepted accounting principles.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)**

**K. LONG-TERM LIABILITIES**

In the government-wide financial statements and the fund financial statements for the enterprise fund, the safety of dams contract obligation to the Bureau of Reclamation is reported as a liability in the applicable statement of net position. No imputed interest is considered in relation to this obligation.

**L. FUND EQUITY**

The governmental fund reports fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for the District's governmental fund consists of the following:

- Nonspendable – includes amounts that are (a) not in spendable form or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash such as inventories, prepaid items and long-term notes receivable.
- Restricted – includes amounts that are restricted for specific purposes stipulated by external resource providers constitutionally or through enabling legislation.
- Committed – includes amounts that can only be used for the specific purposes determined by the passage of a resolution of the District's board of directors. Commitments may be modified or changed only by the District's board of directors approving a new resolution.
- Assigned – includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by the District's board of directors to which the assigned amounts are to be used for specific purposes. Assigned amounts include appropriations of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget.
- Unassigned – this is the residual classification for the general fund.

In circumstances where an expenditure is incurred for a purpose for which amounts are available in multiple fund balance classifications, fund balance is reduced in the order of restricted, committed, assigned and unassigned.

In the government-wide financial statements, net position is classified in the following categories:

- Net investment in capital assets – this classification consists of capital assets net of accumulated depreciation and reduced by outstanding related debt that is attributed to the acquisition, construction or improvement of capital assets.
- Restricted net position – this classification consists of restrictions created by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation and constitutional provisions.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash, cash equivalents and investments are summarized as follows:

Cash and cash equivalents	
Demand deposits	\$ 565,114
Money market mutual funds held at brokerages	<u>4,341,712</u>
	<u>\$ 4,906,826</u>
Investments	
U.S. Treasury notes, at fair value	\$ 3,019,257
U.S. agency securities, at fair value	<u>12,819,341</u>
	<u>\$ 15,838,598</u>

**DEPOSITS**

At December 31, 2012, the carrying amount of the District's deposits was \$565,114 and the bank balance was \$620,590. Of the bank balance, \$330,378 was covered by federal depository insurance and \$290,212 was collateralized in single financial institution collateral pools maintained by the individual financial institutions that hold these deposits. Colorado law requires that depository institutions must apply for and be designated as an eligible public depository before the institution can accept public fund monies. The depository institution must pledge eligible collateral as security for all public deposits held by that institution that are not insured by depository insurance. The market value of the collateral that each institution pledges as security must equal at least 102% of the total uninsured deposits held by that institution. Generally, the eligible collateral in the collateral pools is held by the depository institution or its agent in the name of the depository institution.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk parallels Colorado statutes as described above. At December 31, 2012, deposits with a bank balance of \$290,212 are not insured but are not exposed to custodial credit risk because they are collateralized with securities held by the pledging financial institution's agent in the District's name.

**INVESTMENTS**

The District is subject to the provisions of Colorado Revised Statutes 24-75-601 which is entitled "Concerning Investment in Securities by Public Entities". This law, among other things, outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government and agency securities, certain bonds of political subdivisions, bankers acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds, guaranteed investment contracts, and U.S. dollar-denominated corporate or bank debt. The statute also includes a provision limiting any investment to a five year maturity unless the governing body authorizes a longer period.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2012 was as follows:

	Balance January 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2012</u>
Governmental activities –				
Nondepreciable assets –				
Intangible assets -				
Perpetual water rights	\$ 132,237,478	\$ -	\$ -	\$ 132,237,478
Land	<u>20,092</u>	<u>-</u>	<u>-</u>	<u>20,092</u>
Total capital assets not being depreciated	<u>132,257,570</u>	<u>-</u>	<u>-</u>	<u>132,257,570</u>
Depreciable assets –				
Buildings and improvements	1,192,649	-	-	1,192,649
Furniture and equipment	<u>406,849</u>	<u>24,970</u>	<u>(26,715)</u>	<u>405,104</u>
Total capital assets being depreciated	<u>1,599,498</u>	<u>24,970</u>	<u>(26,715)</u>	<u>1,597,753</u>
Less: accumulated depreciation –				
Buildings and improvements	(498,406)	(39,231)	-	(537,637)
Furniture and equipment	<u>(335,289)</u>	<u>(18,168)</u>	<u>26,715</u>	<u>(326,742)</u>
Total accumulated depreciation	<u>(833,695)</u>	<u>(57,399)</u>	<u>26,715</u>	<u>(864,379)</u>
Capital assets being depreciated, net	<u>765,803</u>	<u>(32,429)</u>	<u>-</u>	<u>733,374</u>
Total governmental activities capital assets, net	<u>\$ 133,023,373</u>	<u>\$ (32,429)</u>	<u>\$ -</u>	<u>\$ 132,990,944</u>

Depreciation expense of \$57,399 was charged to the general government function.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 5 - LONG-TERM LIABILITIES (Cont'd.)**

Due to fiscal year and timing differences between the Bureau of Reclamation and the District, the District estimates the changes in the obligation based on reports provided by the Bureau. The estimated principal balance of the obligation at December 31, 2012 was \$45,427,251.

The estimated debt service requirements for the governmental activities contract obligation with the Bureau of Reclamation is as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 5,659,178	\$ -	\$ 5,659,178
2014	5,815,264	-	5,815,264
2015	5,973,464	-	5,973,464
2016	6,134,748	-	6,134,748
2017	6,335,656	-	6,335,656
2018-2020	<u>15,508,941</u>	<u>-</u>	<u>15,508,941</u>
	<u>\$ 45,427,251</u>	<u>\$ -</u>	<u>\$ 45,427,251</u>

The safety of dams contract obligation to the Bureau of Reclamation represents the District's share of the agricultural portion of repair costs incurred for the dam. The obligation is due in annual installments of \$60,000 through 2023 with a final payment of \$10,820 due in 2024. There is no provision for interest on this contract.

**NOTE 6 – NET POSITION**

Restricted net position represents the District's net position whose uses are subject to constraints that are either (1) legally imposed by creditors (such as debt covenants), grantors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net position for governmental activities is as follows:

Tabor	<u>\$ 150,000</u>
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*Restricted for tabor* – This represents an amount that exceeds the 3% minimum requirement as outlined in the Colorado constitution. Under provisions of the Colorado constitution, a portion of the District's net position can be used for declared emergencies only and the District must maintain 3% or more of its fiscal year spending in this restricted account.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 9 - EMPLOYEE BENEFITS (Cont'd.)**

In conjunction with the above described plan, the District also maintains an Internal Revenue Code Section 457 plan which provides for employee contributions and a District match of up to 5% of employee's base pay. During the year ended December 31, 2012, employees contributed \$68,524 to the plan and the District contributed \$40,214.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

Colorado voters passed an amendment to the state constitution which contains several limitations, including revenue raising, spending abilities and other specific requirements affecting state and local governments. The amendment, commonly known as the Tabor amendment, is complex and subject to judicial interpretation; however, the District believes it is in compliance with the requirements of the amendment. The District has made certain interpretations of the amendment's language in order to determine its compliance.

The District has contracted with the U.S. government to repay approximately \$63 million of costs incurred by the U.S. government in the construction of the Fountain Valley conduit which is operated by the Fountain Valley Authority (the Authority). A related contract with the Authority provides that the Authority will pay an annual conveyance service charge to the District in an amount equal to the payment due the U.S. government. Terms of the contract provide that the District is not responsible for repayment in the event of default by the Authority. The 2012 charge and related revenue totals \$5,353,598. The present value of the future minimum lease payments at December 31, 2012 is \$50,314,449.

In December 2011, the Bureau of Reclamation (BOR) issued a preliminary permit to a partnership consisting of the District, Colorado Springs Utilities (CSU), and the Board of Water Works of Pueblo (PBWW) to plan and study the possibility of hydropower generation at Pueblo Dam River Outlet. The preliminary permit issued by BOR is good for two years from December 2011.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
 BUDGETARY COMPARISON SCHEDULE (Cont'd.)  
 GENERAL FUND  
 YEAR ENDED DECEMBER 31, 2012**

	Budgeted Amounts		Actual Budget Basis	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
FUND BALANCE, January 1	929,570	929,570	9,711,705	8,782,135
FUND BALANCE, December 31	\$ -	\$ -	9,861,682	\$ 9,861,682
 ADJUSTMENT FROM BUDGETARY BASIS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Unrealized losses on investment securities			(41,550)	
FUND BALANCE, generally accepted accounting principles			\$ 9,820,132	



**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2011**

**BUDGETARY INFORMATION**

Southeastern Colorado Water Conservancy District (the District) adheres to the following procedures in establishing the budgetary data reflected in the budgetary comparison schedule.

On or before October 15, the executive director and the finance manager submits to the board of directors a proposed budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the board of directors to obtain taxpayer comments. The District adopts budgets for all funds. The general fund uses the current financial resources measurement focus and the modified accrual basis of accounting in preparing the budgets.

Expenditure estimates in the annual budget are enacted into law by the passage of appropriation resolutions. Budgetary control exists at the total fund level and encumbrance accounting is not employed as a part of the budgetary process.

**ADDITIONAL INFORMATION**

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2012**

**REVENUES**

Property taxes -	
Contract mill levy collection	\$ 6,352,130
Operating tax revenue	247,375
Abatement and refund of tax collections	92,302
Prior year tax	(4,387)
Total property taxes	<u>6,687,420</u>
Specific ownership taxes	620,235
Fountain Valley Authority contract revenue	5,353,598
Winter water storage	118,038
Charges for services -	
Xeriscape tour and material sales	463
Enterprise admin. reimbursement	922,566
Total charges for services	<u>923,029</u>
Intergovernmental -	
Grant revenue state/local	25,010
Total intergovernmental	<u>25,010</u>
Investment revenue -	
Interest income	12,385
Income to fair market adjustment	(41,550)
Interest on bonds	101,299
Total investment revenue	<u>72,134</u>
Other -	
RRA fee	2,858
Miscellaneous revenue	10,186
Total other	<u>13,044</u>
 TOTAL REVENUES	 <u>\$ 13,812,508</u>

**EXPENDITURES**

Outside services -	
Annual audit	\$ 11,231
Legal representation	300,000
Water policy management consultants	28,614
Engineering	193
Other	1,462
Total outside services	<u>341,500</u>

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT**  
**SCHEDULE OF REVENUES AND EXPENDITURES (Cont'd.)**  
**GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2012**

**EXPENDITURES (Cont'd.)**

**Personnel expenditures (cont'd.) -**

Staff certification - airfare	188
Staff certification - hotels	875
Staff certification - meals	140
Staff certification - other	389
Vehicle repair and maintenance - Envoy	1,846
Vehicle repair and maintenance - LeSabre	264
Vehicle repair and maintenance - 2005 Prius	2,112
Vehicle repair and maintenance - 2010 Prius	1,327
Total travel and related expenditures	47,701

**Office and administrative expenditures -**

Bank fees	727
Board awards/gifts	924
Board coffee snacks	417
Board memberships/subscriptions	7,047
Board printing	363
Board room accessories	346
Board/committee meals	2,661
Building other/misc. maintenance	434
Building plumbing & electrical	857
Building heating/cooling	1,524
Capital outlay - information system	9,774
Computer - hardware	1,797
Computer - general computer	13,560
Computer - supplies	257
Computer - software and licenses	5,687
Conservation	2,679
Directors meeting registrations	4,829
District special events	13,902
Executive meeting registrations	2,669
Landscape maintenance - garden tools	140
Landscape - mower maintenance & fuel	308
Insurance - automobile	3,401
Insurance - excess liability	2,010
Insurance - general liability	9,426
Insurance - property & liability	3,557
Insurance - public official liability	1,272
Legal notices	580

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT  
SCHEDULE OF REVENUES AND EXPENDITURES (Cont'd.)  
GENERAL FUND  
YEAR ENDED DECEMBER 31, 2012**

<b>EXPENDITURES (Cont'd.)</b>	
Collection fees	\$ <u>112,005</u>
Legislative and water education -	
AVC matching contribution	20,000
Project expenditures	<u>15,000</u>
Total legislative and water education	<u>35,000</u>
Winter water storage	118,038
Fountain Valley Authority contract payments	5,353,598
Bureau operations, maintenance & repairs	2,068,134
Capital outlay - acquisition of capital assets	24,970
Debt service principal	<u>4,255,970</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>13,704,081</u></b>

