



2011

Southeastern Colorado Water Conservancy District Annual Financial Report



SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southeastern Colorado Water Conservancy District
Pueblo, Colorado

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the District as of December 31, 2011, and the respective change in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, 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

Independent Auditors' Report

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limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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



Colorado Springs, Colorado

May 8, 2012

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 1 to the financial statements. Reconciliation for the Government Fund is necessary in order to make a consolidated presentation.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Statements – Includes both the Governmental and Proprietary Funds

1. Government-Wide assets exceed its liabilities by \$102,485,722 at December 31, 2011. The District's ongoing obligations may use the unrestricted net assets of the governmental activities totaling \$9,393,379 at December 31, 2011. Unrestricted net assets of the business-type activity total \$10,270,393 at December 31, 2011 and may also be used to meet ongoing obligations. The combined total of funds available to meet ongoing obligations is \$19,663,772.
2. The District's net assets (Government-Wide) increased from \$95,053,406 at December 31, 2010 to \$102,485,722 at December 31, 2011. This is an increase of \$7,432,316 or 7.82 percent during the year ended December 31, 2011.
3. The most significant asset of the District is its perpetual water rights that are reported at \$132,237,478. Note 4 presents more detail relating to the District's capital assets. To calculate Government-Wide Net Assets of \$102,485,722, the value of the perpetual water rights and land is combined with other assets and long-term liabilities. The Statement of Net Assets clearly illustrates these details.
4. The District's debt consists primarily of the amounts due to the U.S. Bureau of Reclamation (Reclamation) totaling \$51,082,243 at December 31, 2011. This includes both the obligation related to the Fryingspan-Arkansas Construction Contract and the Safety of Dams obligation. This represents a decrease of \$7,027,888 during the year ended December 31, 2011. Note 5 presents the details of this obligation.

OVERVIEW

This annual report includes a series of financial statements. In addition to this Management's Discussion and Analysis (MD&A), the report consists of (1) Government-Wide statements, (2) fund financial statements, (3) the notes to the financial statements, (4) required supplementary information, and (5) additional information.

The first two basic statements present a Government-Wide view of the District's finances. All District operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic governmental and administrative services, the repayment of primary debt, and the protection of the District's water rights. The District's business-type activities carried out by the Proprietary Fund include the sale and administration of water from the Fryingpan-Arkansas Project, related surcharges, and return flows. The Safety of Dams repayment obligation is a long-term debt of the business activity. Projects include: (1) National Environmental Protection Act Environmental Impact Study for the Arkansas Valley Conduit and an Excess Capacity Master Contract, (2) enlargement of the Pueblo Reservoir and Turquoise Lake (3) a lease of power privilege for Hydroelectric Power at the Pueblo Dam, (4) water conservation program for Arkansas Valley Conduit, and other water issues and projects as identified by the Board of Directors. These Government-Wide statements are designed to present both the governmental and business-type activities as a consolidated total for the District. In 2011, the Board of Directors adopted Governmental Accounting Standards Board (GASB) statement number 54, which increased transparency in the presentation of fund balances. The Governmental Fund Balance Sheet illustrates this change. The notes to the financial statements under note one: L. Fund Equity contains an explanation of this change in accounting policy.

BASIC FINANCIAL STATEMENTS

- The Statement of Net Assets focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of the assets of the District, the liabilities it owes and the net difference at December 31, 2011. The net difference is further separated into amounts invested in capital assets, restricted for specific purposes and unrestricted amounts. Governmental activities are reported on the accrual basis of accounting. The Statement of Net Assets demonstrates that the District is in a solid position for future operations with net assets that have steadily increased in recent years.
- The Statement of Activities focuses on the gross and net costs of the District's programs and the extent to which such programs rely upon the general revenues. This statement summarizes and simplifies the user's ability to determine the extent to which the programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on the Governmental Fund and the Proprietary Fund. Governmental Fund statements follow the more traditional presentation of financial statements and include a reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets and a reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities. Statements for the District's Proprietary Fund

follow the Governmental Funds and include a Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows.

- 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 2011. We continued to make timely repayments on our long-term debt while maintaining our capital assets and our financial investment reserves. The Total Net Assets is the best indicator in this presentation of a successful year as it displays the increased net assets at December 31, 2011.

Government-Wide Condensed Statement of Net Assets December 31				
	2011	2010	Dollar Change	Percent Change
Current assets	\$ 33,264,458	\$ 33,061,091	\$ 203,367	0.62%
Capital assets, net	<u>133,023,373</u>	<u>133,051,634</u>	<u>(28,261)</u>	-0.02%
Total Assets	<u>166,287,831</u>	<u>166,112,725</u>	<u>175,106</u>	0.11%
Current liabilities	18,208,933	19,008,007	(799,074)	-4.20%
Long-term liabilities	<u>45,593,176</u>	<u>52,051,312</u>	<u>(6,458,136)</u>	-12.41%
Total Liabilities	<u>63,802,109</u>	<u>71,059,319</u>	<u>(7,257,210)</u>	-10.21%
Invested in capital assets,				
Net of related debt	82,671,950	75,555,311	7,116,639	9.42%
Restricted for TABOR	150,000	150,000	0	0.00%
Unrestricted	<u>19,663,772</u>	<u>19,348,095</u>	<u>315,677</u>	1.63%
Total Net Assets	<u>\$102,485,722</u>	<u>\$ 95,053,406</u>	<u>\$ 7,432,316</u>	7.82%

GOVERNMENTAL ACTIVITIES

The following table compares revenues and expenses for the governmental activities for 2011 and 2010. Governmental activities revenues continue to be positively impacted by the various contracts entered into with Reclamation that applies revenues to the District's repayment contract for the Fryingpan-Arkansas Project. Specific Ownership taxes continued to decline in 2011 as the U.S. economic conditions including consumer spending have not recovered. The increase in Government expenditure is attributable to the Fryingpan-Arkansas Project, a pass through activity.

Condensed Comparative Statement of Activities Governmental Activities Year Ending December 31

	2011	2010	Dollar Change	Percent Change
Revenues				
Program revenues –				
Charges for services	\$ 9,023,228	\$ 7,152,745	\$ 1,870,483	26.2%
Grants	51,450	107,963	(56,513)	-52.3%
General Revenues-				
Property taxes	6,922,802	6,922,160	642	0.0%
Specific ownership taxes	593,282	668,383	(75,101)	-11.2%
Investment earnings	150,027	68,334	81,693	119.5%
Other	756	-	756	100.0%
Total Revenues	<u>16,741,545</u>	<u>14,919,585</u>	<u>1,821,960</u>	12.2%
Expenses				
General government	<u>9,864,219</u>	<u>9,450,338</u>	<u>413,881</u>	4.4%
Total Expenses	<u>9,864,219</u>	<u>9,450,338</u>	<u>413,881</u>	
Increase in net assets	6,877,326	5,469,247	1,408,079	25.7%
Net assets, beginning of year	<u>85,338,003</u>	<u>79,868,756</u>	<u>5,469,247</u>	6.8%
Net assets, end of year	<u>\$92,215,329</u>	<u>\$85,338,003</u>	<u>\$ 6,877,326</u>	8.1%

BUSINESS TYPE ACTIVITIES

The Water Activity Enterprise functions from a solid financial base; however, the success of the Proprietary Fund is more accurately measured by the impact that it has facilitating projects within the District that benefit our constituents. Progress continues to be made in serving as a leader for community interest groups. In addition, the Arkansas Valley Conduit and Excess Capacity programs signed a Memorandum of Agreement with the District and Reclamation in 2011, to complete the National Environmental Protection Act Environmental Impact Study on the development of both projects. The Enlargement program continued to progress in 2011 with

projected increased activity in 2012 to move the program forward. The newest development within the Enterprise is Hydroelectric Power. The development of Hydroelectric Power as an additional revenue source will significantly increase the future financial activity within the Proprietary Fund. The following table compares revenues and expenses for the business-type activities for 2010 and 2011.

Condensed Comparative Statement of Activities
Business-Type Activities
Year Ending December 31

	2011	2010	Change	Percent Change
Revenues				
Program Revenues				
Charges for services & sales	\$ 2,415,184	\$ 1,978,853	\$436,331	22.0%
Intergovernmental revenue	118,154	504,574	(386,420)	-76.6%
General Revenues				
Investment earnings	<u>154,800</u>	<u>48,876</u>	<u>105,924</u>	216.7%
Total Revenues	<u>2,688,138</u>	<u>2,532,303</u>	<u>155,835</u>	6.2%
Expenses				
Water Activity Enterprise	<u>2,133,148</u>	<u>1,918,416</u>	<u>214,732</u>	11.2%
Total Expenses	<u>2,133,148</u>	<u>1,918,416</u>	<u>214,732</u>	11.2%
Increase in net assets	554,990	613,887	(58,897)	-9.6%
Net assets, January 1	<u>9,715,403</u>	<u>9,101,516</u>	<u>613,887</u>	6.7%
Net assets, December 31	<u>\$10,270,393</u>	<u>\$9,715,403</u>	<u>\$554,990</u>	5.7%

BUDGET ANALYSIS

In December 2010, the District's Board of Directors adopted a budget for Government Funds for the calendar year 2011 following a public hearing as required by state law. The original budgeted appropriation for the year ended December 31, 2011 totaled \$14,434,056. The District chose not to modify the expenditure by amendment in 2011. Actual expenditures for 2011 totaled \$14,180,295. The required supplementary information schedule details the General Fund budgetary comparison.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At December 31, 2011 and 2010, 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 4 details the capital assets. The District implemented the Strategic Plan for Information Technology in 2011, to improve communication and productivity. An increase in depreciable assets and accumulated depreciation reflects the financial impact of the improvements.

Capital Assets as of December 31

	2011	2010
Nondepreciable Assets		
Perpetual water rights	132,237,478	132,237,478
Land	<u>20,092</u>	<u>20,092</u>
	132,257,570	132,257,570
Depreciable Assets		
Buildings and Improvements	1,192,649	1,181,771
Furniture & Equipment	<u>406,849</u>	<u>411,288</u>
	1,599,498	1,593,059
Accumulated Depreciation	<u>(833,695)</u>	<u>(798,995)</u>
Capital Assets, Net	<u>\$ 133,023,373</u>	<u>\$ 133,051,634</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, 2011 of \$50,351,423. 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 federally performed Safety of Dams modification program. The Proprietary Fund pays \$60,000 per year from surcharge fees collected on water activities within the District boundaries for the agricultural portion of debt. The municipal portion was paid off in 2010. The balance of this contract obligation at December 31, 2011 totals \$730,820.

FINANCIAL CONTACT

The District's financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. Any questions should be directed to the staff at the District office at 31717 United Avenue, Pueblo, Colorado, 81001.

BASIC FINANCIAL STATEMENTS

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 508,135	\$ 3,338,445	\$ 3,846,580
Investments	9,103,435	7,956,719	17,060,154
Receivables	6,824,905	108,348	6,933,253
Prepaid contract obligation and other assets	5,374,471	50,000	5,424,471
Capital assets -			
Land and nondepreciable capital assets	132,257,570	-	132,257,570
Depreciable capital assets	765,803	-	765,803
Total Capital Assets	133,023,373	-	133,023,373
TOTAL ASSETS	154,834,319	11,453,512	166,287,831
LIABILITIES			
Accounts payable	6,614	13,638	20,252
Unearned revenue	12,092,627	49,790	12,142,417
Outside agency deposits	-	388,871	388,871
Long-term liabilities -			
Due within one year -			
Contracts	5,504,584	60,000	5,564,584
Compensated absences	92,809	-	92,809
Due in more than one year -			
Contracts	44,846,839	670,820	45,517,659
Compensated absences	75,517	-	75,517
TOTAL LIABILITIES	62,618,990	1,183,119	63,802,109
NET ASSETS			
Invested in capital assets, net of related debt	82,671,950	-	82,671,950
Restricted for tabor	150,000	-	150,000
Unrestricted	9,393,379	10,270,393	19,663,772
TOTAL NET ASSETS	\$ 92,215,329	\$ 10,270,393	\$ 102,485,722

The accompanying notes are an integral part of this statement.

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities -						
General government	\$ 9,864,219	\$ 9,023,228	\$ 51,450	\$ (789,541)	\$ -	\$ (789,541)
Total governmental activities	<u>9,864,219</u>	<u>9,023,228</u>	<u>51,450</u>	<u>(789,541)</u>	<u>-</u>	<u>(789,541)</u>
Business-type activities -						
Water activity	2,133,148	2,415,184	118,154	-	400,190	400,190
Total business-type activities	<u>2,133,148</u>	<u>2,415,184</u>	<u>118,154</u>	<u>-</u>	<u>400,190</u>	<u>400,190</u>
 TOTAL	 <u>\$ 11,997,367</u>	 <u>\$ 11,438,412</u>	 <u>\$ 169,604</u>	 <u>(789,541)</u>	 <u>400,190</u>	 <u>(389,351)</u>
General revenues -						
Property taxes levied for general government purposes				254,371	-	254,371
Property taxes levied for specific purposes				6,668,431	-	6,668,431
Specific ownership taxes				593,282	-	593,282
Unrestricted investment earnings				150,027	154,800	304,827
Other				756	-	756
Total general revenues				<u>7,666,867</u>	<u>154,800</u>	<u>7,821,667</u>
Change in net assets				6,877,326	554,990	7,432,316
Net assets, January 1				<u>85,338,003</u>	<u>9,715,403</u>	<u>95,053,406</u>
Net assets, December 31				<u>\$ 92,215,329</u>	<u>\$ 10,270,393</u>	<u>\$ 102,485,722</u>

The accompanying notes are an integral part of this statement.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2011**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 508,135
Investments	9,103,435
Receivables	6,824,905
Prepaid contract obligation and other prepaid items	<u>5,374,471</u>
TOTAL ASSETS	<u>\$ 21,810,946</u>
LIABILITIES AND FUND BALANCE	
Liabilities -	
Accounts payable	\$ 6,614
Deferred property tax revenue	6,739,667
Deferred contract revenue	<u>5,352,960</u>
Total Liabilities	<u>12,099,241</u>
Fund balances -	
Nonspendable	21,511
Restricted	150,000
Committed	7,000,000
Assigned	929,570
Unassigned	<u>1,610,624</u>
Total fund balances	<u>9,711,705</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,810,946</u>

The accompanying notes are an integral part of this statement.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Total fund balance - governmental fund

Amounts reported for governmental activities in the statement
of net assets are different because:

\$ 9,711,705

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 assets and the statement of activities

Cost of capital assets	\$ 133,857,068	
Accumulated depreciation	<u>(833,695)</u>	133,023,373

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 assets as follows:

Contract payable	(50,351,423)	
Compensated absences	<u>(168,326)</u>	<u>(50,519,749)</u>

Total net assets - governmental activities

\$ 92,215,329

The accompanying notes are an integral part of this statement.

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2011

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 6,922,802
Specific ownership taxes	593,282
Fountain Valley Authority contract revenue	5,367,986
Winter water storage	124,753
Charges for services	898,252
Intergovernmental	51,450
Investment revenue	150,027
Other	756
TOTAL REVENUES	<u>14,109,308</u>
 EXPENDITURES	
Current -	
Outside services	531,719
Personnel expense	1,061,265
Travel and related expenses	49,190
Office and administrative expenses	183,444
Collection fees	114,476
Legislative and water education	161,057
Winter water storage	124,753
Fountain Valley Authority contract payments	5,367,986
Bureau operations, maintenance and repairs	2,212,647
Capital outlay	38,107
Debt service -	
Principal	<u>4,335,651</u>
TOTAL EXPENDITURES	<u>14,180,295</u>
 NET CHANGE IN FUND BALANCE	 (70,987)
 FUND BALANCE, January 1	 <u>9,782,692</u>
 FUND BALANCE, December 31	 <u>\$ 9,711,705</u>

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, 2011**

Net change in fund balance - governmental fund \$ (70,987)

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 assets and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay

Depreciation expense	\$ (66,368)	
Capital outlay	<u>38,107</u>	(28,261)

In the statement of activities, revenues received by the Bureau of Reclamation from other entities and other adjustments made by the Bureau to correct prior charges and credits 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 2,632,237

The governmental fund reports the principal repayment of the contract obligation as an expenditure 4,335,651

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 paid \$92,814 exceeded the amount earned \$84,128 8,686

Change in net assets - governmental activities \$ 6,877,326

The accompanying notes are an integral part of this statement.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2011**

	<u>Enterprise Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,338,445
Investments	7,956,719
Accounts receivable	83,905
Accrued interest receivable	24,443
TOTAL CURRENT ASSETS	<u>11,403,512</u>
OTHER ASSETS	
Deposits	<u>50,000</u>
TOTAL OTHER ASSETS	<u>50,000</u>
TOTAL NONCURRENT ASSETS	<u>50,000</u>
TOTAL ASSETS	<u>11,453,512</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	13,638
Contract with Bureau of Reclamation	60,000
Unearned revenue	49,790
Outside agency deposits	388,871
TOTAL CURRENT LIABILITIES	<u>512,299</u>
NONCURRENT LIABILITIES	
Contract with Bureau of Reclamation	<u>670,820</u>
TOTAL NONCURRENT LIABILITIES	<u>670,820</u>
TOTAL LIABILITIES	<u>1,183,119</u>
NET ASSETS	
Unrestricted	<u>10,270,393</u>
TOTAL NET ASSETS	<u>\$ 10,270,393</u>

The accompanying notes are an integral part of this statement.

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2011

	<u>Enterprise Fund</u>
OPERATING REVENUES	
Charges for services	\$ 2,415,184
TOTAL OPERATING REVENUES	<u>2,415,184</u>
OPERATING EXPENSES	
Outside services	195,849
Office and administrative expenses	889,896
Travel and related expenses	2,802
Legislative and water education	1,044,601
TOTAL OPERATING EXPENSES	<u>2,133,148</u>
OPERATING INCOME	<u>282,036</u>
NONOPERATING REVENUES	
Intergovernmental revenue	118,154
Interest revenue	154,800
TOTAL NONOPERATING REVENUES	<u>272,954</u>
CHANGE IN NET ASSETS	554,990
NET ASSETS, January 1	<u>9,715,403</u>
NET ASSETS, December 31	<u>\$ 10,270,393</u>

The accompanying notes are an integral part of this statement.

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2011

	<u>Enterprise Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 2,609,889
Cash paid for goods and services	<u>(2,062,388)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>547,501</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payment on contract obligation	(60,000)
Intergovernmental revenue received	97,944
Acquisition of deposits	<u>(50,000)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(12,056)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of investments	(3,046,719)
Maturity and sales of investments	4,800,333
Investment revenue received	<u>100,219</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,853,833</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,389,278
CASH AND CASH EQUIVALENTS, January 1	<u>949,167</u>
CASH AND CASH EQUIVALENTS, December 31	<u><u>\$ 3,338,445</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 282,036
Adjustments to reconcile operating income to net cash provided by operating activities -	
Accounts receivable	194,705
Due from other funds	100,000
Accounts payable	<u>(29,240)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 547,501</u></u>
SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	
Change in fair value of investments	<u>\$ 57,581</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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeastern Colorado Water Conservancy District (the District) was created in 1958 under Colorado statutes to manage water resources of the Arkansas River Basin and to function as the legal taxing agency for the administration of the Fryingpan-Arkansas project and contracting agent with the federal government for reimbursable costs of the project.

The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting practices used by the District are described below.

A. REPORTING ENTITY

As required by generally accepted accounting principles, the District (the primary government) includes, if applicable, component units in its financial statements based upon financial accountability. Inasmuch as no component unit meets the criteria for inclusion, no component unit financial statements have been included.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The basic financial statements include both government-wide (based on the District as a whole) and fund financial statements. The government-wide financial statements, which include the statement of net assets and the statement of activities, report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a function or activity. Program revenues include, if applicable, (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or activity; (2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity; and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other internally dedicated resources are reported as general revenues rather than program revenues. The net cost by function or business-type activity is normally covered by general revenues such as property taxes, specific ownership taxes or other unrestricted revenues.

Separate fund financial statements are provided for the major governmental fund and the major proprietary fund.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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 governmental funds, 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 and liabilities associated with the operation of the fund are included on the balance sheet. The proprietary fund-type operating statement presents increases (revenues) and decreases (expenses) in net total assets. 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, 2011**

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

Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the District has elected not to apply Financial Accounting Standards Board statements issued after November 30, 1989 to its enterprise fund.

GOVERNMENTAL FUND

The District reports the following major governmental fund:

- The general fund is the primary operating fund of the District and is always classified as a major fund. The general fund is used to account for all financial resources of the District except those required to be accounted for in a separate fund. Major revenue sources include property taxes, specific ownership taxes, and contractual revenue. Primary expenditures include general government and debt service.

PROPRIETARY FUND

The following is a description of the major proprietary fund of the District:

- The water activity fund includes the sale and administration of water for the Fryingpan-Arkansas project, related surcharges and return flows. In addition, this fund is responsible for the safety of dams repayment obligation. Other projects accounted for in this fund include (1) the environmental impact study and water conservation program for the Arkansas Valley Conduit; (2) an excess capacity water contract; (3) possible enlargement of the Pueblo Reservoir and Turquoise Lake and (4) a lease of power privilege for hydroelectric power at the Pueblo dam. This fund also may include other water related issues and projects as identified by the board of directors.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. An exception to this rule is the administrative charge imposed on the water activity enterprise fund by the general fund. Elimination of this charge would distort the direct costs and program revenues reported for the functions affected. When both restricted and unrestricted resources are available for net asset use, it is the District's policy to use unrestricted resources first and then use restricted resources as they are needed.

D. BUDGETARY PRINCIPLES

The District adheres to the following procedures in establishing its budgets:

On or before October 15 of each year, 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 and the District adopts budgets for all funds. All funds, including the enterprise fund, use the current financial resources measurement focus and the modified accrual basis of accounting in preparing the budgets.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

Expenditure estimates in the annual budget are enacted into law through the passage of appropriation resolutions. Budgetary control exists at the total fund level and the budget amounts reported reflect all amendments, if any, enacted by the District.

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 10th. 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, 2011 for the 2009 base year specified by state law.

The taxes levied by December 15, 2011 reflect 2011 property taxes that will be collected in 2012 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, 2012 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/DEFERRED REVENUE

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 unearned or deferred revenue since the collection of the funds occurs prior to the accounting period for which it is effective.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

I. CAPITAL ASSETS

Capital assets, which include perpetual water rights, land, buildings and improvements, along with furniture and equipment are reported in the governmental activity column of the government-wide financial statements. The District has established a capitalization threshold of \$5,000 beginning January 1, 2008. This level was set so as to maintain a balance between accountability and managing the costs of recording and tracking these assets. Capital assets are defined as assets with an initial individual cost or estimated cost that equals or exceeds the limit identified above and have a useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair value at the time received. Normal maintenance and repairs that do not add to the value of the asset or materially extend the useful life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets for business-type activities is included as part of the capitalized value of assets constructed when material. No interest was capitalized during the year ended December 31, 2011.

Capital assets of the District, except for land and perpetual water rights, are depreciated using the straight-line method over the following estimated useful lives:

	<u>Governmental Activities</u>
Buildings and improvements	5-30
Furniture and equipment	3-10

Perpetual water rights represent the District's share of the original costs of construction and are not depreciated or amortized. The original contract between the United States Bureau of Reclamation and the District grants the District perpetual rights to use water made available by the project. Project property and all related facilities remain in the exclusive control, possession and ownership of the United States.

J. COMPENSATED ABSENCES

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees are allowed to accumulate vacation and sick pay benefits up to predetermined maximums and are compensated for these accumulated vacation and sick pay benefits either through paid time off or at termination or retirement.

Accumulated vacation and sick leave is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in the governmental fund only if they have matured; for example, as a result of employee resignations and retirements.

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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 assets. No imputed interest is considered in relation to this obligation.

L. FUND EQUITY

The District adopted the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions on January 1, 2011. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. As such, governmental funds report 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.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

In the government-wide financial statements, net assets are classified in the following categories:

- Invested in capital assets, net of related debt – 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 assets – this classification consists of restrictions created by external creditors, grantors, contributors, laws or regulations of other governments, enabling legislation and constitutional provisions.

Unrestricted net assets – this classification represents the remainder of net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

M. INTERFUND TRANSACTIONS

Interfund transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as interfund transfers.

N. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted 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.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents and investments are summarized as follows:

Cash and cash equivalents	
Demand deposits	\$ 868,259
Money market mutual funds held at brokerages	<u>2,978,321</u>
	<u>\$ 3,846,580</u>
Investments	
U.S. Treasury notes, at fair value	\$ 10,110,511
U.S. agency securities, at fair value	<u>6,949,643</u>
	<u>\$ 17,060,154</u>

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

DEPOSITS

At December 31, 2011, the carrying amount of the District's deposits was \$868,259 and the bank balance was \$987,336. Of the bank balance, \$329,108 was covered by federal depository insurance and \$658,228 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, 2011, deposits with a bank balance of \$658,228 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.

At December 31, 2011, the District had the following investments and maturities:

	Fair Value	Investment Maturity (in years)	
		<u>Less than 1</u>	<u>1-5</u>
Money market mutual funds	\$ 2,978,321	\$ 2,978,321	\$ -
U.S. Treasury notes	10,110,511	3,008,673	7,101,838
U.S. agency securities	<u>6,949,643</u>	<u>4,912,929</u>	<u>2,036,714</u>
	<u>\$ 20,038,475</u>	<u>\$ 10,899,923</u>	<u>\$ 9,138,552</u>

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Cont'd.)

The investment maturity tabulation presented above for the U.S. Treasury notes and U.S. agency securities is based on each security's stated maturity date.

Interest rate risk – The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk – State law limits investments in money market funds to funds that are registered as an investment company; the fund investment policies must seek to maintain a constant price and no sales or bond fee can be added to the purchase or redemption price. The Authority has no investment policy that would further limit its investment choices. As of December 31, 2011, the District's investment in money market funds is rated Aaa-mf by Moody's, while the U.S. Treasury notes and U.S. agency securities are rated Aaa by Moody's.

NOTE 3 – RECEIVABLES

Receivables at December 31, 2011 consist of the following:

	<u>General Fund</u>
Property taxes	\$ 6,739,667
Accounts	64,822
Interest	<u>20,416</u>
	<u>\$ 6,824,905</u>
	<u>Water Activity Enterprise Fund</u>
Accounts	\$ 83,905
Interest	<u>24,443</u>
	<u>\$ 108,348</u>

The amount reported above for property taxes totaling \$6,739,667 is also reported as deferred revenue since it represents taxes levied for a future period.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2011 was as follows:

	Balance January 1, <u>2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, <u>2011</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	1,181,771	10,878	-	1,192,649
Furniture and equipment	<u>411,288</u>	<u>27,229</u>	<u>(31,668)</u>	<u>406,849</u>
Total capital assets being depreciated	<u>1,593,059</u>	<u>38,107</u>	<u>(31,668)</u>	<u>1,599,498</u>
Less: accumulated depreciation –				
Buildings and improvements	(460,170)	(38,236)	-	(498,406)
Furniture and equipment	<u>(338,825)</u>	<u>(28,132)</u>	<u>31,668</u>	<u>(335,289)</u>
Total accumulated depreciation	<u>(798,995)</u>	<u>(66,368)</u>	<u>31,668</u>	<u>(833,695)</u>
Capital assets being depreciated, net	<u>794,064</u>	<u>(28,261)</u>	<u>-</u>	<u>765,803</u>
Total governmental activities capital assets, net	<u>\$ 133,051,634</u>	<u>\$ (28,261)</u>	<u>\$ -</u>	<u>\$ 133,023,373</u>

Depreciation expense of \$66,368 was charged to the general government function.

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities in the government-wide financial statements for the year ended December 31, 2011:

	Balance January 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
Governmental activities –					
Contract obligation –					
Bureau of					
Reclamation	\$ 57,319,311	\$ 2,212,647	\$ 9,180,535	\$ 50,351,423	\$ 5,504,584
Compensated absences	<u>177,012</u>	<u>84,128</u>	<u>92,814</u>	<u>168,326</u>	<u>92,809</u>
 Total governmental activities	 <u>\$ 57,496,323</u>	 <u>\$ 2,296,775</u>	 <u>\$ 9,273,349</u>	 <u>\$ 50,519,749</u>	 <u>\$ 5,597,393</u>

Payments on the contract obligation to the Bureau of Reclamation and the compensated absences liability are recorded in the general fund.

	Balance January 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2011</u>	Due Within <u>One Year</u>
Business-type activities -					
Safety of dams contract obligation	<u>\$ 790,820</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 730,820</u>	<u>\$ 60,000</u>

The above obligation is serviced by the District's water activity enterprise fund.

The following is a description of each individual issue for the governmental activities:

The original contract obligation to the Bureau of Reclamation totaled \$132,237,478 and represents the District's share of the original costs of construction. The agreement with the Bureau of Reclamation included an agricultural component totaling \$74,348,993 with no interest provision and a municipal and industrial component totaling \$57,888,485 that carried an interest rate of 3.0460% and was completely paid effective September 30, 2009. Principal payments are due in annual installments ranging from \$4,982,232 to \$6,668,622. The agreement allows the Bureau of Reclamation to charge operations, maintenance and repairs incurred by the Bureau of Reclamation to the obligation and also provides for reductions to the obligation for contract revenues collected by the Bureau of Reclamation on behalf of the project.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011 was \$50,351,423.

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>
2012	\$ 5,504,584	\$ -	\$ 5,504,584
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
2017-2020	<u>21,264,185</u>	<u>-</u>	<u>21,264,185</u>
	<u>\$ 50,351,423</u>	<u>\$ -</u>	<u>\$ 50,351,423</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 ASSETS

Restricted net assets are net assets 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 assets for governmental activities are 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 assets 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, 2011**

NOTE 7 – FUND BALANCES

As of December 31, 2011, fund balances are composed of the following:

	<u>General Fund</u>
Nonspendable –	
Prepaid items	\$ 21,511
Restricted –	
Tabor	150,000
Committed –	
Repayment obligation	5,000,000
Development of enlargement space	2,000,000
Assigned –	
Water rights acquisition	850,000
Subsequent year’s budget	79,570
Unassigned	<u>1,610,624</u>
Total fund balances	<u>\$ 9,711,705</u>

NOTE 8 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, property and casualty, errors and omissions, injuries to employees and health claims. Risks of loss from property and liability coverage are covered by the District’s participation in the Colorado Special District’s property and liability pool which is a separate and independent governmental public entity risk pool formed through intergovernmental agreement by member special districts to provide defined liability and property coverage. The aggregate limit of losses paid by the pool for property claims is limited to \$1,000,000 with commercial company reinsurance covering any losses in excess of that amount up to \$3,000,000. All other risks of loss are handled by the purchase of commercial insurance. Settled claims from the liability pool and commercial policy have not exceeded the insurance coverage in any of the past three years.

NOTE 9 - EMPLOYEE BENEFITS

The District maintains a qualified defined contribution plan covering all its existing employees. The plan was formed under Section 401(a) of the Internal Revenue Code. The District is the plan administrator but has designated administration of the plan to Equitable Life Assurance. The plan provides for employer contributions of up to 16% of compensation and the District contributed \$96,420 to the plan during 2011. The plan is administered under the terms outlined in the plan document and may be modified or amended as outlined by the plan document.

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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, 2011, employees contributed \$39,193 to the plan and the District contributed \$32,299.

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 2011 charge and related revenue totals \$5,367,986. The present value of the future minimum lease payments at December 31, 2011 is \$54,762,821.

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
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Budget Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 6,969,288	\$ 6,969,288	\$ 6,922,802	\$ (46,486)
Specific ownership taxes	600,000	600,000	593,282	(6,718)
Winter water storage	128,800	128,800	124,753	(4,047)
Charges for services	1,103,863	1,103,863	898,252	(205,611)
Intergovernmental	130,173	130,173	51,450	(78,723)
Fountain Valley Authority contract revenue	5,352,760	5,352,760	5,367,986	15,226
Interest revenue	161,375	161,375	103,607	(57,768)
Other	550	550	756	206
TOTAL REVENUES	<u>14,446,809</u>	<u>14,446,809</u>	<u>14,062,888</u>	<u>(383,921)</u>
EXPENDITURES				
Current -				
Outside services	552,200	552,200	531,719	20,481
Personnel expenses	1,217,440	1,217,440	1,061,265	156,175
Travel and related expenses	62,872	62,872	49,190	13,682
Office and administrative expenses	175,709	175,709	183,444	(7,735)
Collection fees	110,000	110,000	114,476	(4,476)
Legislative and water education	273,204	273,204	161,057	112,147
Winter water storage	128,800	128,800	124,753	4,047
Fountain Valley Authority contract payments	5,352,760	5,352,760	5,367,986	(15,226)
Capital outlay	20,429	20,429	38,107	(17,678)
Debt service	6,540,642	6,540,642	6,548,298	(7,656)
TOTAL EXPENDITURES	<u>14,434,056</u>	<u>14,434,056</u>	<u>14,180,295</u>	<u>253,761</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>12,753</u>	<u>12,753</u>	<u>(117,407)</u>	<u>(130,160)</u>

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
BUDGETARY COMPARISON SCHEDULE (Cont'd.)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		Actual Budget Basis	Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
FUND BALANCE, January 1	<u>(12,753)</u>	<u>(12,753)</u>	<u>9,782,692</u>	<u>9,795,445</u>
FUND BALANCE, December 31	<u>\$ -</u>	<u>\$ -</u>	9,665,285	<u>\$ 9,665,285</u>
ADJUSTMENT FROM BUDGETARY BASIS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES				
Unrealized gains on investment securities			<u>46,420</u>	
FUND BALANCE, generally accepted accounting principles			<u>\$ 9,711,705</u>	

**SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
RECONCILIATION OF THE BUDGETARY BASIS OF ACCOUNTING
TO GAAP BASIS OF ACCOUNTING
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011**

BUDGETARY BASIS

Explanation of differences between budgetary revenues and
GAAP revenues

REVENUES

Actual amounts (budgetary basis) of revenues from budgetary comparison schedule	\$ 14,062,888
Differences - budget to GAAP - Unrealized gain on investment securities	<u>46,420</u>
GAAP BASIS REVENUE	<u>\$ 14,109,308</u>

**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
WATER ACTIVITY ENTERPRISE FUND
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2011**

	<u>Final Budget</u>	<u>Actual (Non-GAAP Basis)</u>	<u>Variance With Final Budget Positive (Negative)</u>
REVENUES			
Charges for services	\$ 2,230,009	\$ 2,415,184	185,175
Intergovernmental	958,699	118,154	(840,545)
Revenue collected on behalf of others	160,000	135,000	(25,000)
Interest	129,971	97,219	(32,752)
TOTAL REVENUES	<u>3,478,679</u>	<u>2,765,557</u>	<u>(713,122)</u>
EXPENDITURES			
Current -			
Outside services	861,484	245,849	615,635
Office and administrative expenses	1,093,258	889,896	203,362
Travel and related expenses	29,935	2,802	27,133
Legislative and water education	1,237,176	1,044,601	192,575
Debt service	60,000	60,000	-
TOTAL EXPENDITURES	<u>3,281,853</u>	<u>2,243,148</u>	<u>1,038,705</u>
EXCESS (DEFICIENCY) OF			
REVENUES OVER EXPENDITURES	<u>\$ 196,826</u>	<u>\$ 522,409</u>	<u>\$ 325,583</u>
GAAP ADJUSTMENTS			
Revenue collected on behalf of others		(135,000)	
Deposits		50,000	
Principal payment on contract obligation		60,000	
Unrealized gain on investment securities		<u>57,581</u>	
CHANGE IN NET ASSETS		<u>\$ 554,990</u>	

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

REVENUES

Property taxes -		
Contract mill levy collection		\$ 6,593,031
Operating tax revenue		254,371
Abatement and refund of tax collections		89,830
Prior year tax		(14,430)
Total property taxes		6,922,802
Specific ownership taxes		593,282
Fountain Valley Authority contract revenue		5,367,986
Winter water storage		124,753
Charges for services -		
Payments - participants		4,200
Payment - SECWCD		4,200
Enterprise admin. reimbursement		889,852
Total charges for services		898,252
Intergovernmental -		
Grant revenue state/local		37,640
Federal grant		13,810
Total intergovernmental		51,450
Investment revenue -		
Interest income		15,021
Income to fair market adjustment		46,420
Interest on bonds		88,586
Total investment revenue		150,027
Other -		
Miscellaneous revenue		356
Xeriscape tour and materials sale		400
Total other		756
TOTAL REVENUES		\$ 14,109,308

EXPENDITURES

Outside services -		
Annual audit		\$ 11,097
Legal representation		515,083
Water policy management consultants		405
Engineering legal consultants		4,917
Legal travel expense		217
Total outside services		531,719

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES (Cont'd.)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

EXPENDITURES (Cont'd.)

Personnel expense -		
Compensated absences	\$	8,686
Staff payroll		697,222
Incentive/performance capacity		32,058
Directors' payroll		35,600
Payroll taxes		51,522
HSA contributions		20,188
401 retirement contribution		96,420
457 retirement contribution		31,233
Health insurance		42,065
Reimburse health insurance		5,387
Life insurance - staff and directors		5,470
Medical reimbursement expense		2,854
LT disability insurance		3,149
Employee assistance program		616
Dental insurance		4,873
Vision insurance		1,137
Worker's compensation insurance		3,557
Admin fees for human resources		3,072
Staff certification - airfare		1,080
Staff certification - hotels		3,434
Staff certification - meals		338
Staff certification - other expense		603
Staff certification - registrations		4,233
Staff education - registrations - general skills		6,468
Total personnel expense		<u>1,061,265</u>
Travel and related expenses -		
Directors - other travel (tip, fax, parking, tel, etc.)		348
Directors - other transportation (taxi, shuttle, rental)		318
Directors airfare		3,346
Directors hotels		5,028
Directors meals		749
Directors meeting registrations		7,032
Directors mileage reimbursement		12,241
Executive - airfare		1,876
Executive - district vehicle gas		1,680
Executive - hotels		4,940

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES (Cont'd.)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

EXPENDITURES (Cont'd.)

Executive - meals	\$ 654
Executive - meeting registrations	2,473
Executive - other travel expense	323
Meeting expense	22
Meeting meals	326
Staff business - airfare	184
Staff business - district vehicle gas	5,064
Staff business - hotels	981
Staff business - meals	482
Staff business - meeting registrations	875
Staff business - other travel	248
Total travel and related expenses	<hr style="width: 100%;"/> 49,190
Office and administrative expenses -	
Bank fees	677
Board awards/gifts	96
Board coffee snacks	502
Board memberships/subscriptions	11,832
Board printing	285
Board room accessories	30
Board/committee meals	2,971
Building other/misc. maintenance	1,076
Building plumbing & electrical	979
Capital outlay - information system	49,925
Capital outlay - office	21,582
Computer - accounting software support	4,427
Computer - general computer	7,834
Computer - supplies	162
Computer - software and licenses	1,100
Landscape maintenance - garden tools	269
Landscape - mower maintenance & fuel	40
Insurance - automobile	1,923
Insurance - excess liability	1,872
Insurance - general liability	8,156
Insurance - property & liability	3,501
Insurance - public official liability	1,267
Legal notices	332

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES (Cont'd.)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

EXPENDITURES (Cont'd.)

Maintenance - backflow testing	\$ 110
Maintenance - fire extinguisher	65
Maintenance - janitorial services	3,180
Maintenance - pest control	428
Maintenance - waste disposal	1,384
Maintenance - security	288
Maintenance - snow removal	1,725
Maintenance - window cleaning	880
Office - equipment (new and maintenance)	763
Office - coffee/snacks	126
Office - copy machine contract (B&W)	1,859
Office - copy machine color	4,239
Office - general/staff memberships	5,941
Awards & gifts - other	221
Office - printing	347
Office - publications & subscriptions	422
Phone - cell	1,683
Phone - land	8,037
Postage & shipping	2,862
Staff awards and gifts	121
Supplies - janitorial	439
Supplies - office	3,036
Supplies - paper	1,091
Supplies - toner	858
Utilities	12,913
Utilities - airport fee	900
Vehicle R&M - Durango	90
Vehicle R&M - Envoy	1,330
Vehicle R&M - Le Sabre	190
Vehicle - 2005 Prius	(561)
Vehicle - 2010 Prius	1,066
Web security	20
Landscape - aeration & weed control	248
Landscape - fertilizer & chemicals	740
Landscape maintenance contracts	3,340
Landscape - mulch, soil amendments	233
Xeriscape - plants	266
Landscape - sprinkler system repair & maintenance	1,726
Total office and administration expenses	183,444

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES (Cont'd.)
GENERAL FUND
YEAR ENDED DECEMBER 31, 2011

EXPENDITURES (Cont'd.)

Collection fees	\$ 114,476
Legislative and water education -	
AVC matching contribution	20,000
Reimbursement to other fund	4,200
Reclamation reform act audit	8,960
Conservation - irrigation technology	188
Conservation - education	12,921
Xeriscape garden tours	562
Consultant/lobbying services - federal	21,717
Colorado River services	11,176
Fry-Ark tours	9,500
Project/grant expenses	60,286
Sponsorships, exhibits & ads	9,663
Web hosting	1,876
Xeriscape education programs & publications	8
Total legislative and water education	161,057
Winter water storage	124,753
Fountain Valley Authority contract payments	5,367,986
Bureau operations, maintenance & repairs	2,212,647
Capital outlay - acquisition of capital assets	38,107
Debt service principal	4,335,651
TOTAL EXPENDITURES	\$ 14,180,295