



WIDEFIELD WATER AND SANITATION DISTRICT

Management's Discussion and Analysis

and Financial Statements

For the Years Ended December 31, 2019 and 2018,

Supplementary Information

For the Year Ended December 31, 2019

And

Independent Auditors' Report

WIDEFIELD WATER AND SANITATION DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Widefield Water and Sanitation District

We have audited the accompanying financial statements of Widefield Water and Sanitation District (the District) as of and for the years ended December 31, 2019 and 2018, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Widefield Water and Sanitation District as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary schedule of revenues, expenses and changes in net position compared to budget is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule of revenues, expenses and changes in net position compared to budget 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stockman Kast Ryan + Co. LLP

May 20, 2020

WIDEFIELD WATER AND SANITATION DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2019 and 2018. The information is presented in conjunction with the audited basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements, and Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles, which are generally accepted in the United States of America. The Statement of Net Position includes information on the District's assets, deferred outflows and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors. The Statement of Revenues, Expenses and Changes in Net Position identifies the District's revenues and expenses for the fiscal years ended December 31, 2019 and 2018. This statement provides information on the District's operations over the past two fiscal years and can be used to determine whether the District has recovered all of its actual and projected costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investments, and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the change in the cash balance for each of the last two fiscal years.

FINANCIAL POSITION AND RESULTS FROM OPERATIONS

Operating and Non-Operating Revenue and Expenses were as follows:

	2019	2018	2017
Operating revenues	\$ 10,966,289	\$ 10,337,655	\$ 9,335,677
Operating expenses	<u>8,163,032</u>	<u>7,971,314</u>	<u>7,347,383</u>
Operating income	2,803,257	2,366,341	1,988,294
Non-operating revenue, net	<u>7,899,007</u>	<u>7,528,515</u>	<u>4,378,344</u>
Change in net position before contributions for capital assets	10,702,264	9,894,856	6,366,638
Contributions for capital assets	<u>1,894,154</u>	<u>1,229,250</u>	<u>267,979</u>
Change in net position	<u>\$ 12,596,418</u>	<u>\$ 11,124,106</u>	<u>\$ 6,634,617</u>

Operating revenues are received primarily from customers receiving water and wastewater services from the District.

The District made no adjustments to the Water and the Wastewater base rate in 2019, but did increase volume rates for these services. In 2019, 84% of the District's customers used 6,000 gallons per month or less of water and wastewater. The District's average customer saw an increase of about \$2.98 to their monthly bill for water or wastewater charges.

At the end of 2019, the number of water accounts served by the District was 8,575. This compares to 8,136 accounts at the end of 2018. (Note: water volume information is in the Economic and Other Factors section). At the end of 2019, the number of wastewater accounts served by the District was 9,138. This compares to 8,709 accounts at the end of 2018.

The District's operating expenses tend to be relatively fixed in nature with annual increases expected for inflation. Controlling operating expenses continues to be a priority of the District. In 2019, operating expenses increased by \$191,718 over 2018 expenses or 2.4%.

Non-operating revenue consists of tap fees, water resource acquisition fees, and interest earnings. Non-operating expenses are interest payments for outstanding debt and water acquisition costs. Collection of tap fees and water resource acquisition fees occur when new connections are added to the District. In 2019, the District collected 484 water tap fees, 474 wastewater tap fees, and 397 water acquisition fees. This compares to 2018 when the District collected 501 water tap fees, 405 wastewater tap fees, and 419 water acquisition fees. The \$5,750 per water tap and \$5,750 per wastewater tap remained consistent for 2019 and 2018. The \$7,000 per tap for water resource acquisition remained consistent for 2019 and 2018. A developer may provide a permanent supply of water in lieu of paying a water resource acquisition fee pursuant to the District's water policy.

The assets, deferred outflows, liabilities, and net position were as follows:

	2019	2018	2017
ASSETS, DEFERRED OUTFLOWS AND LIABILITIES			
Current assets	\$ 35,361,931	\$ 27,326,236	\$ 23,971,437
Capital assets, net	35,517,396	33,115,531	26,773,962
Other non-current assets	21,629,105	21,888,093	21,904,183
Deferred outflows	494,691	544,998	595,306
Current liabilities	(2,639,466)	(3,242,619)	(2,916,755)
Non-current liabilities	<u>(19,020,000)</u>	<u>(20,885,000)</u>	<u>(22,705,000)</u>
Net position	<u>\$ 71,343,657</u>	<u>\$ 58,747,239</u>	<u>\$ 47,623,133</u>
NET POSITION			
Net investment in capital assets	\$ 24,996,913	\$ 21,697,332	\$ 14,479,152
Unrestricted	<u>46,346,744</u>	<u>37,049,907</u>	<u>33,143,981</u>
Total	<u>\$ 71,343,657</u>	<u>\$ 58,747,239</u>	<u>\$ 47,623,133</u>

Current assets increased in 2019, primarily due to cash generated from operations and collections of tap and water acquisition fees. Capital asset information is available in Note 3 of the financial statements.

Non-current liabilities decreased primarily as a result of principal payments made on the District's Water and Sewer Revenue Refinancing Bonds, Series 2012, and the District's Water and Sewer Revenue Refunding and Improvement Bonds, Series 2016. Further debt information is available in Note 4 of the financial statements.

CONTRIBUTIONS FROM DEVELOPER / GRANT

Developers requesting service from the District are required to build the water and sewer infrastructure for their development. Following a two year warranty period, title to the infrastructure is transferred to the District and recorded as Contributions from Developer. These contributions vary widely from year to year, dependent on development. In 2019 the Glen Development Company contributed water infrastructure totaling \$756,313 and sewer infrastructure totaling \$935,892 to the District for The Glen at Widefield Filing No. 7. A retaining wall at the Jimmy Camp Lift Station valued at \$77,000 was conveyed to the District by the Glen Development Company, as well. Additionally, developer Lorson LLC contributed \$124,950 to fund the District's design and construction of the Rolling Hills Tank. In 2018 the United States Department of Veterans Affairs contributed \$1,229,250 for the construction and installation of pipeline to supply water to the new Pikes Peak National Cemetery. No grant transfers from the State of Colorado were received by the District in 2019 or 2018.

BUDGETS

See Supplemental Schedule of Revenues, Expenses and Changes in Net Position Compared to Budget on last page of the report. The schedule shows the District's operating budget for 2019, as adopted on November 28, 2018 by Board resolution. Actual Operating Revenue for the District in 2019 was \$10,966,289, 8.9% above the projected revenue total of \$10,072,960. Actual Operating Expenses for the District in 2019 were \$8,163,032, 10.9% below the projected operating expense total of \$9,156,694.

For non-operating revenue (primarily tap fees and water resource acquisition fees) the District received \$8,486,165, 80.3% above the projected revenue total of \$4,707,100. The non-operating expense (interest and water acquisition costs) total in 2019 was \$587,158, 0.5% below the projection of \$590,202. Overall, the net non-operating revenue was more than the budget amount by \$3,782,109.

ECONOMICS AND OTHER FACTORS

District revenues tend to vary according to weather conditions and water usage from lawn irrigation, which has a significant impact on revenue. In 2019, the District had water sales of about 819.95 million gallons compared to 2018 water sales of about 794.32 million gallons, an increase of 3.2%.

A total of \$1,965,251 and \$6,383,294 were expended for capital projects in 2019 and 2018, respectively.

Accomplishments in 2019 were completion of the Rolling Hills Booster Station and pipeline to serve the Pikes Peak National Veteran's Cemetery, substantial work on the W-1 Well Re-drill, as well as an electrical upgrade and engineering work completed at Booster Station #2. The District also completed a new wastewater treatment plant, wastewater improvements related to Regulation 85, and installed a replacement pump and generator pad at the Jimmy Camp Lift Station.

On March 20, 2020, due to the COVID-19 outbreak, the Governor of the State of Colorado issued an Executive Order suspending the enforcement of all late fees and shut offs of utility providers. As a result, the District was unable to shut off water and wastewater services for non-payment. Additionally, the District was not able to assess late fees for non-payment. Management considers late fee revenue as an ancillary funding source. Management has performed preliminary analysis to understand the financial impact of COVID-19 outbreak and the Governor's Executive Order on the District. The District estimates that the Governor's Executive Order may have negative short-term impact on cash flows. Additionally, the District may experience an increase in customer receivable balances and higher delinquency rates. Communication with customers is ongoing, and Management has distributed a letter to customers encouraging customers to pay their accumulating balances. The Governor's Executive Order expires on May 30, 2020. Late fee and shut off procedures are expected to be reinstated in June 2020. Management's intent is to achieve cooperative repayment arrangements with customers in accordance with District's policies and procedures to begin collecting accrued utility balances. As a result, short-term and long-term cash flows may be negatively impacted. Conversely, water and wastewater services are considered a perpetual lien in the state of Colorado. As a result, the District has the ability to lien real property for unpaid utility bills. The District's Management fully expects to collect the unpaid, accrued utility balances over the longer-term. As of the date of this report, the District has not experienced any significant increase in late fee notices or utility shut off notices.

The District is impacted by the economic exuberance or strain on other industries such as construction and real estate. The District's Management expects tap fee and water resource acquisition fee sales to be negatively impacted in future months due to the economic consequences of the COVID-19 outbreak and the Governor's Executive Order. The District relies on tap fee sales to fund capital improvement projects. As a result, Management may suspend capital improvement projects for the District in the event there is a substantial decline in tap fee sales in order to conserve cash. Furthermore, Management may implement further spending and expenditure restrictions in the event the economic climate deteriorates. See Note 14 known as the subsequent events disclosure for additional discussions.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors, and other interested parties with an overview of the District's financial operations and condition. Should the reader have any questions regarding the information included in this report, or wish to request additional financial information, please contact the District's Finance Director at 8495 Fontaine Blvd., Colorado Springs, Colorado 80925.

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF NET POSITION DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents		
Non-designated	\$ 22,054,858	\$ 17,386,330
Designated	11,953,085	8,623,603
Accounts receivable	955,603	921,384
Prepaid expenses	381,338	378,486
Current portion of receivables — Peaceful Valley	<u>17,047</u>	<u>16,433</u>
Total current assets	<u>35,361,931</u>	<u>27,326,236</u>
NON-CURRENT ASSETS		
Capital assets, net	<u>35,517,396</u>	<u>33,115,531</u>
Other non-current assets		
Water rights	17,840,535	18,079,334
Receivables — Peaceful Valley	126,487	146,676
Contract rights	<u>3,662,083</u>	<u>3,662,083</u>
Total other non-current assets	<u>21,629,105</u>	<u>21,888,093</u>
Total non-current assets	<u>57,146,501</u>	<u>55,003,624</u>
Total assets	92,508,432	82,329,860
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on refunding	<u>494,691</u>	<u>544,998</u>
TOTAL	<u>\$ 93,003,123</u>	<u>\$ 82,874,858</u>

(continued)

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF NET POSITION DECEMBER 31, 2019 AND 2018

	2019	2018
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 195,858	\$ 426,641
Accrued expenses	334,878	724,928
Customer deposits	243,730	271,050
Current portion of bonds payable	<u>1,865,000</u>	<u>1,820,000</u>
Total current liabilities	2,639,466	3,242,619
NON-CURRENT LIABILITIES		
Bonds payable, net	<u>19,020,000</u>	<u>20,885,000</u>
Total liabilities	<u>21,659,466</u>	<u>24,127,619</u>
NET POSITION		
Net investment in capital assets	24,996,913	21,697,332
Unrestricted	<u>46,346,744</u>	<u>37,049,907</u>
Total net position	<u>71,343,657</u>	<u>58,747,239</u>
TOTAL	<u>\$ 93,003,123</u>	<u>\$ 82,874,858</u>

(concluded)

See notes to financial statements.

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING REVENUE		
Water revenue	\$ 5,718,148	\$ 5,299,422
Wastewater revenue	4,383,045	4,119,845
Other operating revenue	<u>865,096</u>	<u>918,388</u>
Total operating revenue	<u>10,966,289</u>	<u>10,337,655</u>
OPERATING EXPENSES		
Salaries and taxes	2,424,687	2,165,844
Water	1,380,060	1,413,304
Depreciation	1,332,590	1,259,171
Professional services	598,963	541,492
Employee benefits and insurance	568,645	521,415
Maintenance and repairs	515,656	484,452
Office services	490,230	522,435
Other operating expenses	<u>852,201</u>	<u>1,063,201</u>
Total operating expenses	<u>8,163,032</u>	<u>7,971,314</u>
OPERATING INCOME	<u>2,803,257</u>	<u>2,366,341</u>
NON-OPERATING REVENUE (EXPENSES)		
Tap fees	5,508,500	5,202,800
Water acquisition fees	2,779,000	2,933,000
Interest income	20,798	18,708
Other income	177,867	
Interest expense	<u>(587,158)</u>	<u>(625,993)</u>
Total	<u>7,899,007</u>	<u>7,528,515</u>
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS FOR CAPITAL ASSETS	10,702,264	9,894,856
CONTRIBUTIONS FOR CAPITAL ASSETS	<u>1,894,154</u>	<u>1,229,250</u>
CHANGE IN NET POSITION	12,596,418	11,124,106
NET POSITION, Beginning of year	<u>58,747,239</u>	<u>47,623,133</u>
NET POSITION, End of year	<u>\$ 71,343,657</u>	<u>\$ 58,747,239</u>

See notes to financial statements.

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
OPERATING ACTIVITIES		
Receipts from customers	\$ 10,904,749	\$ 10,095,170
Payments to suppliers	(4,475,994)	(3,793,788)
Payments to employees	<u>(2,978,133)</u>	<u>(2,597,075)</u>
Net cash provided by operating activities	<u>3,450,622</u>	<u>3,704,307</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Tap fees	5,508,500	5,202,800
Water acquisition fees	2,779,000	2,933,000
Acquisition and construction of capital assets	(1,965,251)	(6,383,294)
Sale of non-current assets	416,667	69,650
Interest paid on bonds and capital lease obligation	(587,158)	(625,993)
Proceeds from receivables — Peaceful Valley	19,575	15,495
Capital contributions	124,950	
Principal payments on bonds	(1,820,000)	(1,780,000)
Deferred loss on bond refunding	<u>50,307</u>	<u>50,308</u>
Net cash provided by (used) in capital and related financing activities	<u>4,526,590</u>	<u>(518,034)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash provided by investing activities — Interest on investments	<u>20,798</u>	<u>18,708</u>
INCREASE IN CASH AND CASH EQUIVALENTS	7,998,010	3,204,981
CASH AND CASH EQUIVALENTS, Beginning of year	<u>26,009,933</u>	<u>22,804,952</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 34,007,943</u>	<u>\$ 26,009,933</u>

(continued)

WIDEFIELD WATER AND SANITATION DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,803,257	\$ 2,366,341
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,332,590	1,259,171
Other		(57,846)
Change in operating assets and liabilities:		
Accounts receivable	(34,220)	(145,944)
Prepaid expenses	(2,852)	(3,279)
Accounts payable and accrued expenses	(620,833)	324,559
Customer deposits	<u>(27,320)</u>	<u>(38,695)</u>
Net cash provided by operating activities	<u>\$ 3,450,622</u>	<u>\$ 3,704,307</u>
NON-CASH TRANSACTIONS		
Contribution of capital assets	<u>\$ 1,769,204</u>	<u>\$ 1,229,250</u>

(concluded)

See notes to financial statements.

WIDEFIELD WATER AND SANITATION DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity — Widefield Water and Sanitation District of El Paso County, Colorado (the District), was organized on May 17, 1996 and is governed by a Board of Directors that is selected by an election of eligible electors within the District's legal boundaries. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District supplies water and sanitary sewer services for the geographical service area known as the Widefield Water and Sanitation District. The District has no component units.

Basis of Accounting — The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of the Governmental Accounting Standards Board (GASB). The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise; (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Net Position — The District's net position is classified in the following three components:

- **Net investment in capital assets** — This component consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** — This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets are assets which have restrictions placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- **Unrestricted** — This component consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Budgets — In the fall, the Budget officer is required to submit to the Board of Directors a budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted by the District to obtain public comments on the budget. Prior to December 31, the budget is officially adopted by the Board.

The District is authorized to transfer budgeted amounts between line items of the budget; however, any revisions that increase the total expenditures of the District must be approved by the Board of Directors.

Capital Assets — Capital assets, which consist primarily of water and sanitary sewer systems, are stated at historical cost or fair market value at the time of donation. Depreciation is calculated using the straight-line method over the estimated useful lives ranging from three to seventy-five years.

Cash and Cash Equivalents — Cash in excess of daily requirements is invested in money market accounts. Such accounts, demand deposits and cash on hand, are deemed to be cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are included in the following statement of net position categories:

	2019	2018
Non-designated	\$ 22,054,858	\$ 17,386,330
Designated	<u>11,953,085</u>	<u>8,623,603</u>
Total	<u>\$ 34,007,943</u>	<u>\$ 26,009,933</u>

Accounts Receivable — Accounts receivable as of December 31, 2019 and 2018 include unbilled customers' accounts of \$572,617 and \$535,423, respectively. Billed accounts receivable are stated at invoiced amounts. Management has determined that accounts receivable are collectible and no allowance for doubtful accounts is deemed necessary.

Contract Rights — Certain contract rights donated in 1997 are recorded at fair market value at the time of donation. No amortization of the contract rights is recognized since they are perpetual. Annually, the District evaluates the contract rights for impairment.

Fair Value of Financial Instruments — The District's financial instruments include cash and cash equivalents, accounts receivable, and accounts payable. The District estimates that the fair values of its financial instruments at December 31, 2019 and 2018 do not differ materially from the carrying values of its financial instruments recorded in the accompanying statements of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Operating Revenue and Expenses — Operating revenue and expenses are those that result from providing services and producing and delivering goods and services. It also includes all revenue and

expenses not related to capital and related financing, noncapital financing, or investing activities. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Use of Estimates — Preparation of the District's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. RECEIVABLES — PEACEFUL VALLEY

The District installed a water transmission system for a subdivision known as Peaceful Valley Lake Estates (Peaceful Valley). The cost of the improvements was \$789,818 and was financed by the District's 1997 Series A bonds. Each homeowner within the subdivision was asked to pay a one-time charge equal to a pro-rata share of the overall cost or agree to a separate monthly assessment sufficient to amortize the pro-rata cost using a term and interest rate roughly equivalent to the 1997 Series A bonds. The amounts due from Peaceful Valley homeowners at December 31, 2019 and 2018 were \$143,534 and \$163,109, respectively. The receivables are secured by liens on each of the properties within Peaceful Valley.

After a one year warranty period, the District assumed ownership and maintenance responsibility for the system. Accordingly, the District has recorded the cost of the system as an asset and capital contribution. The receivables bear interest at 5.89% and are due as follows for the year ending December 31:

2020	\$	17,047
2021		18,078
2022		19,174
2023		20,335
2024		21,566
2025 – 2026		<u>47,334</u>
Total	\$	<u>143,534</u>

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2019 and 2018 is as follows:

	Balance at January 1, 2019	Increases	Decreases	Balance at December 31, 2019
Land	\$ 934,676			\$ 934,676
Equipment and systems	38,694,762	\$ 10,769,433		49,464,195
Office furniture and equipment	59,342			59,342
Construction in progress	<u>9,723,973</u>	<u> </u>	<u>\$ (7,034,976)</u>	<u>2,688,997</u>
Total capital assets	<u>49,412,753</u>	<u>10,769,433</u>	<u>(7,034,976)</u>	<u>53,147,210</u>
Less accumulated depreciation for:				
Equipment and systems	(16,274,195)	(1,325,370)		(17,599,565)
Office furniture and equipment	<u>(23,027)</u>	<u>(7,222)</u>	<u> </u>	<u>(30,249)</u>
Total accumulated depreciation	<u>(16,297,222)</u>	<u>(1,332,592)</u>	<u> </u>	<u>(17,629,814)</u>
Capital assets, net	<u>\$ 33,115,531</u>	<u>\$ 9,436,841</u>	<u>\$ (7,034,976)</u>	<u>\$ 35,517,396</u>
	Balance at January 1, 2018	Increases	Decreases	Balance at December 31, 2018
Land	\$ 815,116	\$ 119,560		\$ 934,676
Equipment and systems	37,664,693	1,082,759	\$ (52,690)	38,694,762
Office furniture and equipment	59,342			59,342
Construction in progress	<u>3,313,748</u>	<u>6,410,225</u>	<u> </u>	<u>9,723,973</u>
Total capital assets	<u>41,852,899</u>	<u>7,612,544</u>	<u>(52,690)</u>	<u>49,412,753</u>
Less accumulated depreciation for:				
Equipment and systems	(15,063,549)	(1,251,532)	40,886	(16,274,195)
Office furniture and equipment	<u>(15,388)</u>	<u>(7,639)</u>	<u> </u>	<u>(23,027)</u>
Total accumulated depreciation	<u>(15,078,937)</u>	<u>(1,259,171)</u>	<u>40,886</u>	<u>(16,297,222)</u>
Capital assets, net	<u>\$ 26,773,962</u>	<u>\$ 6,353,373</u>	<u>\$ (11,804)</u>	<u>\$ 33,115,531</u>

4. LONG-TERM DEBT

A summary of long-term debt is as follows:

	Balance at January 1, 2019	Increases	Decreases	Balance at December 31, 2019	Amounts Due Within One Year
Water and Sewer Revenue Refinancing Bonds, Series 2012	\$ 2,810,000		\$ (205,000)	\$ 2,605,000	\$ 215,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2016	<u>19,895,000</u>		<u>(1,615,000)</u>	<u>18,280,000</u>	<u>1,650,000</u>
Total	<u>\$22,705,000</u>	<u>\$ —</u>	<u>\$ (1,820,000)</u>	<u>\$20,885,000</u>	<u>\$ 1,865,000</u>

	Balance at January 1, 2018	Increases	Decreases	Balance at December 31, 2018	Amounts Due Within One Year
Water and Sewer Revenue Refinancing Bonds, Series 2012	\$ 3,010,000		\$ (200,000)	\$ 2,810,000	\$ 205,000
Water and Sewer Revenue Refunding and Improvement Bonds, Series 2016	<u>21,475,000</u>		<u>(1,580,000)</u>	<u>19,895,000</u>	<u>1,615,000</u>
Total	<u>\$24,485,000</u>	<u>\$ —</u>	<u>\$ (1,780,000)</u>	<u>\$22,705,000</u>	<u>\$ 1,820,000</u>

The following is a summary of bond principal maturities and interest requirements as of December 31, 2019:

Year Ending December 31,	Series 2016 Bonds	Series 2012 Bonds	Total
2020	\$ 2,057,644	\$ 304,721	\$ 2,362,365
2021	2,060,849	307,316	2,368,165
2022	2,058,162	309,566	2,367,728
2023	2,059,695	311,472	2,371,167
2024	2,060,335	313,034	2,373,369
2025 – 2029	<u>10,299,728</u>	<u>1,581,543</u>	<u>11,881,271</u>
Total	20,596,413	3,127,652	23,724,065
Less interest	<u>2,316,413</u>	<u>522,652</u>	<u>2,839,065</u>
Outstanding principal	<u>\$ 18,280,000</u>	<u>\$ 2,605,000</u>	<u>\$ 20,885,000</u>

Series 2012 Bonds:

In 2012, the District issued Water and Sewer Revenue Refunding Bonds Series 2012 in order to defease the District's Series B Bonds. The Bonds have a face amount of \$4,170,000 with interest ranging from 2% to 3% plus the five-year LIBOR Swap Curve multiplied by .065.

Series 2016 Bonds:

In 2016, the District issued Water and Sewer Revenue Refunding and Improvement Bonds Series 2016 in order to extinguish the District's Series 2004 Bonds, as well as purchase the remaining shares related to the Cody water rights. The bonds have a face value of \$23,920,000 and bear interest at 3.44%.

The District's "Net Revenue" is pledged to pay the principal and interest of the Series 2016 and 2012 Bonds. Net Revenue is generally defined as all income and revenue derived by the District from the operation and use of the water and wastewater systems less all reasonable and necessary expenses incurred for operating, maintaining and repairing the Systems.

5. WATER RIGHTS

As of December 31, 2019 and 2018, the District owns 241 shares of stock in Fountain Mutual Irrigation Company, which are recorded at cost in the amount of \$1,982,750. Each share provides a right to 0.7 acre feet of water. In addition, the District has 100% interest in certain water rights referred to as the Cody Water Rights, which are also recorded at cost in the amount of \$15,000,000. As of December 31, 2019 and 2018 the District also has a \$857,785 and \$1,096,584 interest respectively, in certain water rights referred to as the Westcliffe H2O Ranch Water Rights (see Note 7), which are also recorded at cost.

6. DEPOSITS

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash into eligible public depositories as determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA which allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

At December 31, 2019 and 2018, the carrying amount of the District's cash was \$34,007,943 and \$26,009,933, respectively, and the bank balances were \$34,017,909 and \$26,115,955, respectively. Of the bank balances, \$250,000 was covered by federal depository insurance and \$33,767,909 and \$25,866,955 as of December 31, 2019 and 2018, respectively is required by Colorado statutes to be collateralized with securities held by the pledging financial institution's trust department in the District's name.

7. WATER PURCHASE COMMITMENTS

Fountain Valley Authority:

Fountain Valley Authority (the Authority) is a political subdivision of the State of Colorado formed in 1979 for the primary purpose of constructing and operating a water treatment plant for its five customers, each of which owns and operates a water system. The District has a 7.46% share in the Authority and is a customer of the Authority. The Authority has entered into a water treatment and delivery contract with its five customers in which each customer agrees to pay the Authority its proportionate share of all costs, including bonded indebtedness, whether or not such customer requests or receives any treated water.

In addition, the Authority has conveyance contracts with the United States Department of the Interior through the Southeastern Colorado Water Conservancy District which has constructed a conduit from the Pueblo Reservoir to the site of the water treatment plant. Construction costs of this project will be reimbursed with interest over a 40-year period by conveyance service rates based upon the scheduled acre feet of water to be conveyed for each customer.

The District's participation is 1,500 acre-feet (7.46% of the total). The Authority charges contract participants amounts necessary to recover its construction costs and to purchase and treat the raw water. Total expenses under this arrangement were \$919,646 and \$951,168 for the years ended December 31, 2019 and 2018, respectively.

1997 Master Lease of Water:

In 1997, the District entered into a perpetual Master Lease of Water (Water Lease) that was subsequently amended in 2009, under which the District agreed to pay the lessor for the first six years of the lease a payment of \$125 per acre-foot at the bottom of the well for all water pumped. Terms of the Water Lease require the District to acquire a minimum of 1,000 acre feet annually. The lease provides that on March 1, 2003 and on each ten-year anniversary thereafter, the lease payment per acre-foot is to be adjusted to the then market value. Each year after a market value determination has been made and until the next market value determination, annual adjustments shall be made to the lease rate pursuant to the CPI. Effective March 1, 2019 and 2018, the rate was \$210 and \$204 per acre foot, respectively.

2006 Water Rights Agreement:

In December 2006, the District, together with Security Water District (Security), entered into a perpetual Water Rights Agreement with Pikes Peak Community Foundation to lease approximately 1,350 acre feet of water per year. Terms of the agreement provide for the District and Security each receiving, and paying for, one half of the water available and include future annual CPI adjustments to lease payments. Concurrent with the lease, the District and Security entered into a Water Rights Sublease with the City of Fountain (Fountain) to lease to Fountain approximately 1,125 acre feet of water per year through December 2011. The agreement was amended in March 2012 to extend the initial sublease period through December 31, 2016. Commencing January 1, 2017, Fountain has the continuing right to lease water that the District and Security are unable to use or do not wish to use. Also, commencing January 1, 2017, Fountain is entitled to lease, in perpetuity, 10% of the amount of water available under the Water Rights Lease Agreement with Pikes Peak Community Foundation. The District and Security will share the remaining water 45% each. Additional terms of the Water

Rights Sublease require Fountain to pay for the necessary well rehabilitation and pipeline installations with an understanding that the District and Security will reimburse Fountain for two-thirds of the costs of infrastructure that benefits them, at such time as the District and Security cease to sublet their water to Fountain.

Westcliffe Water:

In 2008, the District entered into an agreement with Fountain and the owner of H2O Ranch (the Ranch) in Westcliffe, Colorado, the owner of 486 acres and certain water rights. Terms of the agreement provided for Fountain to buy the Ranch and the appurtenant water rights for \$3,500,000, including \$2,000,000 at closing and a note for \$1,500,000 due in monthly installments of \$12,000 including interest at 7%. The District is a party to this agreement and, in a separate agreement with Fountain, agreed to reimburse Fountain for 50% of the costs incurred in the original deal in exchange for 50% of the water which becomes decreed for municipal use.

During 2015, Fountain made a payment to Westcliffe Water of \$2,191,178 towards the \$3,500,000 agreed upon purchase price. As such, the District reimbursed the City of Fountain \$1,095,589 (50%). As a result of this payment by the District and fees paid in 2016, the amount of the interest in the Westcliffe Water Rights is \$1,096,584 as of December 31, 2018. During 2019, the District entered into an agreement with Fountain to sell the District's 50% interest over 3 installments. The amount of the interest in the Westcliffe Water Rights is \$857,785 as of December 31, 2019.

8. RISK MANAGEMENT

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

The District carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. There were no claims resulting from these risks that exceeded commercial insurance coverage during 2019 and 2018.

9. TAX, SPENDING AND DEBT LIMITATIONS

In November 1992 Colorado voters approved Amendment 1 to the state Constitution which is commonly known as the Taxpayer's Bill of Rights or the TABOR Amendment. The amendment applies to all units of local government and limits taxes, spending, revenue, and multi-year debt (excepting bond refundings to lower interest rates and adding employees to pension plans). The amendment does not apply to units of local government that are defined as an "Enterprise".

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes substantially all of its operations qualify for this exclusion. Therefore, the District adopted a resolution pursuant to CRS 37-45.1-101 et seq. to establish a water activity enterprise.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of qualification as an Enterprise will require judicial interpretation.

10. PENSION PLAN

The District contributes to the Colorado County Officials and Employees Retirement System (CCOERS), a cost-sharing multiple-employer defined contribution pension plan administered by the Colorado County Officials and Employees Retirement Association (CCOERA). CCOERS provides pension benefits and deferred compensation for members and beneficiaries. Employees regularly employed on a full-time basis for five months a year and having completed 90 days of service are eligible for the plan and participants become fully vested 12 months later. Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 54, Part 101 of the Colorado Revised Statutes (CRS), as amended. The District is required to contribute between 3% and 6% of the participant's compensation. The District's board approved rate is 5% of compensation. Total contributions made by the District for the years ended December 31, 2019 and 2018 were \$98,096 and \$87,689, respectively.

CCOERA issues a publicly available annual financial report that includes financial statements and required supplementary information for CCOERS. That report may be obtained by writing to CCOERA, 4949 South Syracuse Street, Suite 400, Denver, Colorado 80237 or by calling CCOERA at 1-800-352-0313.

11. JOINT FACILITIES OPERATING AGREEMENT

The District has a Joint Facilities Operating Agreement (Agreement) with the City of Fountain (Fountain), Colorado. The purpose of the Agreement is to provide for the ownership, operation, and use of water storage tanks and related facilities. Under the Agreement, the facilities were constructed at a cost of \$2,623,177 shared equally by the District and Fountain.

The District provides day-to-day operational control and revenues and costs generally are shared equally.

12. WIDEFIELD AQUIFER RECHARGE ASSOCIATION

During 2003, the District entered into an agreement with Security Water District (Security) to form the Widefield Aquifer Recharge Association (the Association), made up of the District and Security as members. The Association was formed to engage in the planning, evaluation, design and financial feasibility of jointly developing a public water treatment and supply facility that would utilize certain water rights controlled by the Members. In 2008, the agreement was amended for the purpose of including the City of Fountain (Fountain) into the Association. The Association's purpose continues to be the same and will ultimately utilize water rights of the Members to enhance each Member's developed water supply. The Association will continue until the earlier of: (a) the execution of a new agreement between the parties, (b) the withdrawal of a member, (c) the mutual agreement of the

Members to dissolve or (d) December 31, 2016, unless the term of the Association is extended by mutual agreement of the Members. During 2019, the agreement was renewed through May 1, 2025. The Association is governed by a Board of Directors which consists of a representative from each of the Member entities. Each member contributes one third (1/3) of the annual operating budget. There were no District contributions in both 2019 and 2018. The Association had \$34,127 and \$49,756 of cash remaining at December 31, 2019 and 2018, respectively.

13. COMMITMENTS AND CONTINGENCIES

On December 18, 2007, the District entered into an operating agreement with the Security Water District and Fountain. The operating agreement details the responsibilities of each entity for operations of the Venetucci Well Field which is under lease by the District. Under the operating agreement, Fountain is responsible for the initial development, construction and ownership of a facility, which is eventually to be jointly owned, for the initial sublease period from January 1, 2007 through December 31, 2015. After the initial sublease period, the District is required to reimburse Fountain for 1/3 of depreciated cost incurred during the initial sublease period for development and construction of the jointly owned facility, and the District will have joint ownership in the facility. Upon termination of the initial sublease, all operating costs for the jointly owned facility are allocated based on the respective entity's ownership of the jointly owned facility and all operating costs for the jointly constructed facility are allocated based on use and benefit that the entities incur from the jointly constructed facility. The District will be responsible for 45% of operating cost for the jointly owned facility. The agreement was amended in March 2012 to extend the initial sublease period through December 31, 2016. However, due to water contamination issues, the lease of the Venetucci Well Field was suspended until resolved.

14. SUBSEQUENT EVENT

On January 30, 2020, the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as the date of this report. As such, Management is actively monitoring the global situation on the District's financial condition. Furthermore, by way of Executive Order, the Governor of the State of Colorado required all utilities to suspend late fees and shut offs during the stay-at-home order. Management estimates that the COVID-19 outbreak and the Governor's Executive Order may negatively impact short-term and long-term cash flows. The District may experience reduced cash collections in the short-term due to the COVID-19 outbreak and the Governor's Executive Order. Conversely, in the longer-term, the District has the ability to lien real property for the non-payment of utility bills. As a result, the District will eventually collect the cash from unpaid utility bills over the long-term.

WIDEFIELD WATER AND SANITATION DISTRICT

SUPPLEMENTAL SCHEDULE

WIDEFIELD WATER AND SANITATION DISTRICT

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION COMPARED TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2019

	Original Budget	Final Budget	Actual	Variance between Final and Actual
OPERATING REVENUE				
Water revenue	\$ 5,028,000	\$ 5,028,000	\$ 5,718,148	\$ 690,148
Wastewater revenue	4,407,850	4,407,850	4,383,045	(24,805)
Other income	<u>637,110</u>	<u>637,110</u>	<u>865,096</u>	<u>227,986</u>
Total	<u>10,072,960</u>	<u>10,072,960</u>	<u>10,966,289</u>	<u>893,329</u>
OPERATING EXPENSES				
Salaries and taxes	2,358,612	2,358,612	2,424,687	(66,075)
Water	1,602,200	1,602,200	1,380,060	222,140
Depreciation	1,714,750	1,714,750	1,332,590	382,160
Professional services	573,200	573,200	598,963	(25,763)
Employee benefits and insurance	603,548	603,548	568,645	34,903
Maintenance and repairs	608,500	608,500	515,656	92,844
Office services	609,184	609,184	490,230	118,954
Other operating expenses	<u>1,086,700</u>	<u>1,086,700</u>	<u>852,201</u>	<u>234,499</u>
Total	<u>9,156,694</u>	<u>9,156,694</u>	<u>8,163,032</u>	<u>993,662</u>
OPERATING INCOME	916,266	916,266	2,803,257	1,886,991
NON-OPERATING REVENUE, NET	<u>4,116,898</u>	<u>4,116,898</u>	<u>7,899,007</u>	<u>3,782,109</u>
CHANGE IN NET POSITION BEFORE CONTRIBUTIONS	5,033,164	5,033,164	10,702,264	5,669,100
CONTRIBUTIONS FOR CAPITAL ASSETS	<u> </u>	<u> </u>	<u>1,894,154</u>	<u>1,894,154</u>
CHANGE IN NET POSITION	<u>\$ 5,033,164</u>	<u>\$ 5,033,164</u>	<u>\$ 12,596,418</u>	<u>\$ 7,563,254</u>