

SECURITY SANITATION DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2016 and 2015



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DECEMBER 31, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Security Sanitation District

We have audited the accompanying financial statements of Security Sanitation District, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Security Sanitation District, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

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

Other Information

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

Hoelting & Company, Inc.

Colorado Springs, Colorado
June 19, 2017

SECURITY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2016

As management of Security Sanitation District (the District) we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2016. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$15,515,712 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$15,113,345 (*net position*). Of this amount, \$11,937,642 represents unrestricted net position, which may be used to meet the District's ongoing obligations.
- The District's total net position increased during the year by \$1,155,282.
- Capital assets net of depreciation decreased by \$124,164 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements consist of the following components: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, (3) Statement of Cash Flows, and (4) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements.

Statement of Net Position - This statement reports all financial and capital resources (assets) and obligations (liabilities) and deferred inflows and outflows. The difference between assets, liabilities, and deferred inflows and outflows is net position. The statement also provides the basis for evaluating the capital structure and assessing liquidity and financial flexibility.

Statement of Revenues, Expenses and Changes in Net Position - All revenues and expenses are accounted for in this statement. This statement measures the results from operations and can be used to determine whether the District's rates, fees and other charges are adequate to recover expenses.

Statement of Cash Flows - This statement reports all cash receipts and payments summarized by net changes in cash from operating, non-capital financing, capital and related financing, and investing activities.

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2016, the District's assets exceeded liabilities and deferred inflows by \$15,113,345 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 12,377,526	\$ 11,054,822
Capital assets, net	<u>3,138,186</u>	<u>3,262,350</u>
Total assets	<u>15,515,712</u>	<u>14,317,172</u>
Current and other liabilities	66,495	35,056
Long-term liabilities	<u>228,447</u>	<u>219,695</u>
Total liabilities	<u>294,942</u>	<u>254,751</u>
Deferred inflows of resources	<u>107,425</u>	<u>104,358</u>
Net position:		
Net investment in capital assets	3,138,186	3,262,350
Restricted	37,517	37,517
Unrestricted	<u>11,937,642</u>	<u>10,658,196</u>
Total net position	<u>\$ 15,113,345</u>	<u>\$ 13,958,063</u>

Unrestricted net position of the District at the end of the year was \$11,937,642, an increase of \$1,279,446 from the prior year.

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

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 3,026,949	\$ 2,796,288
Operating expenses	<u>(2,318,288)</u>	<u>(2,377,052)</u>
Operating income (loss)	708,661	419,236
Non-operating revenue and expenses, net	<u>282,404</u>	<u>188,711</u>
Income (loss) before contributions	991,065	607,947
Capital contributions – tap fees	<u>164,217</u>	<u>786,489</u>
Change in net position	1,155,282	1,394,437
Net position, beginning	<u>13,958,063</u>	<u>12,563,626</u>
Net position, ending	<u>\$ 15,113,345</u>	<u>\$ 13,958,063</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2016 amounts to \$3,138,186. This investment in capital assets includes land, buildings and lagoon, equipment, and sewer main.

	<u>2016</u>	<u>2015</u>
Capital assets, not being depreciated	\$ 43,590	\$ 13,218
Capital assets, being depreciated	11,032,924	10,969,320
Less accumulated depreciation	<u>(7,938,328)</u>	<u>(7,720,188)</u>
Total capital assets, net	<u>\$ 3,138,186</u>	<u>\$ 3,262,350</u>

The major capital asset acquisitions during 2016 was collection system upgrades.

Long-Term Debt

There was no long-term debt at December 31, 2016.

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – The District is facing significant capital expenditures to upgrade the wastewater treatment plant in order to meet current and future regulations. In addition, the wastewater collection system is in need of continuous improvements so that the District can continue to provide the best possible service to its customers. These conditions will undoubtedly require future increases in wastewater rates, but rates will continue to be competitive for this geographic area. Tap fees may also increase in order to offset the impact of growth upon the collection and treatment facilities.

Economic and Environmental Factors – Development within the District slowed in 2016 and is expected to remain somewhat sluggish into the near future. The District will need to continue to upgrade facilities, however, in part to accommodate anticipated long-term growth. Regulatory requirements are expected to provide ever-increasing treatment challenges in the future and will demand substantial resources in order for the District to maintain compliance.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers, creditors and other financial users with a general overview of the District's finances. If you have questions about this report or need additional financial information, please contact the District's General Manager, Roy E. Heald, at 719-392-3475 or 231 Security Boulevard, Colorado Springs, CO 80911.

BASIC FINANCIAL STATEMENTS

**SECURITY SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,101,483	\$ 1,886,094
Investments	8,812,307	8,731,923
Due from County Treasurer	1,046	1,001
Accounts receivable	336,358	317,199
Property taxes receivable	107,425	104,358
Interest receivable	18,907	14,247
Total current assets	12,377,526	11,054,822
Noncurrent assets:		
Capital assets, net of depreciation	3,138,186	3,262,350
Total assets	15,515,712	14,317,172
LIABILITIES		
Current liabilities:		
Accounts payable	43,763	14,063
Compensated absences payable	17,562	16,056
Payroll taxes payable	918	918
Unearned assessment revenue	4,252	4,019
Total current liabilities	66,495	35,056
Noncurrent liabilities:		
Compensated absences	228,447	219,695
Total noncurrent liabilities	228,447	219,695
Total liabilities	294,942	254,751
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property tax	107,425	104,358
NET POSITION		
Investment in capital assets	3,138,186	3,262,350
Restricted	37,517	37,517
Unrestricted	11,937,642	10,658,196
Total net position	\$ 15,113,345	\$ 13,958,063

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

SECURITY SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Charges for sales and services		
Sanitation assessments	\$ 2,958,319	\$ 2,758,521
Other	68,630	37,767
Total operating revenues	<u>3,026,949</u>	<u>2,796,288</u>
Operating expenses:		
Sewage pumping and treatment	1,218,608	1,201,765
Waste disposal	242,017	320,701
Maintenance	64,220	66,053
Administration and general	528,875	518,950
Depreciation	264,568	269,583
Total operating expenses	<u>2,318,288</u>	<u>2,377,052</u>
Operating income (loss)	<u>708,661</u>	<u>419,236</u>
Nonoperating revenues (expenses):		
General property and specific ownership taxes	115,884	112,035
Intergovernmental	54,850	18,305
Investment income	84,493	58,371
Involuntary gain on conversion	27,177	-
Total non-operating revenues (expenses)	<u>282,404</u>	<u>188,711</u>
Income (loss) before capital contributions	991,065	607,947
Capital contributions - tap fees	<u>164,217</u>	<u>786,490</u>
Change in net position	1,155,282	1,394,437
Net position-beginning	<u>13,958,063</u>	<u>12,563,626</u>
Net position-ending	<u><u>\$ 15,113,345</u></u>	<u><u>\$ 13,958,063</u></u>

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

**SECURITY SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 2,939,393	\$ 2,748,033
Cash payments to suppliers for goods and services	(914,162)	(1,137,728)
Cash payments to employees for services	(1,099,600)	(1,045,003)
Other operating revenues	123,479	56,073
	<u>1,049,110</u>	<u>621,375</u>
Net cash provided (used) by operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	115,839	111,931
	<u>115,839</u>	<u>111,931</u>
Net cash provided (used) by noncapital financing activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions - tap fees	164,217	786,490
Acquisition and construction of capital assets	(152,102)	(65,290)
Insurance proceeds	38,876	-
	<u>50,991</u>	<u>721,200</u>
Net cash provided (used) by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(2,084,936)	(6,999,833)
Proceeds from matured securities	2,000,000	5,400,000
Interest received	84,385	73,567
	<u>(551)</u>	<u>(1,526,266)</u>
Net cash provided (used) by investing activities		
Net increase (decrease) in cash and cash equivalents	1,215,389	(71,760)
Cash and cash equivalents at beginning of year	1,886,094	1,957,854
	<u>1,886,094</u>	<u>1,957,854</u>
Cash and cash equivalents at ending of year	<u>\$ 3,101,483</u>	<u>\$ 1,886,094</u>

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

**SECURITY SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 708,661	\$ 419,236
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation expense	264,568	269,583
Intergovernmental	54,850	18,305
Changes in assets and liabilities:		
<i>(Increase) decrease in assets:</i>		
Accounts receivable	(19,160)	(10,685)
<i>Increase (decrease) in liabilities:</i>		
Accounts payable	29,700	(88,474)
Compensated absences payable	10,258	13,213
Unearned assessment revenue	233	197
Total Adjustments	340,449	202,139
Net Cash Provided (Used) by Operating Activities	\$ 1,049,110	\$ 621,375
Schedule of non-cash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 2,504	\$ 5,373
Amortization of investment premium	\$ (2,228)	\$ (17,445)

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

NOTES TO FINANCIAL STATEMENTS

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

A. REPORTING ENTITY

Security Sanitation District is a special district governed by an elected five-member board. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments are stated at fair value.

Accounts Receivable

Accounts Receivable are due from a large number of customers who are provided monthly sanitation services. An allowance for doubtful accounts is not required as the District holds a lien on property for unpaid sanitation services.

Capital Assets

All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Collection mains and other improvements installed upon formation of the District at the expense of developers and subdividers are not recorded in the balance sheet and depreciation thereon has not been charged against revenues as records are not available to establish valuation for such property.

Depreciation of buildings, equipment, vehicles and the sewer system is computed over the following estimated useful lives using the straight-line method.

Buildings and lagoon	12 - 40 years
Sanitation plant	15 - 40 years
Sewer main	40 years
Equipment	5 - 20 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of operations.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

E. REVENUES AND EXPENSES

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. The tax levy is payable in two installments due February 28 and June 15, or in one installment due April 30. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are recognized when levied to the extent they result in current receivables. The tax rates were 0.856 and 0.899 mills for the years ended December 31, 2016 and 2015, respectively. The District's assessed valuations for 2016 and 2015 were \$121,896,470 and \$111,940,850 respectively.

Compensated Absences

A liability is recorded for vested accumulated rights to received sick pay and vacation benefits. Vested accumulated sick leave and vacation is recorded as an expense and liability of the District as the benefits accrue to employees. Employees are fully vested after one year of service. Unvested sick leave and vacation is not material. Therefore, a liability for unvested sick leave has not been reflected in these financial statements.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. REVENUES AND EXPENSES (CONTINUED)

Operating and non-operating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are sanitation assessments, and inspection fees. Operating expenses include all expenses incurred to provide sanitation services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

G. COMPARATIVE DATA

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

Budgets are adopted on a comprehensive basis of accounting other than generally accepted accounting principles. The primary differences are that bond and note proceeds are treated as a budget source and capital expenditures and bond and note principal payments are treated as a budget use. Depreciation expense is not considered a budget expense. An annual appropriated budget is adopted for the proprietary fund. All annual appropriations lapse at fiscal year end.

Expenditures may not legally exceed budgeted appropriations.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- 1) By October 15th of each year, the manager submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) A public hearing is conducted by the District to obtain taxpayer comments.
- 3) Prior to December 31, the budget is legally enacted by the Board.
- 4) The manager is authorized to transfer budgeted amounts between line items of the District; however, any revisions that increase the total expenditures of the District must be approved by the Board of Directors.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

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

At December 31, 2016 and 2015, the carrying amounts of the District's deposits were \$8,109 and \$(38,706), and the bank balances were \$37,316 and \$26,475 respectively. All of the total bank balances at December 31, 2016 and 2015 were covered by FDIC insurance.

Investments

The District is authorized by Colorado statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- Notes or bonds issued to the "National Housing Act".
- Repurchase agreements.
- Local government investment pools.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits its investment portfolio to investment maturities not to exceed five years from the date of purchase.

Credit Risk: The District's investment policy limits investments as described above. As of December 31, 2016, the District's U.S. Treasuries and Agencies were rated Aaa and Commercial Paper was rated P-1 by Moody's Investor Services. Standard & Poor's rated U.S. Treasuries and Agencies held by the District AA+, Commercial Paper A-1, and all other investments AAA.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2016 the District had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less Than 90 Days</u>	<u>90 Days to 1 Year</u>	<u>1 to 2 Years</u>	<u>2 to 5 Years</u>
Money Market Funds	\$ 3,024,258	\$ 3,024,258	\$ -	\$ -	\$ -
COLOTRUST	69,016	69,016	-	-	-
U.S. Treasuries	1,650,750	400,203	500,527	750,020	-
U.S. Agencies	<u>7,161,557</u>	-	-	<u>3,998,862</u>	<u>3,162,695</u>
Total	<u>\$ 11,905,581</u>	<u>\$ 3,493,477</u>	<u>\$ 500,527</u>	<u>\$ 4,748,882</u>	<u>\$ 3,162,695</u>

As of December 31, 2016, the District has invested \$69,016 in the Colorado Government Liquid Asset Trust (COLOTRUST). COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

The designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal function of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the District does not categorize investments with COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents:		
Cash on hand	\$ 100	\$ 100
Deposits	8,109	(38,706)
Money Market Funds	3,024,258	1,856,130
COLOTRUST	<u>69,016</u>	<u>68,570</u>
	<u>\$ 3,101,483</u>	<u>\$ 1,886,094</u>
Investments:		
U.S. Treasuries	\$ 1,650,750	\$ 2,149,062
U.S. Agencies	<u>7,161,557</u>	<u>6,582,861</u>
	<u>\$ 8,812,307</u>	<u>\$ 8,731,923</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 – FAIR VALUE MEASUREMENT

The District records assets and liabilities in accordance with GASB 72, which establishes general principles for measuring fair value, provides additional fair value application guidance and enhances disclosures about fair value measurements.

GASB 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique. As a basis for considering market participant assumptions in fair value measurements, GASB 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

- Level 1 inputs reflect prices quoted in active markets.
- Level 2 inputs reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 inputs reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment’s risk.

Investments classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Investments classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

	December 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
Money Market	\$ 3,024,258	\$ -	\$ -	\$ 3,024,258
COLOTRUST	69,016	-	-	69,016
U.S. Treasury Notes	-	1,650,750	-	1,650,750
Agency Notes	-	7,161,557	-	7,161,557
Total Investments - unrestricted	<u>\$ 3,093,274</u>	<u>\$ 8,812,307</u>	<u>\$ -</u>	<u>\$ 11,905,581</u>
	December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
Money Market	\$ 1,856,130	\$ -	\$ -	\$ 1,856,130
COLOTRUST	68,570	-	-	68,570
U.S. Treasury Notes	-	2,149,062	-	2,149,062
Agency Notes	-	6,582,861	-	6,582,861
Total Investments - unrestricted	<u>\$ 1,924,700</u>	<u>\$ 8,731,923</u>	<u>\$ -</u>	<u>\$ 10,656,623</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 13,218	\$ -	\$ -	\$ 13,218
CIP – Treatment Plant Extension	<u>-</u>	<u>30,372</u>	<u>-</u>	<u>30,372</u>
Total capital assets, not being depreciated	<u>13,218</u>	<u>30,372</u>	<u>-</u>	<u>43,590</u>
Capital assets, being depreciated:				
Buildings and lagoon	975,716	-	(37,317)	938,399
Sanitation plant	7,025,825	17,631	(8,432)	7,035,024
Sewer main	1,198,415	93,133	-	1,291,548
Equipment	<u>1,769,364</u>	<u>10,966</u>	<u>(12,377)</u>	<u>1,767,953</u>
Total capital assets, being depreciated	10,969,320	121,730	(58,126)	11,032,924
Less accumulated depreciation	<u>(7,720,188)</u>	<u>(264,568)</u>	<u>46,428</u>	<u>(7,938,328)</u>
Total capital assets, being depreciated, net	<u>3,249,132</u>	<u>(142,838)</u>	<u>(11,698)</u>	<u>3,094,596</u>
Total capital assets, net	<u>\$ 3,262,350</u>	<u>\$ (112,466)</u>	<u>\$ (11,698)</u>	<u>\$ 3,138,186</u>

Depreciation expense was charged to functions/programs as follows:	<u>2016</u>	<u>2015</u>
Sewage pumping and treatment	\$ 255,562	\$ 260,266
Administration and general	<u>9,006</u>	<u>9,317</u>
Total depreciation expense	<u>\$ 264,568</u>	<u>\$ 269,583</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 6 - LONG-TERM LIABILITIES

Compensated absences

Compensated absences consisted of the following:

	2016	2015
Sick leave benefits	\$ 194,694	\$ 184,917
Vacation benefits	51,315	50,834
Total	\$ 246,009	\$ 235,751

The changes in long-term liabilities for the year ended December 31, 2016 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ <u>235,751</u>	\$ <u>99,769</u>	\$ <u>89,511</u>	\$ <u>246,009</u>	\$ <u>17,562</u>
Total long-term liabilities	\$ <u>235,751</u>	\$ <u>99,769</u>	\$ <u>89,511</u>	\$ <u>246,009</u>	\$ <u>17,562</u>

NOTE 7 – NET POSITION

Net position is reported in three separate categories—net investment in capital assets; net position-restricted; and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, net investment in capital assets was as follows:

	2016	2015
Capital assets, net of depreciation	\$ 3,138,186	\$ 3,262,350

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 7 – NET POSITION (CONTINUED)

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). The District has established an Emergency Reserve in the amount of \$37,517 for years ended December 31, 2016 and 2015, as per Article X, Section 20 of the Colorado Constitution. This Emergency Reserve balance represents at least 3% of the governmental fiscal year spending as required.

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

NOTE 8 - PENSION AND DEFERRED COMPENSATION PLANS

Pension Plan

Plan Description

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). The CCOERS provides pension benefits and deferred compensation for members and beneficiaries. The plan was adopted by the District on November 17, 1969, with a start date of December, 1969. All employees are required to participate upon eligibility as a condition of employment. Employees regularly employed for a minimum of 20 hours per week for 5 months a year and having completed 3 months of service, are eligible for the plan. The plan was established by the State Legislature under Title 24, Article 54 of the Colorado Revised Statutes (CRS), as amended. CCOERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the CCOERS. That report may be obtained by writing to CCOERA, 751 South Park Drive, Littleton, Colorado 80210 or by calling CCOERA at 713-9400 in the Denver metro area, or 1-(800) 352-0313 from outside the metro area.

Funding Policy

Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 54, Part 101 of the CRS, as amended. The District is required to contribute a minimum of 3% of the participant's base salary or wage. The District's board approved rate is 4% of compensation. Participants are required to contribute an amount equal to the District's contribution. A participant may elect to make additional after tax contributions up to certain statutory limits. Total required contributions made by both the District and participants for the years ending December 31, 2016, 2015 and 2014 were \$35,550, \$33,867, and \$31,383. Employees also made additional contributions for the years ending December 31, 2016, 2015 and 2014 of \$24,946, \$14,737, and \$12,885.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 - RELATED PARTIES

The Security Sanitation District and Security Water District are separate accounting districts and have separate boards of directors. Management and office expenses are divided equally between the two Districts. The office space used by the Security Sanitation District is owned by the Security Water District. Security Sanitation District paid \$960 for the rent of this space during 2016 and 2015.

NOTE 10 - RISK MANAGEMENT

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

The District carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims have not exceeded insurance coverage during any of the last three fiscal years.

NOTE 11 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance. For the required Emergency Reserve balances as of December 31, 2016 and 2015, see Note 6 – Net Position.

NOTE 12 – GAIN ON INVOLUNTARY CONVERSION OF ASSETS

In accordance with FASB Interpretation No. 30 (FIN 30), generally accepted accounting principles require that gain or loss be recognized when proceeds are received in response to a claim on an asset even though the entity has, or will, reinvest the proceeds in replacement or repair of the asset. Accordingly, the District has recorded a gain of \$27,177 resulting from insurance proceeds relating to roof and building damage during 2016.

SUPPLEMENTAL INFORMATION

**SECURITY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Pumping and treatment:		
Production payroll	\$ 834,427	\$ 804,138
Production cost	120,995	126,841
Insurance expense	252,023	255,851
Professional services	4,492	7,282
Trade services	6,671	7,653
	<u>1,218,608</u>	<u>1,201,765</u>
TOTAL PUMPING AND TREATMENT		
Waste disposal:		
Production cost	109,602	125,367
Professional services	132,415	195,334
	<u>242,017</u>	<u>320,701</u>
TOTAL WASTE DISPOSAL		
Maintenance:		
Truck expense	10,143	14,036
Equipment and maintenance	54,077	52,017
	<u>64,220</u>	<u>66,053</u>
TOTAL MAINTENANCE		
Administration and general:		
Office payroll	275,431	254,078
Office expense	68,116	71,569
Insurance	59,664	54,585
Professional services	67,410	90,782
Trade services	19,436	3,181
Collection expense	38,818	38,982
Temporary Office Labor	-	5,773
	<u>528,875</u>	<u>518,950</u>
TOTAL ADMINISTRATION AND GENERAL		
DEPRECIATION	<u>264,568</u>	<u>269,583</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 2,318,288</u></u>	<u><u>\$ 2,377,052</u></u>

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative actuals for the year ended December 31, 2015)

	2015	2016	Budget	Variance Favorable (Unfavorable)
REVENUES				
Beginning fund balance	\$ 9,096,981	\$ 10,695,713	\$ 10,648,534	\$ 47,179
Sanitation assessments	2,758,521	2,958,319	3,000,000	(41,681)
Other	37,767	68,630	117,600	(48,970)
General property taxes	100,650	103,863	104,558	(695)
S.O.T. Taxes	11,385	12,021	12,000	21
Intergovernmental	18,305	54,850	54,850	-
Investment income	58,371	84,493	98,500	(14,007)
Tap fees	786,490	164,217	210,000	(45,783)
Insurance proceeds	-	38,875	-	38,875
TOTAL REVENUES	12,868,470	14,180,981	14,246,042	(65,061)
EXPENDITURES				
Production Payroll and Payroll Taxes	804,138	834,427	838,000	3,573
Production cost:				
Supplies and tools	-	6,052	21,000	14,948
Electricity	72,942	60,960	100,000	39,040
Natural gas	28,601	23,391	55,000	31,609
Communication	12,932	19,007	16,000	(3,007)
Uniforms	12,366	11,585	12,000	415
Sludge removal	44,720	51,167	100,000	48,833
Laboratory testing & supplies	80,647	58,435	120,000	61,565
Total Production Cost	252,208	230,597	424,000	193,403
Truck expense:				
Repairs and maintenance	5,496	2,496	6,000	3,504
Gas and oil	8,541	7,647	14,000	6,353
Total Truck Expense	\$ 14,037	\$ 10,143	\$ 20,000	\$ 9,857

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative actuals for the year ended December 31, 2015)

	<u>2015</u>	<u>2016</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Equipment and maintenance:				
Repairs and maintenance	\$ 45,768	\$ 43,617	\$ 65,000	\$ 21,383
Small tools and supplies	6,012	8,309	15,000	6,691
Building: office and warehouse	<u>236</u>	<u>2,151</u>	<u>2,000</u>	<u>(151)</u>
Total Equipment and Maintenance	<u>52,016</u>	<u>54,077</u>	<u>82,000</u>	<u>27,923</u>
Office Payroll, Payroll Taxes and Directors Fees	<u>254,078</u>	<u>275,431</u>	<u>331,600</u>	<u>56,169</u>
Office expense:				
Supplies	8,863	8,476	12,000	3,524
Election	-	85	2,000	1,915
Miscellaneous office expenses	20,196	21,291	16,000	(5,291)
Lease	960	960	960	-
Equipment maintenance	11,486	14,310	10,000	(4,310)
Health administrative fees	787	1,175	-	(1,175)
Bank charges	<u>29,277</u>	<u>21,819</u>	<u>20,000</u>	<u>(1,819)</u>
Total Office Expense	<u>71,569</u>	<u>68,116</u>	<u>60,960</u>	<u>(7,156)</u>
Insurance:				
Liability and errors/omissions	42,247	42,672	47,000	4,328
Health	251,413	251,733	326,000	74,267
Workman's compensation	12,907	13,914	14,500	586
PEPSCO	2,400	2,400	5,000	2,600
Damages	500	-	4,000	4,000
Unum LTC	<u>968</u>	<u>968</u>	<u>-</u>	<u>(968)</u>
Total Insurance	<u>\$ 310,435</u>	<u>\$ 311,687</u>	<u>\$ 396,500</u>	<u>\$ 84,813</u>

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative actuals for the year ended December 31, 2015)

	<u>2015</u>	<u>2016</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Professional services:				
Audit	\$ 12,400	\$ 12,750	\$ 12,800	\$ 50
Legal	49,925	32,976	40,000	7,024
Engineering	188,941	126,039	180,000	53,961
Pretreatment	7,282	4,492	8,000	3,508
Stream discharge fees	6,392	6,376	8,000	1,624
Other professional services	28,458	21,684	20,000	(1,684)
Temporary Office Labor	5,773	-	-	-
Total Professional Services	<u>299,171</u>	<u>204,317</u>	<u>268,800</u>	<u>64,483</u>
Trade services:				
Dues and membership	3,181	19,436	9,000	(10,436)
Schools and conventions	7,653	6,671	13,000	6,329
Total Trade Services	<u>10,834</u>	<u>26,107</u>	<u>22,000</u>	<u>(4,107)</u>
Collection expense:				
Advertising	3,322	3,006	3,000	(6)
Postage	27,299	27,452	28,000	548
Tax collection fees	1,511	1,563	2,300	737
Billing expense	6,850	6,797	10,000	3,203
Total Collection Expense	<u>38,982</u>	<u>38,818</u>	<u>43,300</u>	<u>4,482</u>
Capital outlay	<u>65,289</u>	<u>152,102</u>	<u>2,670,500</u>	<u>2,518,398</u>
TOTAL EXPENDITURES	<u>\$ 2,172,757</u>	<u>\$ 2,205,822</u>	<u>\$ 5,157,660</u>	<u>\$ 2,951,838</u>

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2016
(With comparative actuals for the year ended December 31, 2015)

	2015	2016	Budget	Variance Favorable (Unfavorable)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 10,695,713	\$ 11,975,159	\$ 9,088,382	\$ 2,886,777
Less:				
Depreciation	(269,584)	(264,568)		
Insurance proceeds	-	(38,875)		
Beginning fund balance	(9,096,981)	(10,695,713)		
Add:				
Involuntary gain	-	27,177		
Capital outlay	65,289	152,102		
CHANGE IN NET POSITION	\$ 1,394,437	\$ 1,155,282		

Ending fund balance is calculated as follows:

Current assets	\$ 11,054,822	\$ 12,377,526
Current liabilities	(35,056)	(66,495)
Compensated absences	(219,695)	(228,447)
Deferred inflows	(104,358)	(107,425)
	\$ 10,695,713	\$ 11,975,159

See accompanying independent auditors' report.

**SECURITY SANITATION DISTRICT
SCHEDULE OF BUDGET SOURCES AND USES (NON-GAAP)
GOVERNMENT & ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Actual</u>	<u>General Fund</u>	<u>Enterprise Fund</u>
Budget sources:			
Sanitation assessments	\$ 2,958,319	\$ -	\$ 2,958,319
General property taxes	103,863	103,863	-
S.O.T. Taxes	12,021	12,021	-
Investment income	84,493	-	84,493
Tap fees	164,217	-	164,217
CDPHE planning grant	54,850	-	54,850
Gain on involuntary conversion	27,177	-	27,177
Other	68,630	-	68,630
TOTAL BUDGET SOURCES	<u>3,473,570</u>	<u>115,884</u>	<u>3,357,686</u>
Budget uses:			
Production payroll	834,427	-	834,427
Production costs	230,597	914	229,683
Truck	10,143	191	9,952
Equipment and maintenance	54,077	-	54,077
Office payroll	275,431	137,716	137,715
Other office expense	68,116	68,116	-
Insurance	311,687	60,632	251,055
Professional services	204,317	67,410	136,907
Trade services	26,107	19,437	6,670
Collection	38,818	29,015	9,803
Capital outlay	152,102	10,966	141,136
TOTAL BUDGET USES	<u>2,205,822</u>	<u>394,397</u>	<u>1,811,425</u>
BUDGET SOURCES OVER USES	<u><u>\$ 1,267,748</u></u>	<u><u>\$ (278,513)</u></u>	<u><u>\$ 1,546,261</u></u>

See accompanying independent auditors' report.