

STRATMOOR HILLS WATER DISTRICT

**FINANCIAL STATEMENTS AND SUPPLEMENTAL
INFORMATION**

With Independent Auditors' Report

December 31, 2016 and 2015



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STRATMOOR HILLS WATER DISTRICT
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Stratmoor Hills Water District

We have audited the accompanying financial statements of Stratmoor Hills Water District, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenue, expenses and changes in fund 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 Stratmoor Hills Water 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 an opinion on the financial statements that comprise Stratmoor Hills Water District's financial statements as a whole. 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 audits 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 7, 2017

STRATMOOR HILLS WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2016

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

FINANCIAL HIGHLIGHTS

- The District's assets of \$3,270,832 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$2,527,470 (*net position*). Of this amount, \$559,388 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 \$816,655.
- Capital assets net of depreciation increased by \$489,888 from the prior year.
- The District's total outstanding long-term debt decreased by \$60,000 during the current year due to payment of revenue bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Statement of Revenue, Expenses and Changes in Fund Net Position - All revenue 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 \$2,515,794 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	\$ 1,315,845	\$ 766,154
Capital assets, net	<u>1,954,987</u>	<u>1,465,099</u>
Total assets	<u>3,270,832</u>	<u>2,231,253</u>
Long-term liabilities	130,000	190,000
Other liabilities	<u>518,946</u>	<u>251,641</u>
Total liabilities	<u>648,946</u>	<u>441,641</u>
Deferred inflows	<u>94,416</u>	<u>78,796</u>
Net position:		
Net investment in capital assets	1,893,987	1,344,099
Restricted	74,095	51,742
Unrestricted	<u>559,388</u>	<u>314,975</u>
Total net position	<u>\$ 2,527,470</u>	<u>\$ 1,710,816</u>

Unrestricted net position of the District at the end of the year was \$570,065, a \$255,090 or 80.9% increase from the prior year.

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

	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 1,527,414	\$ 1,351,013
Operating expenses	<u>(1,520,443)</u>	<u>(1,665,683)</u>
Operating income (loss)	6,971	(314,670)
Non-operating revenue and expenses, net	<u>102,727</u>	<u>59,809</u>
Income (loss) before contributions	109,698	(254,861)
Capital contributions	<u>706,957</u>	<u>325,289</u>
Change in net position	816,655	(70,428)
Net position, beginning	<u>1,710,816</u>	<u>1,640,388</u>
Net position, ending	<u>\$ 2,527,470</u>	<u>\$ 1,710,816</u>

Operating revenues exceeded operating expenses resulting in an increase in Net Position.

BUDGETARY HIGHLIGHTS

The District's budget is prepared in accordance with state law. An analysis of budget results in the following observations:

- Unplanned revenue receipts in 2016 were associated with additional Tap Fees obtained from the South Academy Highlands project and the Resident's at Stratmoor project.
- An increase in water service rates and connection (tap) fees was adopted by the Board and went into effect on May 1, 2016.
- Operating and Capital expenses were reduced significantly in 2016 to build up the District's reserves for future projects.
- Perfluorinated compounds (PFCs) were detected in the Widefield Aquifer requiring the District to rely almost entirely on surface water provided by the Fountain Valley Authority. This drove up operating costs significantly.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2016 amounts to \$1,954,987. This investment in capital assets includes land and easements, water rights, plant, office building, equipment and vehicles, and construction in progress.

	<u>2016</u>	<u>2015</u>
Capital assets, not being depreciated	\$ 306,460	\$ 330,303
Capital assets, being depreciated	4,883,199	4,190,616
Less accumulated depreciation	<u>(3,234,672)</u>	<u>(3,055,820)</u>
Total capital assets, net	<u>\$ 1,954,987</u>	<u>\$ 1,465,099</u>

There were no major capital assets acquired during the year other than water mains that were dedicated to the District from the South Academy Highlands project.

Long-Term Debt

Outstanding debt at December 31, 2016 was \$130,000 and consisted of revenue bonds.

	<u>2016</u>	<u>2015</u>
Revenue bonds, net	\$ 130,000	\$ 190,000

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – Water sales were slightly higher than anticipated in 2016 and it was challenging to meet water demands with the wells out of service for most of the year. The District used all of its annual allocation of surface water from the Fountain Valley Authority.

Tap Fees were received from the Residents at Stratmoor multi-family housing project that will be constructed over the next couple of years.

Economic and Environmental Factors – Unaccounted for water remains a big concern for the District and much effort has been placed on finding and repairing leaks. Water meters are also being evaluated. There have been regional concerns about the presence of perfluorinated compounds in the groundwater aquifers and the District intends to add Ion-Exchange treatment systems at each of its well sites. This will have a financial impact on the District as it prepares to treat the water or switch to another source in the future.

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 Manager, Kirk Medina, at 719-576-0311 or 1811 B Street, Colorado Springs, CO 80906.

BASIC FINANCIAL STATEMENTS

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	658,219	\$ 192,960
Cash with County Treasurer	787	672
Accounts receivable	223,420	246,164
Property taxes receivable	94,416	78,796
Inventory	66,674	62,959
Prepaid water	92,456	92,456
Other prepaid expenses	65,373	-
Total current assets	1,201,345	674,007
Noncurrent assets:		
Restricted cash and cash equivalents	114,500	92,147
Capital assets, net of depreciation	1,954,987	1,465,099
Total noncurrent assets	2,069,487	1,557,246
Total assets	3,270,832	2,231,253
LIABILITIES		
Current liabilities:		
Accounts payable, trade	6,999	43,377
Accounts payable, Stratmoor Hills Sanitation District	198,098	145,912
Accrued liabilities	11,760	-
Escrow deposits	4,561	4,561
Payroll taxes payable	8,034	14,388
Compensated absences	18,152	12,916
Accrued interest payable	2,167	3,147
Customer deposits	27,340	27,340
Unearned revenue	241,835	-
Current portion, revenue bonds payable	130,000	60,000
Total current liabilities	648,946	311,641
Noncurrent liabilities:		
Revenue bonds payable, less current portion	-	130,000
Total liabilities	648,946	441,641
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	94,416	78,796
Total deferred inflow of resources	94,416	78,796

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

NET POSITION	<u>2016</u>	<u>2015</u>
Net investment in capital assets	1,893,987	1,344,099
Restricted	74,095	51,742
Unrestricted	<u>559,388</u>	<u>314,975</u>
Total net position	<u>\$ 2,527,470</u>	<u>\$ 1,710,816</u>

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUE		
Water sales	\$ 1,070,140	\$ 885,025
Water lease income	23,832	45,378
Maintenance contract income	240,000	240,000
Billing fees	140,339	139,235
Late fees	39,255	40,455
Other income	13,848	920
	<u>1,527,414</u>	<u>1,351,013</u>
Total operating revenue		
OPERATING EXPENSES		
Water operations	1,164,384	1,364,916
General administration	152,376	165,147
Depreciation	203,683	135,620
	<u>1,520,443</u>	<u>1,665,683</u>
Total operating expenses		
Operating income (loss)	<u>6,971</u>	<u>(314,670)</u>
NON-OPERATING REVENUE (EXPENSES)		
Property tax	78,691	67,701
Specific ownership tax	9,067	7,646
Investment income	1,066	361
Rental income	88,624	41,744
Interest expense	(8,595)	(11,350)
Fountain Valley Authority debt service	(50,683)	(50,220)
Gain (loss) on disposal of fixed assets	(15,443)	3,927
	<u>102,727</u>	<u>59,809</u>
Total non-operating revenue (expenses)		
Income (loss) before capital contributions	109,698	(254,861)
Capital contributions - developer conveyance	696,285	-
Capital contributions - tap fees	10,672	325,289
	<u>706,957</u>	<u>325,289</u>
Total capital contributions		
Change in net position	816,655	70,428
Net position-beginning	1,710,816	1,640,388
Net position-ending	<u>\$ 2,527,470</u>	<u>\$ 1,710,816</u>

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

**STRATMOOR HILLS WATER 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	\$ 1,791,993	\$ 1,314,983
Cash payments to suppliers for goods and services	(908,011)	(1,008,178)
Cash payments to employees for services	(451,387)	(448,945)
Cash received from miscellaneous income	<u>88,624</u>	<u>41,744</u>
Net cash provided (used) by operating activities	<u>521,219</u>	<u>(100,396)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	<u>87,643</u>	<u>75,318</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets	-	7,125
Tap fees	10,672	325,289
Purchase of capital assets	(12,730)	(203,291)
Fountain Valley Authority debt service	(50,683)	(50,220)
Bond principal payments	(60,000)	(55,000)
Interest paid	<u>(9,575)</u>	<u>(12,230)</u>
Net cash provided (used) by capital and related financing activities	<u>(122,316)</u>	<u>11,673</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	<u>1,066</u>	<u>361</u>
Net increase (decrease) in cash and cash equivalents	487,612	(13,044)
Cash and cash equivalents at beginning of year	<u>285,107</u>	<u>298,151</u>
Cash and cash equivalents at ending of year	<u>\$ 772,719</u>	<u>\$ 285,107</u>

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

STRATMOOR HILLS WATER DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Reconciliation of cash and cash equivalents to the statement of net position:		
Cash and cash equivalents	\$ 658,219	\$ 192,960
Restricted cash and cash equivalents	114,500	92,147
Cash and cash equivalents at year end	\$ 772,719	\$ 285,107
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 6,971	\$ (314,670)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	203,683	135,620
Miscellaneous income	88,624	41,744
Change in assets and liabilities:		
<i>(Increase) decrease in:</i>		
Accounts receivable	22,744	(36,030)
Inventory	(3,715)	1,980
Other prepaid expenses	(65,373)	-
<i>Increase (decrease) in:</i>		
Accounts payable	15,808	76,660
Accrued liabilities	11,760	-
Escrow deposits	-	(6,000)
Compensated absences payable	5,236	(3,549)
Payroll taxes payable	(6,354)	3,849
Unearned revenue	241,835	-
Total Adjustments	514,248	214,274
Net Cash Provided (Used) by Operating Activities	\$ 521,219	\$ (100,396)
Non cash investing, capital and financing activities	None	None

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

NOTES TO FINANCIAL STATEMENTS

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Stratmoor Hills Water District (the District) was organized under the laws of the State of Colorado to operate and maintain a special district for the purpose of transmission and distribution of water to the residents of the Stratmoor Hills subdivision located adjacent to the City of Colorado Springs, Colorado.

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

The 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 fund 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.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, DEFERRED INFLOWS/OUTFLOWS 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.

Accounts receivable

The accounts receivable are due from a large number of customers for the purchase of water and for sanitation assessments. An allowance for doubtful accounts is not required as the District can place a lien on property for unpaid water sales.

Inventory

Inventory consists of materials and supplies and is valued at cost, which approximates market, using the first-in, first-out method.

Prepaid water

This account represents the conveyance service charges for water to be delivered in the next fiscal year by the Fountain Valley Authority.

Other prepaid expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items are recorded as expenses when consumed rather than when purchased.

Restricted Cash and Cash Equivalents

The use of certain cash and cash equivalents of the District is restricted. These cash and cash equivalent items are classified as net position-restricted on the statement of net position because they are maintained in separate accounts and their use is limited by debt agreements.

Water rights

The cost of water rights includes acquisition costs, legal and engineering costs related to the development and augmentation of those rights. Since the rights have a perpetual life, they are not amortized. All other costs, including costs incurred for the protection of those rights, are expensed.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

If proprietary fund assets are constructed, interest is capitalized on the assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Water mains and other improvements installed upon formation of the District at the expense of developers and sub dividers 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.

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 are depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of buildings, equipment and vehicles is computed using the straight-line method over the estimated useful lives of the depreciable property. The estimated useful lives are as follows:

Plant:	
Transmission and distribution lines	5 to 45 years
Storage facilities	10 to 60 years
Equipment	10 to 45 years
Office building:	
Building and improvements	5 to 25 years
Land improvements	5 years
Equipment and vehicles:	
Office equipment	5 to 7 years
Other equipment	5 to 12 years
Vehicles	5 years

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.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred outflows/inflows of resources (continued)

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 for the years ended December 31, 2016 and 2015 were 2.086 mills and 1.974 mills, respectively. The District's assessed valuations for 2016 and 2015 were \$37,773,670 and \$34,274,670, respectively.

Compensated Absences

Employees earn one week of vacation after one year of service and two weeks after two or more years of service and three weeks after ten or more years of service. Vacation is earned on an employee's anniversary. Sick leave is earned at the rate of one-half day per month with a limit of 90 days. A liability is recorded in the amount of the earned accumulated rights to receive vacation and sick leave benefits.

Operating and non-operating revenues and expenses

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

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. ESTIMATES

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

G. COMPARATIVE DATA AND RECLASSIFICATIONS

Comparative total data for the prior year have been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET 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. The budgeted revenues and expenses represent the original budget adopted or as amended by the Board.

Expenditures may not legally exceed budgeted appropriations.

The District follows these procedures in establishing the budgetary data reflected in the Financial Statements.

1. Prior to October 15, administrative personnel submit to the Board of Directors a proposed operating budget for the following fiscal year (calendar) beginning January 1. The operating budget includes proposed expenses and the means for financing them.
2. The proposed budget is advertised as available for inspection and comment by the electorate of the District.
3. Prior to December 15, the Board legally adopts the budget.
4. In December, the Board certifies the mill levy to El Paso County.
5. During the year, formal budgetary integration is employed as a management control device.

**STRATMOOR HILLS WATER 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.

As of December 31, 2016 and 2015, the carrying amounts of the District’s deposits were \$628,564 and \$141,883, respectively and the bank balances were \$639,468 and \$197,891, respectively. Of the total bank balances, \$270,251 and \$197,891 were covered by FDIC insurance for the year ended December 31, 2016 and 2015, respectively. The remaining balances of \$369,217 at December 31, 2016 fall under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools.

Investments

The District is authorized by Colorado State 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: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from increasing interest rates.

Credit Risk: The State law limits investments as described above. The District does not have an investment policy that would further limit its investment choices. As of December 31, 2016, the District’s investments were rated AAA by Standard & Poor’s.

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>
COLOTRUST	\$ 144,155	\$ 144,155	\$ -	\$ -	\$ -

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

As of December 31, 2015 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>
COLOTRUST	\$ 143,224	\$ 143,224	\$ -	\$ -	\$ -

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

The District's restricted and unrestricted deposits and investments consist of the following at December 31, 2016:

	<u>Unrestricted Assets</u>	<u>Restricted Assets</u>	<u>Total</u>
Demand accounts	\$ 628,564	\$ -	\$ 628,564
COLOTRUST	29,655	114,500	144,155
Total deposits and investments	<u>\$ 658,219</u>	<u>\$ 114,500</u>	<u>\$ 772,719</u>

The District's restricted and unrestricted deposits and investments consist of the following at December 31, 2015:

	<u>Unrestricted Assets</u>	<u>Restricted Assets</u>	<u>Total</u>
Demand accounts	\$ 141,883	\$ -	\$ 141,883
COLOTRUST	51,077	92,147	143,224
Total deposits and investments	<u>\$ 192,960</u>	<u>\$ 92,147</u>	<u>\$ 285,107</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - 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 and easements	\$ 85,767	\$ -	\$ -	\$ 85,767
Water rights	210,863	-	-	210,863
Construction in progress	<u>33,673</u>	<u>-</u>	<u>(23,843)</u>	<u>9,830</u>
Total capital assets, not being depreciated	<u>330,303</u>	<u>-</u>	<u>(23,843)</u>	<u>306,460</u>
Capital assets, being depreciated:				
Plant	3,335,579	709,348	-	4,044,927
Office building	311,083	-	-	311,083
Equipment and vehicles	<u>543,954</u>	<u>8,066</u>	<u>(24,831)</u>	<u>527,189</u>
Total capital assets, being depreciated	4,190,616	717,414	(24,831)	4,883,199
Less accumulated depreciation	<u>(3,055,820)</u>	<u>(203,683)</u>	<u>(24,831)</u>	<u>(3,234,672)</u>
Total capital assets, being depreciated, net	<u>1,134,796</u>	<u>513,732</u>	<u>-</u>	<u>1,648,527</u>
Total capital assets, net	<u>\$ 1,465,099</u>	<u>\$ 513,732</u>	<u>\$ (23,843)</u>	<u>\$ 1,954,987</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and easements	\$ 85,767	\$ -	\$ -	\$ 85,767
Water rights	210,863	-	-	210,863
Construction in progress	<u>420,026</u>	<u>43,634</u>	<u>(429,987)</u>	<u>33,673</u>
Total capital assets, not being depreciated	<u>716,656</u>	<u>43,634</u>	<u>(429,987)</u>	<u>330,303</u>
Capital assets, being depreciated:				
Plant	2,857,657	483,108	(5,186)	3,335,579
Office building	308,423	2,660	-	311,083
Equipment and vehicles	<u>470,074</u>	<u>103,876</u>	<u>(29,996)</u>	<u>543,954</u>
Total capital assets, being depreciated	3,636,154	589,644	(35,182)	4,190,616
Less accumulated depreciation	<u>(2,952,185)</u>	<u>(135,620)</u>	<u>31,985</u>	<u>(3,055,820)</u>
Total capital assets, being depreciated, net	<u>683,969</u>	<u>454,024</u>	<u>(3,197)</u>	<u>1,134,796</u>
Total capital assets, net	<u>\$ 1,400,625</u>	<u>\$ 497,658</u>	<u>\$ (433,184)</u>	<u>\$ 1,465,099</u>

Depreciation expense was charged to functions/programs of as follows:	<u>2016</u>	<u>2015</u>
Operating expenses	<u>\$ 203,683</u>	<u>\$ 135,620</u>
Total depreciation expense	<u>\$ 203,683</u>	<u>\$ 135,620</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 5 - WATER RIGHTS

Water rights were composed of the following as of December 31, 2016 and 2015:

Acquired from the J. Fred Abrahamson Trust in 1986:

Rights to successive use water - up to 40 acre feet annually	\$ 9,000
-----------------------------------------------------------------	----------

Acquired from the Hassler and Bates Company:

38.7961% ownership of water rights for 5.616 cubic feet per second of Laughlin Ditch and 1.736 cubic feet per second of Laughlin Ditch Enlargement	<u>201,863</u>
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Total Water Rights	<u>\$ 210,863</u>
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NOTE 6 - OPERATING LEASE

The District has entered into an agreement to lease up to 61.2039% of water rights for 5.616 cubic feet per second of Laughlin Ditch and 1.736 cubic feet per second of Laughlin Ditch Enlargement. The lease may be terminated by either party, lessor or lessee, upon 30 days written notice to the other party. The District has the first right of refusal upon the sale of this water. The District will be assessed a lease rental of \$75 per acre-foot for water used for municipal purposes under this lease agreement. The District has no obligation to lease any water under this lease agreement.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 7 - LONG-TERM DEBT

On December 1, 2004, the District issued \$690,000 of revenue bonds (Series 2004 Bonds) at par to finance the purchase and installation of an automatic meter reading system. Principal payments are due in varying annual installments through September 1, 2017 and bear interest rates ranging from 3.40% to 5.00%. The bonds are collateralized by the net revenues of the District.

Revenue bond debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>130,000</u>	<u>6,500</u>	<u>136,500</u>
Total	<u>\$ 130,000</u>	<u>\$ 6,500</u>	<u>\$ 136,500</u>

Long-term debt activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One year</u>
Series 2004 Bonds	<u>\$ 190,000</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 130,000</u>	<u>\$ 130,000</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 8 - NET POSITION

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

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

	<u>2016</u>	<u>2015</u>
Net Investment in Capital Assets:		
Capital assets, net of depreciation	\$ 1,954,987	\$ 1,465,099
Long-term liabilities:		
Due within one year	(130,000)	(60,000)
Due in more than one year	-	(130,000)
Less:		
Unspent bond proceeds (restricted for debt service)	69,000	69,000
Total Net Investment in Capital Assets	<u>\$ 1,893,987</u>	<u>\$ 1,344,099</u>

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). As of December 31, 2016 and 2015, the District had net position-restricted as follows:

	<u>2016</u>	<u>2015</u>
Restricted:		
Emergency reserve	\$ 28,595	\$ 28,595
Debt service:		
Principal and interest retirement fund	45,500	23,147
Total Restricted	<u>\$ 74,095</u>	<u>\$ 51,742</u>

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. The District utilizes net position-unrestricted before using net position-restricted.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 9 - TRANSACTIONS WITH RELATED DISTRICTS

The District provides substantially all maintenance operations for the Stratmoor Hills Sanitation District. In exchange for these services, the Sanitation District paid \$240,000 to the Stratmoor Hills Water District for the years ended December 31, 2016 and 2015.

The District also bills and collects the Sanitation District's user charges each month, issuing a joint billing to the customers. The District paid the Sanitation District 85% of the sanitation assessments in 2016 and 2015. For the amount remaining, the District prepares and mails the monthly bills, pays postage, and bears all losses from uncollectible amounts. The totals received by the District for 2016 and 2015 were \$140,339 and \$139,235, respectively.

The District's five-member board is the same as that of the Stratmoor Hills Sanitation District. As a matter of expedience, the Stratmoor Hills Sanitation District pays all members of the board for director's fees and related payroll taxes for both districts. The Sanitation District then bills Stratmoor Hills Water District for their share of the director's fees and related payroll taxes.

As of December 31, 2016 and 2015 the District had accounts payable to the Stratmoor Hills Sanitation District of \$198,098 and \$145,912, respectively.

NOTE 10 – JOINTLY GOVERNED ORGANIZATION

The District owns a 2.99% share in the Fountain Valley Authority (the Authority) which was established on July 10, 1979, for the primary purpose of construction and operating a water treatment plant for its five customers, each of which owns and operates a water system.

The Authority is empowered to acquire, operate, manage, and maintain all facilities required to deliver treated potable water to its customers. Customers include the City of Colorado Springs, the City of Fountain, the Security Water District, the Stratmoor Hills Water District, and the Widefield Water and Sanitation District.

The United States Department of Interior, Bureau of Reclamation (Bureau), has agreed to supply to these five customers, up to 20,100 acre-feet of water annually from the Frying Pan Arkansas Project. The District has been allocated 2.99% of this total.

In addition, the Bureau constructed a pipeline (the Fountain Valley Conduit) to transport this water from the Pueblo Reservoir, approximately 25 miles north, to the site of each system.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 10 – JOINTLY GOVERNED ORGANIZATION (CONTINUED)

The Bureau's pipeline is operated by the Authority which pays all operating expenses plus a conveyance charge. The conveyance charge is designed to amortize the cost of the pipeline over a forty-year period. At the end of this period, title to the pipeline may be transferred by Congress to the Authority. The conveyance charge is to be allocated among the governments, based on their participation percentage and scheduled water deliveries.

The Authority has constructed an 18,000,000 gallon-per-day water treatment plant located approximately 17 miles south of the City of Colorado Springs. The purpose of this treatment plant is to treat water obtained by the customers from the Frying Pan Arkansas Project. All water transmitted through the Fountain Valley Conduit is treated at this plant. All costs incurred by the Authority will be recovered through charges to be paid by the member governments.

The water treatment and delivery charges paid by the District to the Authority are recorded as operating expenses in the accompanying financial statements while debt service charges are budgeted and recorded separately.

The following payments were made by the District to the Authority during the years ended December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Conveyance and treatment	\$ 319,297	\$ 327,878
Debt service	<u>50,683</u>	<u>50,220</u>
Total	<u>\$ 369,980</u>	<u>\$ 378,098</u>

The joint venture summary financial information as of December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Assets and Deferred outflows	<u>\$ 58,449,573</u>	<u>\$ 58,902,278</u>
Liabilities	44,746,756	50,762,895
Net Position (deficit)	<u>13,702,817</u>	<u>8,139,383</u>
Total Liabilities and Net Position	<u>\$ 58,449,573</u>	<u>\$ 58,902,278</u>
Revenues	\$ 12,221,924	\$ 11,963,473
Expenditures	<u>(6,658,490)</u>	<u>(6,616,265)</u>
Change in Net Position	<u>\$ 5,563,434</u>	<u>\$ 5,347,208</u>

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 10 – JOINTLY GOVERNED ORGANIZATION (CONTINUED)

Long-term liability activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Revenue bonds	\$ 3,385,000	\$ -	\$ 820,000	\$ 2,565,000	\$ 835,000
Unamortized Premium	<u>133,142</u>	<u>-</u>	<u>33,994</u>	<u>99,148</u>	<u>-</u>
	3,518,142	-	853,994	2,664,148	835,000
Loans payable	3,880,772	-	584,306	3,296,466	606,353
Obligations under capital lease	<u>37,719,024</u>	<u>-</u>	<u>4,586,563</u>	<u>33,132,461</u>	<u>4,343,537</u>
Total	<u>\$ 45,117,938</u>	<u>\$ -</u>	<u>\$ 6,024,863</u>	<u>\$ 39,093,075</u>	<u>\$ 5,784,890</u>

NOTE 11 - 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. No settled claims resulting from these risks exceeded commercial insurance coverage during the last three fiscal years.

NOTE 12 – EMPLOYEE IRA

The District has set up a Simple IRA for substantially all employees. Employees contribute at least 3% of compensation and the District contributes 3% of compensation. The employer's contributions for 2016 and 2015 were \$7,921 and \$13,903, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation

The District is involved in pending or threatened lawsuits and claims. The District and its legal counsel estimate that the potential claims against the District not covered by insurance, resulting from such litigation, would not materially affect the financial statements of the District.

**STRATMOOR HILLS WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 14 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including raising revenue, spending abilities, and other specific requirements of state and local governments.

The entity's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. In effect, it has been generally interpreted that fiscal year spending approximates nonexempt revenue or receipts. Spending excludes spending from certain revenue and financial sources such as federal funds, gifts, property sales, fund transfers, damage awards and fund reserves.

The Amendment requires, with certain exceptions, voter approval prior to imposing new taxes, increasing tax rates, increasing a mill levy above that for the prior year, extending an expiring tax, or implementing a tax policy change directly causing a net tax revenue gain to any local government.

The Amendment requires that Emergency Reserves be established. These reserves must be at least 3 percent of Fiscal Year Spending (excluding bonded debt service) for 2016 and 2015. Emergency reserves totaling \$28,595 as of December 31, 2016 and 2015 have been presented as a component of net position-restricted. The entity is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary or benefit increases.

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.

SUPPLEMENTAL INFORMATION

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Water operations:		
Cost of water	\$ 42,639	\$ 40,243
Fountain Valley Authority - water conveyance, operations, etc.	319,297	327,878
Salaries and wages	442,348	435,343
Outside labor	9,487	82,614
Employee health insurance	75,826	91,437
FICA expense	33,683	33,356
Unemployment insurance	1,313	1,784
Workers compensation insurance	15,591	20,462
Retirement expense	7,921	13,903
Plant maintenance	107,101	184,291
Vehicle and equipment maintenance	25,895	27,821
Office building maintenance	8,091	14,545
Repairs and maintenance	187	161
Utilities	26,078	22,820
Engineering	883	73
Gas and oil	10,935	17,858
Supplies	6,620	3,582
Small tools	4,852	9,004
Uniforms	5,447	8,983
Testing and analysis	11,024	6,465
Equipment leases	8,339	12,887
Personnel expenses	(1,846)	7,091
Trash and recycling	2,673	2,315
Total water operations	\$ 1,164,384	\$ 1,364,916
General administration:		
Insurance	\$ 32,117	\$ 31,749
Billing	15,837	19,728
Postage	13,524	14,165
Meeting	6,152	6,496
Telephone	9,359	10,357
Audit	10,200	7,300
Legal	1,266	17,535
Office supplies	8,881	7,373
Dues and subscriptions	7,392	6,735
Training and education	8,368	6,973
Miscellaneous	458	135
Tax collection	1,180	1,016
Election expense	-	159
Bank/service charges	36,027	35,018
Other utilities	1,615	408
Total general administration	\$ 152,376	\$ 165,147

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Water sales	\$ 909,000	\$ 1,070,140	\$ 161,140
Water lease income	20,000	23,832	3,832
Maintenance contract income	240,000	240,000	-
Billing fees	165,000	140,339	(24,661)
Property tax	78,795	78,691	(104)
Specific ownership tax	8,000	9,067	1,067
Investment income	300	1,066	766
Rental income	72,556	88,624	16,068
Late charges	55,000	39,255	(15,745)
Miscellaneous income	1,300	13,848	12,548
Capital contributions - tap fees	70,000	10,672	(59,328)
Beginning fund balance	502,852	435,717	(67,135)
TOTAL REVENUES	2,122,803	2,151,251	28,448
EXPENDITURES			
Operating expenditures:			
Cost of water	35,000	42,639	(7,639)
Fountain Valley Authority - water conveyance, treatment, operating, etc.	270,000	319,297	(49,297)
Salaries and wages	459,000	442,348	16,652
Outside labor	25,000	9,487	15,513
Employee health insurance	114,000	75,826	38,174
FICA expense	40,000	33,683	6,317
Unemployment insurance	1,500	1,313	187
Workers compensation insurance	25,000	15,591	9,409
Retirement expense	14,715	7,921	6,794
Plant maintenance	50,000	107,101	(57,101)
Vehicle and equipment maintenance	50,000	25,895	24,105
Office building maintenance	10,000	8,091	1,909
Repairs and maintenance	25,000	187	24,813
Utilities	38,500	26,078	12,422
Engineering	10,000	883	9,117
Gas and oil	18,000	10,935	7,065
Supplies	14,000	6,620	7,380
Small tools	10,000	4,852	5,148
Uniforms	6,000	5,447	553
Testing and analysis	\$ 17,000	\$ 11,024	\$ 5,976

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2016

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (continued)			
Equipment leases	\$ 8,000	\$ 8,339	\$ (339)
Distribution system maintenance	150,000	-	150,000
Personnel expenses	-	(1,846)	1,846
Trash and recycling	-	2,673	(2,673)
TOTAL OPERATING EXPENDITURES	1,390,715	1,164,384	229,004
General and administrative expenditures:			
Insurance	35,800	32,117	3,683
Billing	15,000	15,837	(837)
Postage	15,000	13,524	1,476
Meeting	500	6,152	(5,652)
Telephone	10,000	9,359	641
Audit	7,700	10,200	(2,500)
Legal	10,000	1,266	8,734
Office supplies	10,500	8,881	1,619
Dues and subscriptions	9,500	7,392	2,108
Training and education	10,000	8,368	1,632
Miscellaneous	22,000	458	21,542
Tax collection	1,200	1,180	20
Election Expense	1,500	-	1,500
Bank/service charges	30,269	36,027	(5,758)
Other utilities	38,500	1,615	36,885
TOTAL GENERAL AND ADMINISTRATIVE EXPENDITURES	178,969	152,376	65,093
BOND PRINCIPAL PAYMENT	60,150	60,000	150
BOND INTEREST EXPENSE	9,310	8,595	715
FOUNTAIN VALLEY AUTHORITY DEBT SERVICE	60,000	50,683	9,317
CAPITAL EXPENDITURES	-	12,730	(12,730)
TOTAL EXPENDITURES	\$ 1,699,144	\$ 1,448,768	\$ 291,549

See the accompanying independent auditors' report.

STRATMOOR HILLS WATER DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEARS ENDED DECEMBER 31, 2016

	<u>Actual</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ 702,483
Less:	
Beginning fund balance	(435,717)
Depreciation	(203,683)
Loss on disposal of fixed assets	(15,443)
Add:	
Capital expenditures	12,730
Bond principal payment	60,000
Developer Conveyance	696,285
CHANGE IN NET POSITION	<u><u>\$ 816,655</u></u>

Ending fund balance is calculated as follows:

Current assets	1,201,345
Restricted cash and cash equivalents	114,500
Current liabilities	(648,946)
Unavailable property tax revenue	(94,416)
Revenue bonds payable, current portion	130,000
	<u><u>\$ 702,483</u></u>

See the accompanying independent auditors' report.

**STRATMOOR HILLS WATER DISTRICT
CASH FLOW SUMMARY OF NET REVENUES
AVAILABLE FOR DEBT SERVICE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Revenue:	
Operating revenue	\$ 1,527,414
Property tax	78,691
Specific ownership tax	9,067
Investment income	1,066
Rental income	88,624
Capital contributions	<u>10,672</u>
 TOTAL REVENUES	 <u>1,715,534</u>
 Operating & Maintenance Expenses (excluding depreciation)	
Water operations	1,164,384
General administration	<u>152,376</u>
 TOTAL OPERATING EXPENSES	 <u>1,316,760</u>
 TOTAL NET REVENUES AVAILABLE FOR DEBT SERVICE	 <u>\$ 398,774</u>
 Debt Service Requirement:	
Debt service (debt service pmt for subsequent year)	\$ 136,500
	<u>120%</u>
 TOTAL DEBT SERVICE REQUIREMENT	 <u>\$ 163,800</u>
 Coverage Factor	 <u>243.45%</u>

See the accompanying independent auditor's report.