

SECURITY SANITATION DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2017 and 2016

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Office of the State Auditor

June 21, 2018

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DECEMBER 31, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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, 2018

SECURITY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2017

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, 2017. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$16,604,937 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$16,179,130 (*net position*). Of this amount, \$13,232,454 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 \$1,065,785.
- Capital assets net of depreciation decreased by \$229,027 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), 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, 2017, the District's assets exceeded liabilities and deferred inflows by \$16,179,130 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 13,695,778	\$ 12,377,526
Capital assets, net	<u>2,909,159</u>	<u>3,138,186</u>
Total assets	<u>16,604,937</u>	<u>15,515,712</u>
Current and other liabilities	109,167	66,495
Long-term liabilities	<u>206,781</u>	<u>228,447</u>
Total liabilities	<u>315,948</u>	<u>294,942</u>
Deferred inflow of resources	<u>109,859</u>	<u>107,425</u>
Net position:		
Net investment in capital assets	2,909,159	3,138,186
Restricted	37,517	37,517
Unrestricted	<u>13,232,454</u>	<u>11,937,642</u>
Total net position	<u>\$ 16,179,130</u>	<u>\$ 15,113,345</u>

Unrestricted net position of the District at the end of the year was \$13,232,454, an increase of \$1,294,812 from the prior year.

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

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 3,102,468	\$ 3,026,949
Operating expenses	<u>(2,432,078)</u>	<u>(2,318,288)</u>
Operating income (loss)	670,390	708,661
Non-operating revenues and expenses, net	<u>189,660</u>	<u>282,404</u>
Income (loss) before contributions	860,050	991,065
Capital contributions – tap fees	<u>205,735</u>	<u>164,217</u>
Change in net position	1,065,785	1,155,282
Net position, beginning	<u>15,113,345</u>	<u>13,958,063</u>
Net position, ending	<u>\$ 16,179,130</u>	<u>\$ 15,113,345</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2017 amounts to \$2,909,159. This investment in capital assets includes land, buildings and lagoon, equipment, and sewer main.

	<u>2017</u>	<u>2016</u>
Capital assets, not being depreciated	\$ 43,590	\$ 43,590
Capital assets, being depreciated	10,884,160	11,032,924
Less accumulated depreciation	<u>(8,018,591)</u>	<u>(7,938,328)</u>
Total capital assets, net	<u>\$ 2,909,159</u>	<u>\$ 3,138,186</u>

The major capital asset acquisition during 2017 was purchase of a new service vehicle.

Long-Term Debt

There was no long-term debt at December 31, 2017.

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, although slightly improved over 2016, continued to be slow in 2017 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, 2017 AND 2016**

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,271,208	\$ 3,101,483
Investments	11,915,421	8,812,307
Due from County Treasurer	1,127	1,046
Accounts receivable	341,570	336,358
Property taxes receivable	109,859	107,425
Interest receivable	37,203	18,907
Prepaid expenses	16,890	-
Restricted cash and cash equivalents	2,500	-
Total current assets	13,695,778	12,377,526
Noncurrent assets:		
Capital assets, net of depreciation	2,909,159	3,138,186
Total assets	16,604,937	15,515,712
LIABILITIES		
Current liabilities:		
Accounts payable	91,972	43,763
Compensated absences payable	11,880	17,562
Payroll taxes payable	918	918
Unearned assessment revenue	4,397	4,252
Total current liabilities	109,167	66,495
Noncurrent liabilities:		
Compensated absences	206,781	228,447
Total noncurrent liabilities	206,781	228,447
Total liabilities	315,948	294,942
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property tax	109,859	107,425
NET POSITION		
Investment in capital assets	2,909,159	3,138,186
Restricted	37,517	37,517
Unrestricted	13,232,454	11,937,642
Total net position	\$ 16,179,130	\$ 15,113,345

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for sales and services		
Sanitation assessments	\$ 3,084,214	\$ 2,958,319
Other	18,254	68,630
Total operating revenues	<u>3,102,468</u>	<u>3,026,949</u>
Operating expenses:		
Sewage pumping and treatment	1,221,723	1,218,608
Waste disposal	339,324	242,017
Maintenance	77,541	64,220
Administration and general	538,660	528,875
Depreciation	254,830	264,568
Total operating expenses	<u>2,432,078</u>	<u>2,318,288</u>
Operating income (loss)	<u>670,390</u>	<u>708,661</u>
Nonoperating revenues (expenses):		
General property and specific ownership taxes	121,967	115,884
Intergovernmental	-	54,850
Investment income	88,687	84,493
Gain(Loss) on disposal of capital assets	(20,994)	-
Involuntary gain on conversion	-	27,177
Total non-operating revenues (expenses)	<u>189,660</u>	<u>282,404</u>
Income (loss) before capital contributions	860,050	991,065
Capital contributions - tap fees	<u>205,735</u>	<u>164,217</u>
Change in net position	1,065,785	1,155,282
Net position-beginning	<u>15,113,345</u>	<u>13,958,063</u>
Net position-ending	<u><u>\$ 16,179,130</u></u>	<u><u>\$ 15,113,345</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,079,148	\$ 2,939,393
Cash payments to suppliers for goods and services	(1,023,994)	(914,162)
Cash payments to employees for services	(1,149,283)	(1,099,600)
Other operating revenues	18,254	123,479
	<u>924,125</u>	<u>1,049,110</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	121,886	115,839
	<u>121,886</u>	<u>115,839</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions - tap fees	205,735	164,217
Acquisition and construction of capital assets	(46,797)	(152,102)
Insurance proceeds	-	38,876
	<u>158,938</u>	<u>50,991</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(7,548,252)	(2,084,936)
Proceeds from matured securities	4,400,000	2,000,000
Interest received	113,028	84,385
	<u>(3,035,224)</u>	<u>(551)</u>
Net cash provided (used) by investing activities	<u>(3,035,224)</u>	<u>(551)</u>
Net increase (decrease) in cash and cash equivalents	(1,830,275)	1,215,389
Cash and cash equivalents at beginning of year	3,101,483	1,886,094
	<u>3,101,483</u>	<u>1,886,094</u>
Cash and cash equivalents at ending of year	<u>\$ 1,271,208</u>	<u>\$ 3,101,483</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, 2017 AND 2016**

	2017	2016
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 670,390	\$ 708,661
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation expense	254,830	264,568
Intergovernmental	-	54,850
Changes in assets and liabilities:		
<i>(Increase) decrease in assets:</i>		
Accounts receivable	(5,211)	(19,160)
Prepaid expenses	(16,891)	-
<i>Increase (decrease) in liabilities:</i>		
Accounts payable	48,209	29,700
Compensated absences payable	(27,348)	10,258
Unearned assessment revenue	146	233
Total Adjustments	253,735	340,449
Net Cash Provided (Used) by Operating Activities	\$ 924,125	\$ 1,049,110
Schedule of non-cash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ (40,271)	\$ 2,504
Amortization of investment premium	\$ (2,366)	\$ (2,228)

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

NOTES TO FINANCIAL STATEMENTS

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 AND 2016**

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, 2017 AND 2016**

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 0.862 and 0.856 mills for the years ended December 31, 2017 and 2016, respectively. The District's assessed valuations for 2017 and 2016 were \$124,651,380 and \$121,896,470 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, 2017 AND 2016**

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, 2017 AND 2016**

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, 2017 and 2016, the carrying amounts of the District's deposits were \$(66,393) and \$8,109, and the bank balances were \$37,232 and \$37,316 respectively. All of the total bank balances at December 31, 2017 and 2016 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, 2017, 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, 2017 AND 2016**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2017 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	\$ 1,267,709	\$ 1,267,709	\$ -	\$ -	\$ -
COLOTRUST	69,792	69,792	-	-	-
U.S. Treasuries	5,973,184	-	3,489,219	2,483,965	-
U.S. Agencies	5,668,123	1,249,590	1,838,265	1,560,826	1,019,442
Commercial Paper	<u>274,114</u>	<u>274,114</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 13,252,922</u>	<u>\$ 2,861,205</u>	<u>\$ 5,327,484</u>	<u>\$ 4,044,791</u>	<u>\$ 1,019,442</u>

As of December 31, 2017, the District has invested \$69,792 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>2017</u>	<u>2016</u>
Cash and cash equivalents:		
Cash on hand	\$ 100	\$ 100
Deposits	(66,393)	8,109
Money Market Funds	1,267,709	3,024,258
COLOTRUST	<u>69,792</u>	<u>69,016</u>
	<u>\$ 1,271,208</u>	<u>\$ 3,101,483</u>
Investments:		
U.S. Treasuries	\$ 5,973,184	\$ 1,650,750
U.S. Agencies	5,668,123	7,161,557
Commercial Paper	<u>274,114</u>	<u>-</u>
	<u>\$ 11,915,421</u>	<u>\$ 8,812,307</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017			
	Level 1	Level 2	Level 3	Total
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 5,973,184	\$ -	\$ 5,973,184
Agency Notes	-	5,668,123	-	5,668,123
ST Notes	-	274,114	-	274,114
	-	11,915,421	-	11,915,421
Total Investments - unrestricted	\$ -	\$ 11,915,421	\$ -	\$ 11,915,421

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 1,650,750	\$ -	\$ 1,650,750
Agency Notes	-	7,161,557	-	7,161,557
	-	8,812,307	-	8,812,307
Total Investments - unrestricted	\$ -	\$ 8,812,307	\$ -	\$ 8,812,307

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 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>30,372</u>	<u>-</u>	<u>-</u>	<u>30,372</u>
Total capital assets, not being depreciated	<u>43,590</u>	<u>-</u>	<u>-</u>	<u>43,590</u>
Capital assets, being depreciated:				
Buildings and lagoon	938,399	13,427	-	951,826
Sanitation plant	7,035,024	4,412	(174,042)	6,865,394
Sewer main	1,291,548	-	-	1,291,548
Equipment	<u>1,767,953</u>	<u>28,958</u>	<u>(21,519)</u>	<u>1,775,392</u>
Total capital assets, being depreciated	11,032,924	46,797	(195,561)	10,884,160
Less accumulated depreciation	<u>(7,938,328)</u>	<u>(254,830)</u>	<u>174,567</u>	<u>(8,018,591)</u>
Total capital assets, being depreciated, net	<u>3,094,596</u>	<u>(208,033)</u>	<u>(20,994)</u>	<u>2,865,569</u>
Total capital assets, net	<u>\$ 3,138,186</u>	<u>\$ (208,033)</u>	<u>\$ (20,994)</u>	<u>\$ 2,909,159</u>

Depreciation expense was charged to functions/programs as follows:	<u>2017</u>	<u>2016</u>
Sewage pumping and treatment	\$ 246,172	\$ 255,562
Administration and general	<u>8,658</u>	<u>9,006</u>
Total depreciation expense	<u>\$ 254,830</u>	<u>\$ 264,568</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE 6 - LONG-TERM LIABILITIES

Compensated absences

Compensated absences consisted of the following:

	2017	2016
Sick leave benefits	\$ 169,579	\$ 194,694
Vacation benefits	49,082	51,315
Total	\$ 218,661	\$ 246,009

The changes in long-term liabilities for the year ended December 31, 2017 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ <u>246,009</u>	\$ <u>97,744</u>	\$ <u>125,092</u>	\$ <u>218,661</u>	\$ <u>11,880</u>
Total long-term liabilities	\$ <u>246,009</u>	\$ <u>97,744</u>	\$ <u>125,092</u>	\$ <u>218,661</u>	\$ <u>11,880</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, 2017 and 2016, net investment in capital assets was as follows:

	2017	2016
Capital assets, net of depreciation	\$ 2,909,159	\$ 3,138,186

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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, 2017 and 2016, 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, 2017, 2016 and 2015 were \$36,603, \$35,550, and \$33,867. Employees also made additional contributions for the years ending December 31, 2017, 2016 and 2015 of \$19,917, \$24,946, and \$14,737.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

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 2017 and 2016.

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, 2017 and 2016, see Note 6 – Net Position.

SUPPLEMENTAL INFORMATION

**SECURITY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Pumping and treatment:		
Production payroll	\$ 835,629	\$ 834,427
Production cost	129,024	120,995
Insurance expense	244,970	252,023
Professional services	4,712	4,492
Trade services	7,388	6,671
	<u>1,221,723</u>	<u>1,218,608</u>
 TOTAL PUMPING AND TREATMENT		
Waste disposal:		
Production cost	240,598	109,602
Professional services	98,726	132,415
	<u>339,324</u>	<u>242,017</u>
 TOTAL WASTE DISPOSAL		
Maintenance:		
Truck expense	25,788	10,143
Equipment and maintenance	51,753	54,077
	<u>77,541</u>	<u>64,220</u>
 TOTAL MAINTENANCE		
Administration and general:		
Office payroll	286,307	275,431
Office expense	68,032	68,116
Insurance	59,947	59,664
Professional services	57,320	67,410
Trade services	30,869	19,436
Collection expense	36,185	38,818
	<u>538,660</u>	<u>528,875</u>
 TOTAL ADMINISTRATION AND GENERAL		
DEPRECIATION	<u>254,830</u>	<u>264,568</u>
 TOTAL OPERATING EXPENSES	<u><u>\$ 2,432,078</u></u>	<u><u>\$ 2,318,288</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, 2017
(With comparative actuals for the year ended December 31, 2016)

	2016	2017	Budget	Variance Favorable (Unfavorable)
REVENUES				
Beginning fund balance	\$ 10,695,713	\$ 11,975,159	\$ 11,804,711	\$ 170,448
Sanitation assessments	2,958,319	3,084,214	3,120,000	(35,786)
Other	68,630	18,254	41,800	(23,546)
General property taxes	103,863	107,393	107,625	(232)
S.O.T. Taxes	12,021	14,574	13,500	1,074
Intergovernmental	54,850	-	-	-
Investment income	84,493	88,687	107,800	(19,113)
Tap fees	164,217	205,735	210,000	(4,265)
Insurance proceeds	38,875	-	-	-
TOTAL REVENUES	14,180,981	15,494,016	15,405,436	88,580
EXPENDITURES				
Production Payroll and Payroll Taxes	834,427	835,629	853,000	17,371
Production cost:				
Supplies and tools	6,052	885	21,000	20,115
Electricity	60,960	71,648	90,000	18,352
Natural gas	23,391	27,387	45,000	17,613
Communication	19,007	17,474	20,000	2,526
Uniforms	11,585	11,630	13,000	1,370
Sludge removal	51,167	176,550	100,000	(76,550)
Laboratory testing & supplies	58,435	64,048	120,000	55,952
Total Production Cost	230,597	369,622	409,000	39,378
Truck expense:				
Repairs and maintenance	2,496	18,796	7,000	(11,796)
Gas and oil	7,647	6,992	14,000	7,008
Total Truck Expense	\$ 10,143	\$ 25,788	\$ 21,000	\$ (4,788)

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, 2017
(With comparative actuals for the year ended December 31, 2016)

	<u>2016</u>	<u>2017</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES (continued)				
Equipment and maintenance:				
Repairs and maintenance	\$ 43,617	\$ 39,575	\$ 70,000	\$ 30,425
Small tools and supplies	8,309	9,446	14,000	4,554
Building: office and warehouse	2,151	2,732	2,200	(532)
Total Equipment and Maintenance	<u>54,077</u>	<u>51,753</u>	<u>86,200</u>	<u>34,447</u>
Office Payroll, Payroll Taxes and Directors Fees	<u>275,431</u>	<u>286,307</u>	<u>314,300</u>	<u>27,993</u>
Office expense:				
Supplies	8,476	9,307	12,000	2,693
Election	85	-	-	-
Miscellaneous office expenses	21,291	18,166	20,000	1,834
Lease	960	960	960	-
Equipment maintenance	14,310	13,890	16,000	2,110
Health administrative fees	1,175	1,360	-	(1,360)
Bank charges	21,819	24,349	28,000	3,651
Total Office Expense	<u>68,116</u>	<u>68,032</u>	<u>76,960</u>	<u>8,928</u>
Insurance:				
Liability and errors/omissions	42,672	43,714	54,000	10,286
Health	251,733	239,949	326,000	86,051
Workman's compensation	13,914	15,961	17,500	1,539
PEPSCO	2,400	2,325	5,300	2,975
Damages	-	2,000	4,000	2,000
Unum LTC	968	968	-	(968)
Total Insurance	<u>\$ 311,687</u>	<u>\$ 304,917</u>	<u>\$ 406,800</u>	<u>\$ 101,883</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, 2017
(With comparative actuals for the year ended December 31, 2016)

	<u>2016</u>	<u>2017</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Professional services:				
Audit	\$ 12,750	\$ 13,200	\$ 13,200	\$ -
Legal	32,976	24,698	45,000	20,302
Engineering	126,039	92,324	180,000	87,676
Pretreatment	4,492	4,712	9,000	4,288
Stream discharge fees	6,376	6,402	9,000	2,598
Other professional services	21,684	19,422	30,000	10,578
	<u>204,317</u>	<u>160,758</u>	<u>286,200</u>	<u>125,442</u>
Total Professional Services				
Trade services:				
Dues and membership	19,436	30,870	12,000	(18,870)
Schools and conventions	6,671	7,387	12,000	4,613
	<u>26,107</u>	<u>38,257</u>	<u>24,000</u>	<u>(14,257)</u>
Total Trade Services				
Collection expense:				
Advertising	3,006	3,064	3,400	336
Postage	27,452	26,477	30,000	3,523
Tax collection fees	1,563	1,611	2,400	789
Billing expense	6,797	5,033	10,000	4,967
	<u>38,818</u>	<u>36,185</u>	<u>45,800</u>	<u>9,615</u>
Total Collection Expense				
Capital outlay	<u>152,102</u>	<u>46,797</u>	<u>3,697,500</u>	<u>3,650,703</u>
TOTAL EXPENDITURES	<u>\$ 2,205,822</u>	<u>\$ 2,224,045</u>	<u>\$ 6,220,760</u>	<u>\$ 3,996,715</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, 2017
(With comparative actuals for the year ended December 31, 2016)

	2016	2017	Budget	Variance Favorable (Unfavorable)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 11,975,159	\$ 13,269,971	\$ 9,184,676	\$ 4,085,295
Less:				
Depreciation	(264,568)	(254,830)		
Insurance proceeds	(38,875)	-		
Beginning fund balance	(10,695,713)	(11,975,159)		
Add:				
Gain(loss) on disposal of capital assets	-	(20,994)		
Involuntary gain	27,177	-		
Capital outlay	152,102	46,797		
CHANGE IN NET POSITION	\$ 1,155,282	\$ 1,065,785		

Ending fund balance is calculated as follows:

Current assets	\$ 12,377,526	\$ 13,695,778
Current liabilities	(66,495)	(109,167)
Compensated absences	(228,447)	(206,781)
Deferred inflows	(107,425)	(109,859)
	\$ 11,975,159	\$ 13,269,971

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, 2017**

	Actual	General Fund	Enterprise Fund
Budget sources:			
Sanitation assessments	\$ 3,084,214	\$ -	\$ 3,084,214
General property taxes	107,393	107,393	-
S.O.T. Taxes	14,574	14,574	-
Investment income	88,687	-	88,687
Tap fees	205,735	-	205,735
Other	18,254	-	18,254
TOTAL BUDGET SOURCES	3,518,857	121,967	3,396,890
Budget uses:			
Production payroll	835,629	-	835,629
Production costs	369,622	1,075	368,547
Truck	25,788	175	25,613
Equipment and maintenance	51,753	-	51,753
Office payroll	286,307	143,154	143,153
Other office expense	68,032	68,032	-
Insurance	304,917	60,915	244,002
Professional services	160,758	57,320	103,438
Trade services	38,257	30,870	7,387
Collection	36,185	28,088	8,097
Capital outlay	46,797	-	46,797
TOTAL BUDGET USES	2,224,045	389,629	1,834,416
BUDGET SOURCES OVER USES	\$ 1,294,812	\$ (267,662)	\$ 1,562,474

See accompanying independent auditors' report.