

**SECURITY WATER 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

**SECURITY WATER DISTRICT  
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DECEMBER 31, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Security Water District

We have audited the accompanying financial statements of Security Water 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 Water 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 Water 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 WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR FISCAL YEAR ENDED DECEMBER 31, 2017**

As management of Security 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, 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 \$45,317,457 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$35,434,988 (*net position*). Of this amount, \$11,244,351 represents unrestricted net position, which may be used to meet the District's ongoing obligations.
- The District's total net position decreased during the year by \$343,049.
- Capital assets net of depreciation increased by \$2,271,365 from the prior year.
- The District's total outstanding long-term debt decreased by \$413,974 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 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 \$35,434,988 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	\$ 12,705,033	\$ 15,501,259
Capital assets, net	<u>32,612,424</u>	<u>30,341,059</u>
Total assets	<u>45,317,457</u>	<u>45,842,318</u>
Current and other liabilities	849,318	643,289
Long-term liabilities	<u>8,267,001</u>	<u>8,716,559</u>
Total liabilities	<u>9,161,319</u>	<u>9,359,848</u>
Deferred inflow of resources	<u>721,150</u>	<u>704,433</u>
Net position:		
Net investment in capital assets	24,118,637	21,433,298
Restricted	72,000	72,000
Unrestricted	<u>11,244,351</u>	<u>14,272,739</u>
Total net position	<u>\$ 35,434,988</u>	<u>\$ 35,778,037</u>

Unrestricted net position of the District at the end of the year was \$11,244,351, a decrease of \$3,028,388 from the prior year.

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

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 4,336,281	\$ 4,147,882
Operating expenses	<u>(5,962,346)</u>	<u>(5,533,749)</u>
Operating income (loss)	(1,626,065)	(1,385,867)
Non-operating revenues and expenses, net	<u>750,416</u>	<u>750,071</u>
Loss before contributions	(875,649)	(635,796)
Capital contributions – tap fees	<u>532,600</u>	<u>552,200</u>
Change in net position	(343,049)	(83,596)
Net position, beginning	<u>35,778,037</u>	<u>35,861,633</u>
Net position, ending	<u>\$ 35,434,988</u>	<u>\$ 35,778,037</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District's investment in capital assets as of December 31, 2017 amounts to \$32,612,424. This investment in capital assets includes land, water rights, buildings and improvements, equipment, transmission lines, and elevated tanks.

	<u>2017</u>	<u>2016</u>
Capital assets, not being depreciated	\$ 11,533,878	\$ 12,638,783
Capital assets, being depreciated	32,594,658	28,531,376
Less accumulated depreciation	<u>(11,516,112)</u>	<u>(10,829,100)</u>
Total capital assets, net	<u>\$ 32,612,424</u>	<u>\$ 30,341,059</u>

Major capital assets acquired during the year included substantial capital construction to mitigate water quality concerns.

### Long-Term Debt

Outstanding debt at December 31, 2017 was \$8,493,787 and consisted of general obligation bonds.

	<u>2017</u>	<u>2016</u>
General obligation bonds, net	<u>\$ 8,493,787</u>	<u>\$ 8,907,761</u>
Total long-term debt	<u>\$ 8,493,787</u>	<u>\$ 8,907,761</u>

## ECONOMIC FACTORS AND OUTLOOK

*Budgetary Highlights* – Although the District's water rates will remain very competitive, rate increases will be necessary to cover increasing operating costs and to fund water projects. In 2011, District electors authorized the issuance of indebtedness of up to \$15,000,000 in order to finance the District's portion of a new water delivery system. \$9.72 million in General Obligation Bonds were sold in 2012. The new water delivery system came online in 2016, which helped the District to shift its water supplies entirely to surface water sources due to the discovery of Perfluorinated chemicals (PFCs) in groundwater supplies. The costs incurred to eliminate PFC exposure had a significant impact on the District's finances and reserves in 2016 and 2017 and is expected to impact the budget for the foreseeable future. Although the District is seeking reimbursement from several sources to help offset these costs, it is likely that past and future costs incurred due to PFC mitigation will have an additional impact on future water rates.

*Economic and Environmental Factors* – Development within the District continued to be slow in 2017 and is expected to remain somewhat sluggish into the near future. Water quality concerns have increased the need to acquire additional water supplies to augment the District's water portfolio. The District will continue to pursue additional water rights and develop additional water delivery systems in order to insure a reliable future water supply.

## **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 WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 518,679	\$ 1,229,321
Investments	10,680,287	12,675,309
Accounts receivable	305,600	277,974
Other receivables	500	13,733
Due from county treasurer	7,386	6,850
Interest receivable	32,658	32,164
Property taxes receivable	721,150	704,433
Inventory, at cost	102,880	120,690
Prepaid expenses	333,393	440,785
Restricted cash and cash equivalents	2,500	-
	<b>12,705,033</b>	<b>15,501,259</b>
Noncurrent assets:		
Capital assets:		
Land	1,904,390	1,904,390
Water rights	9,629,488	9,580,488
Construction in progress	-	1,153,905
Buildings and land improvements	593,112	573,240
Equipment	10,834,689	10,893,182
Transmission lines	19,145,442	15,043,539
Elevated tank	2,021,415	2,021,415
Less accumulated depreciation	(11,516,112)	(10,829,100)
	<b>32,612,424</b>	<b>30,341,059</b>
Total noncurrent assets	<b>32,612,424</b>	<b>30,341,059</b>
Total assets	<b>45,317,457</b>	<b>45,842,318</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	384,040	182,502
Deposits	26,100	26,100
Interest payable	22,575	23,241
Compensated absences payable	11,603	11,446
Bonds payable - current	450,000	400,000
	<b>894,318</b>	<b>643,289</b>
Total current liabilities	<b>\$ 894,318</b>	<b>\$ 643,289</b>

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

**SECURITY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
Noncurrent liabilities:		
Compensated absences	\$ 223,214	\$ 208,798
Bonds payable	8,043,787	8,507,761
Total noncurrent liabilities	8,267,001	8,716,559
Total liabilities	9,161,319	9,359,848
<b>DEFERRED INFLOW OF RESOURCES</b>		
Unavailable revenue - property taxes	721,150	704,433
<b>NET POSITION</b>		
Net investment in capital assets	24,118,637	21,433,298
Restricted	72,000	72,000
Unrestricted	11,244,351	14,272,739
Total net position	\$ 35,434,988	\$ 35,778,037

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

**SECURITY WATER 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:		
Water assessments	\$ 4,138,942	\$ 3,865,233
Late and reconnect charges	162,387	156,594
Other	34,952	126,055
Total operating revenues	<u>4,336,281</u>	<u>4,147,882</u>
 Operating expenses:		
Transmission and distribution	2,734,957	2,574,746
Purchased water	1,459,974	1,124,810
Maintenance	167,373	123,168
Administration and general	766,447	702,472
Depreciation	833,595	1,008,553
Total operating expenses	<u>5,962,346</u>	<u>5,533,749</u>
 Operating income (loss)	<u>(1,626,065)</u>	<u>(1,385,867)</u>
 Nonoperating revenues (expenses):		
General and specific tax revenues	799,551	759,188
Investment income	104,633	161,614
Rental income	95,017	91,968
Sale of meters	16,873	21,673
Gain/(loss) on sales of assets	(1,156)	(12,637)
Interest and fiscal charges	(278,476)	(285,709)
Amortization	13,974	13,974
Total non-operating revenue (expenses)	<u>750,416</u>	<u>750,071</u>
 Income (loss) before contributions	(875,649)	(635,796)
 Capital contributions - tap fees	<u>532,600</u>	<u>552,200</u>
 Change in net position	(343,049)	(83,596)
Net position-beginning	<u>35,778,037</u>	<u>35,861,633</u>
 Net position-ending	<u>\$ 35,434,988</u>	<u>\$ 35,778,037</u>

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

**SECURITY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 4,286,936	\$ 4,080,069
Payments to suppliers	(3,645,145)	(3,553,775)
Payments to employees for salaries and benefits	(1,142,295)	(1,133,562)
Receipts from rent	95,017	91,969
Other receipts	51,825	147,728
	<u>(353,662)</u>	<u>(367,571)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash received from general and specific ownership tax revenues	<u>799,015</u>	<u>758,900</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contributions - tap fees	532,600	552,200
Interest paid on debt	(277,809)	(285,142)
Principal paid on debt	(400,000)	(380,000)
Acquisition and construction of capital assets	(3,106,116)	(2,559,494)
Insurance proceeds	-	119,274
	<u>(3,251,325)</u>	<u>(2,553,162)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(4,420,312)	(1,899,680)
Proceeds from sales and maturities of investments	6,375,021	3,725,000
Interest received	143,121	157,189
	<u>2,097,830</u>	<u>1,982,509</u>
Net cash provided (used) by investing activities	<u>2,097,830</u>	<u>1,982,509</u>
Net increase (decrease) in cash and cash equivalents	(708,142)	(179,324)
Cash and cash equivalents at beginning of year	<u>1,229,321</u>	<u>1,408,645</u>
Cash and cash equivalents at ending of year	<u>\$ 521,179</u>	<u>\$ 1,229,321</u>

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

**SECURITY WATER DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of cash and cash equivalents to the statement of net position:</b>		
Cash and cash equivalents	518,679	\$ 1,229,321
Restricted cash and cash equivalents	2,500	-
Cash and cash equivalents at year end	<u>\$ 521,179</u>	<u>\$ 1,229,321</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating loss	<u>\$ (1,626,065)</u>	<u>\$ (1,385,867)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	833,595	1,008,553
Miscellaneous nonoperating income (expense):		
Rental income	95,017	91,968
Sale of meters	16,873	21,673
<i>(Increase) decrease in assets:</i>		
Accounts receivable	(27,627)	(59,101)
Accounts receivable - other	13,233	117,343
Inventory	17,810	3,454
Prepaid expenses	107,391	(122,918)
<i>Increase (decrease) in liabilities:</i>		
Accounts payable	201,538	(58,649)
Deposits	-	9,803
Compensated absences payable	14,573	6,170
Total adjustments	<u>1,272,403</u>	<u>1,018,296</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (353,662)</u>	<u>\$ (367,571)</u>
<b>Schedule of non-cash investing, capital and financing activities:</b>		
Increase (decrease) in fair value of investments	\$ (16,598)	\$ 33,490
Accretion (Amortization)	\$ (21,296)	\$ (29,559)

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

## **NOTES TO FINANCIAL STATEMENTS**

**SECURITY WATER 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 Water 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.

*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.

**SECURITY WATER 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)*

*Investments*

Investments are stated at fair value.

*Accounts receivable*

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

*Inventories*

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

*Prepaid expenses*

Payments made to vendors for services that will benefit periods beyond December 31, 2017 and 2016, are recorded as prepaid items.

*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.

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.

Water 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 water system is computed using the straight-line method over the estimated useful lives as follows:

Building and improvements	7 - 40 years
Equipment	5 - 40 years
Transmission line	10 - 40 years
Elevated tank	7 - 40 years

**SECURITY WATER 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)*

*Capital assets (continued)*

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 revenue, expenses and changes in fund net position.

*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 for the years ended December 31, 2017 and 2016 were 5.695 mills and 5.654 mills, respectively. The District's assessed valuations for 2017 and 2016 were \$123,700,650 and \$120,925,120 respectively.

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. REVENUES AND EXPENSES (CONTINUED)*

*Compensated absences*

A liability is recorded for vested accumulated rights to receive 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.

*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 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

*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 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**

*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.

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

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

*BUDGETARY INFORMATION (CONTINUED)*

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

- 1) By October 15 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 alter the total expenditures of the District must be approved by the Board of Directors.

**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, 2017 and 2016, the carrying amounts of the District's deposits were \$(177,047) and \$(228,368), respectively and the bank balances were \$39,389 and \$42,377, respectively.

*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.

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

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*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 investments were rated Aaa by Moody's Investor Services. Standard & Poor's rated U.S. Treasuries and Agencies held by the District AA+, and all other investments AAA.

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	\$ 539,616	\$ 539,616	\$ -	\$ -	\$ -
COLOTRUST	156,036	156,036	-	-	-
U.S. Treasuries	4,402,158	-	2,363,697	2,038,461	-
U.S. Agencies	<u>6,278,129</u>	<u>2,399,682</u>	<u>2,743,242</u>	<u>1,135,205</u>	-
Total	<u>\$ 11,375,939</u>	<u>\$ 3,095,334</u>	<u>\$ 5,106,939</u>	<u>\$ 3,173,666</u>	<u>\$ -</u>

As of December 31, 2017, the District has invested \$156,036 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.

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

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Reconciliation of Deposits and Investments to the Statements of Net Position*

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents:		
Cash on hand	\$ 74	\$ 74
Deposits	(177,047)	(228,368)
Money Market Funds	539,616	1,303,315
COLOTRUST	<u>156,036</u>	<u>154,300</u>
	<u>\$ 518,679</u>	<u>\$ 1,229,321</u>
Investments:		
U.S. Treasuries	\$ 4,402,158	\$ 1,375,625
U.S. Agencies	<u>6,278,129</u>	<u>11,299,684</u>
	<u>\$ 10,680,287</u>	<u>\$ 12,675,309</u>
Restricted cash and cash equivalents:		
Deposits	<u>\$ 2,500</u>	<u>\$ -</u>

**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.

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

**NOTE 4 – FAIR VALUE MEASUREMENT (CONTINUED)**

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			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 4,402,158	\$ -	\$ 4,402,158
Agency Notes	-	<u>6,278,129</u>	-	<u>6,278,129</u>
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 10,680,287</u>	<u>\$ -</u>	<u>\$ 10,680,287</u>

	December 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 1,375,625	\$ -	\$ 1,375,625
Agency Notes	-	<u>11,299,684</u>	-	<u>11,299,684</u>
Total Investments - unrestricted	<u>\$ -</u>	<u>\$ 12,675,309</u>	<u>\$ -</u>	<u>\$ 12,675,309</u>

**SECURITY WATER 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	\$ 1,904,390	\$ -	\$ -	\$ 1,904,390
Water rights	9,580,488	49,000	-	9,629,488
Construction in progress	<u>1,153,905</u>	<u>-</u>	<u>(1,153,905)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>12,638,783</u>	<u>49,000</u>	<u>(1,153,905)</u>	<u>11,533,878</u>
Capital assets, being depreciated:				
Buildings and improvements	573,240	19,872	-	593,112
Equipment	10,893,182	89,247	(147,740)	10,834,689
Transmission lines	15,043,539	4,101,903	-	19,145,442
Elevated tank	<u>2,021,415</u>	<u>-</u>	<u>-</u>	<u>2,021,415</u>
Total capital assets, being depreciated	28,531,376	4,211,022	(147,740)	32,594,658
Less accumulated depreciation	<u>(10,829,100)</u>	<u>(833,595)</u>	<u>146,583</u>	<u>(11,516,112)</u>
Total capital assets, being depreciated, net	<u>17,702,276</u>	<u>3,377,427</u>	<u>(1,157)</u>	<u>21,078,546</u>
Total capital assets, net	<u>\$ 30,341,059</u>	<u>\$ 3,426,427</u>	<u>\$ (1,155,062)</u>	<u>\$ 32,612,424</u>

Depreciation expense was charged to functions/programs as follows:	<u>2017</u>	<u>2016</u>
Transmission and distribution	\$ 827,345	\$ 1,001,820
Administration and general	<u>6,250</u>	<u>6,733</u>
Total depreciation expense	<u>\$ 833,595</u>	<u>\$ 1,008,553</u>

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

**NOTE 6 – LONG-TERM LIABILITIES**

*General Obligation Bonds*

Principal  
Balance

\$9,720,000 of General Obligation Bonds Series 2012 were issued on July 18, 2012 for the purpose of funding the District’s share of the acquisition and construction of the Southern Delivery System. Principal payments are due annually through December 1, 2032. Interest payments are due semi-annually on June 1 and December 1 and accrue at an annual interest rate between 2.00% and 3.50%.

\$ 8,290,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 450,000	\$ 270,893
2019	455,000	257,392
2020	470,000	243,743
2021	485,000	229,642
2022	495,000	215,093
2023 – 2027	2,715,000	835,362
2028 – 2032	<u>3,220,000</u>	<u>337,390</u>
Total	<u>\$ 8,290,000</u>	<u>\$ 2,389,515</u>

*Compensated Absences Payable*

Compensated absences consisted of the following:

	<u>2017</u>	<u>2016</u>
Sick leave benefits	\$ 190,243	\$ 177,591
Vacation benefits	<u>44,574</u>	<u>42,653</u>
Total	<u>\$ 234,817</u>	<u>\$ 220,244</u>

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

**NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)**

*Changes In Long-Term Liabilities*

The following is a summary of long-term debt transactions of the District for the year ended December 31, 2017:

	<u>Balance 12/31/16</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Balance 12/31/17</u>	<u>Due Within One year</u>
General obligation bonds	\$ 8,690,000	\$ -	\$ 400,000	\$ 8,290,000	\$ 450,000
Unamortized premium	<u>217,761</u>	<u>-</u>	<u>13,974</u>	<u>203,787</u>	<u>-</u>
	8,907,761	-	413,974	8,493,787	450,000
Compensated absences	<u>220,244</u>	<u>96,118</u>	<u>81,545</u>	<u>234,817</u>	<u>11,603</u>
Total	<u>\$ 9,128,005</u>	<u>\$ 96,118</u>	<u>\$ 495,519</u>	<u>\$ 8,728,604</u>	<u>\$ 461,603</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:

	<u>2017</u>	<u>2016</u>
Capital assets, net of depreciation	\$ 32,612,424	\$ 30,341,059
Related debt	<u>(8,493,787)</u>	<u>(8,907,761)</u>
	<u>\$ 24,118,637</u>	<u>\$ 21,433,298</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). The District has established an Emergency Reserve in the amount of \$72,000 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.

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

**NOTE 8 - 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 CCOERA 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. Participation in the plan is optional for employees of record on the effective date of the plan adoption. All new 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 80120 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 each by the District and participants for the years ending December 31, 2017, 2016 and 2015 were \$34,533, \$34,914, and \$32,839, respectively.

Employees also made additional voluntary contributions for the years ending December 31, 2017, 2016 and 2015 of \$42,238, \$37,541, and \$29,003.

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

**NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS**

*Fountain Valley Authority*

The Fountain Valley Authority (the Authority) was established on July 10, 1979, by a contract entered into by the City of Colorado Springs, Colorado; the City of Fountain, Colorado; the Security Water District, Colorado; and the Stratmoor Hills Water District, Colorado. Each of these separate governmental entities owns and operates existing water systems. The Authority was established to affect the development of water resources for the benefit of the governments and inhabitants of the contracting parties.

The Authority is empowered to acquire, operate, manage, and maintain all facilities required to deliver treated potable water to its customers. The 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 Security Water District has been allocated 8.19% of this total.

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

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 following payments were made by the District to the Authority during the years ended December 31, 2017 and 2016.

	2017	2016
Filter plant bond payment	\$ 136,220	\$ 136,392
Variable costs	372,673	376,077
Conveyance charge	303,840	301,556
Fixed charges	371,245	217,829
Total	\$ 1,183,978	\$ 1,031,854

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

**NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS**

*Fountain Valley Authority (continued)*

The joint venture summary financial information as of December 31, 2017 and 2016 is as follows:

	2017	2016
Assets and Deferred Outflows of Resources	\$ 58,975,144	\$ 58,449,573
Liabilities	36,610,201	44,746,756
Net Position (deficit)	22,364,943	13,702,817
Total Liabilities and Net Position	\$ 58,975,144	\$ 58,449,573
Revenues	\$ 16,259,167	\$ 12,221,924
Expenditures	(7,597,041)	(6,658,490)
Change in Net Position	\$ 8,662,126	\$ 5,563,434

Long-term liability activity for the year ended December 31, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
Revenue bonds	\$ 2,565,000	\$ -	\$ 835,000	\$ 1,730,000	\$ 850,000
Unamortized Premium	99,148	-	33,993	65,155	-
	2,664,148	-	868,993	1,795,155	850,000
Loans payable	3,296,466	-	606,353	2,690,113	617,315
Obligations under capital lease	33,132,461	-	6,796,120	26,336,341	4,550,547
Total	\$ 39,093,075	\$ -	\$ 8,271,466	\$ 30,821,609	\$ 6,017,862

*Widefield Aquifer Recharge Association*

The Widefield Aquifer Recharge Association (the Association) was established on May 21, 2003 and is a joint venture between the Widefield Water and Sanitation District, The City of Fountain, and Security Water District. Each of these separate governmental entities owns and operates existing water systems and owns a 33.33% interest in the association. The Widefield Aquifer Recharge Association was formed to recharge the Widefield aquifer. The District spent \$0 in both 2017 and in 2016 for operating expenses of the venture.

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

**NOTE 10 - 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. The Security Sanitation District paid \$960 for the rent of this space during 2017 and 2016.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

*Lease Commitment*

On December 15, 2006, the District and the Widefield Water and Sanitation District signed an agreement to lease water rights. This lease is a contract in perpetuity granting present vested rights. Rent under this lease is paid at an annual amount of \$175 per acre foot of the maximum lease quantity of 1,350 annual acre feet, commencing upon each District obtaining final Water Court approval for inclusion of these lease rights within their respective augmentation plans. Rents are inflation adjusted annually. The Districts paid \$264,654 and \$256,950 as rent for the 2017 and 2016 calendar years, respectively. On December 15, 2006, the two Districts agreed to sub-lease the above water rights to the City of Fountain for a period of five calendar years commencing January 1, 2007, with payments annually adjusted for inflation. \$214,121 and \$212,006 was paid to the Districts for the 2017 and 2016 calendar years, respectively. On March 27, 2012, the parties agreed to an amended and restated agreement that extended the sublease to December 31, 2016. As of the end of 2017 an abeyance agreement to the lease is being negotiated as a result of the water quality issues discussed below.

*Water Quality*

In January, 2016, the Security Water District became aware of the existence of Perfluorinated chemicals (“PFCs”) in its groundwater supplies through routine sampling conducted in compliance with the Environmental Protection Agency’s (EPA) Unregulated Contaminant Monitoring Rule 3. Subsequently, on May 19, 2016, the EPA issued a non-regulatory and non-enforceable Lifetime Health Advisory for two of the chemicals. Although the chemicals are not regulated, the District’s Board of Directors took immediate action to reduce and ultimately eliminate PFCs from all of the water that the District provides to its customers. In early September, 2016, as a result of significant expenditures for new pipelines and additional surface water, the District was able to shift entirely to surface water sources that do not contain PFCs. The cost of ongoing capital expenditures and additional operating expenses to eliminate PFC exposure had a significant impact on the District’s financial performance in 2017, and is expected to impact the budget for the foreseeable future. The District is seeking reimbursement from several sources to help offset these costs.

**NOTE 12 - 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.

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

**NOTE 13 - 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.

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.

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

	<u>2017</u>	<u>2016</u>
Transmission and distribution:		
Production payroll	\$ 870,038	\$ 864,593
Production cost	252,926	265,172
Insurance expense	278,123	269,762
Professional fees	91,952	96,180
Trade service	14,988	12,488
Pipeline and storage projects	42,952	34,697
Joint ventures	<u>1,183,978</u>	<u>1,031,854</u>
 TOTAL TRANSMISSION AND DISTRIBUTION	 <u>2,734,957</u>	 <u>2,574,746</u>
 PURCHASED WATER	 <u>1,459,974</u>	 <u>1,124,810</u>
 Maintenance:		
Truck expenses	25,444	30,021
Equipment, maintenance and repair	<u>141,929</u>	<u>93,147</u>
 TOTAL MAINTENANCE	 <u>167,373</u>	 <u>123,168</u>
 Administration and general:		
Office payroll	286,830	275,139
Office expense	90,480	108,122
Insurance expense	60,019	59,664
Professional fees	269,900	193,994
Trade service	20,334	19,401
Collection expense	<u>38,884</u>	<u>46,152</u>
 TOTAL ADMINISTRATION AND GENERAL	 <u>766,447</u>	 <u>702,472</u>
 DEPRECIATION	 <u>833,595</u>	 <u>1,008,553</u>
 <b>TOTAL OPERATING EXPENSES</b>	 <b><u><u>\$ 5,962,346</u></u></b>	 <b><u><u>\$ 5,533,749</u></u></b>

See accompanying independent auditors' report.

**SECURITY WATER 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)
<b>REVENUES</b>				
Beginning fund balance	\$ 16,241,339	\$ 14,344,739	13,785,431	\$ 559,308
Water assessments	3,865,233	4,138,942	4,200,000	(61,058)
Late and reconnect charges	156,594	162,387	164,000	(1,613)
Other	126,055	34,952	69,000	(34,048)
General property taxes	680,278	703,199	704,433	(1,234)
S.O.T. Taxes	78,731	95,517	90,000	5,517
Delinquent taxes	179	835	1,200	(365)
Investment income	161,614	104,633	125,300	(20,667)
Sale of meters	21,673	16,873	18,000	(1,127)
Connection fees	552,200	532,600	550,000	(17,400)
Rental income	91,968	95,017	96,000	(983)
Proceeds from asset sales / insurance	119,274	-	-	-
<b>TOTAL REVENUES</b>	<u>22,095,138</u>	<u>20,229,694</u>	<u>19,803,364</u>	<u>426,330</u>
<b>EXPENDITURES</b>				
Water purchase:				
Southern Delivery System	916,126	810,949	1,200,000	389,051
Pinello Ranch lease	2,701	27	20,000	19,973
Frying Pan/Arkansas	10,337	8,771	20,000	11,229
CSU Contract	-	285,481	-	(285,481)
Other	195,647	354,745	387,000	32,255
<b>TOTAL WATER PURCHASE</b>	<u>1,124,811</u>	<u>1,459,973</u>	<u>1,627,000</u>	<u>167,027</u>
<b>PRODUCTION PAYROLL</b>	<u>864,593</u>	<u>870,038</u>	<u>921,800</u>	<u>51,762</u>
Production cost:				
Electricity	44,736	77,558	100,000	22,442
Natural gas	10,900	12,618	24,000	11,382
Water quality improvement	-	1,292	-	(1,292)
Telephone and radios	25,398	20,465	30,000	9,535
Supplies, tools, freight	171,981	130,830	100,000	(30,830)
Chlorine	-	1,197	15,000	13,803
Uniforms	11,392	8,777	13,000	4,223
Other Production Costs	765	189	2,000	1,811
<b>TOTAL PRODUCTION COST</b>	<u>\$ 265,172</u>	<u>\$ 252,926</u>	<u>\$ 284,000</u>	<u>\$ 29,263</u>

See accompanying independent auditors' report.

**SECURITY WATER 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)
<b>EXPENDITURES (continued)</b>				
Truck expenses:				
Repairs and maintenance	\$ 20,096	\$ 14,292	22,000	\$ 7,708
Gas, oil and diesel	9,925	11,152	20,000	8,848
<b>TOTAL TRUCK EXPENSES</b>	<u>30,021</u>	<u>25,444</u>	<u>42,000</u>	<u>16,556</u>
Equipment, maintenance and repair:				
Inventory, equipment and supplies	22,581	26,114	24,000	(2,114)
Repairs and maintenance	8,787	15,217	50,000	34,783
Well house maintenance	59,525	95,971	80,000	(15,971)
Office and garage maintenance	2,254	4,627	4,000	(627)
<b>TOTAL EQUIPMENT MAINTENANCE AND REPAIR</b>	<u>93,147</u>	<u>141,929</u>	<u>158,000</u>	<u>16,071</u>
<b>OFFICE SALARIES</b>	<u>275,139</u>	<u>286,830</u>	<u>314,300</u>	<u>27,470</u>
Office expense:				
Office supplies	11,580	15,035	12,000	(3,035)
Equipment maintenance contracts	11,605	9,519	14,000	4,481
Water quality office expense	30,559	20,914	35,000	14,086
Miscellaneous office expenses	20,769	14,093	20,000	5,907
Election	85	-	-	-
Health administrative fees	1,246	1,322	-	(1,322)
Bank charges	32,278	29,597	35,000	5,403
<b>TOTAL OFFICE EXPENSE</b>	<u>108,122</u>	<u>90,480</u>	<u>116,000</u>	<u>25,520</u>
Insurance expense:				
Workman's compensation	21,401	25,067	26,000	933
Liability, errors and omissions	70,058	76,860	78,000	1,140
Health	231,733	231,156	284,000	52,844
Damages/Deductibles	1,000	-	2,000	2,000
Pebasco	1,450	1,275	-	(1,275)
Unum LTC	3,784	3,784	7,400	3,616
<b>TOTAL INSURANCE EXPENSE</b>	<u>\$ 329,426</u>	<u>\$ 338,142</u>	<u>\$ 397,400</u>	<u>\$ 59,258</u>

See accompanying independent auditors' report.

**SECURITY WATER 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)
<b>EXPENDITURES (continued)</b>				
Professional fees:				
Audit	12,750	13,200	13,200	-
Legal	140,873	189,342	125,000	(64,342)
Engineering	96,180	91,953	140,000	48,047
Other professional services	40,371	67,358	40,000	(27,358)
<b>TOTAL PROFESSIONAL FEES</b>	<u>290,174</u>	<u>361,853</u>	<u>318,200</u>	<u>(43,653)</u>
Trade service:				
Dues and membership	19,401	20,334	24,000	3,666
Schools and seminars	12,488	14,988	15,000	12
<b>TOTAL TRADE SERVICE</b>	<u>31,889</u>	<u>35,322</u>	<u>39,000</u>	<u>3,678</u>
Collection expense:				
Billing forms	9,675	7,206	12,000	4,794
Advertising	5,279	3,171	6,000	2,829
Postage	20,954	17,946	26,000	8,054
Tax collection fees	10,244	10,561	16,000	5,439
<b>TOTAL COLLECTION EXPENSE</b>	<u>46,152</u>	<u>38,884</u>	<u>60,000</u>	<u>21,116</u>
<b>PIPELINE AND STORAGE PROJECTS</b>	<u>34,696</u>	<u>42,952</u>	<u>45,000</u>	<u>2,048</u>
Joint Ventures:				
Fountain Valley Authority	1,031,854	1,183,978	1,402,935	218,957
Widefield Aquifer Recharge Assoc.	-	-	5,000	5,000
<b>TOTAL JOINT VENTURES</b>	<u>1,031,854</u>	<u>1,183,978</u>	<u>1,407,935</u>	<u>223,957</u>
<b>CAPITAL OUTLAYS</b>	<u>2,559,494</u>	<u>3,106,116</u>	<u>6,985,000</u>	<u>3,878,884</u>
<b>INTEREST EXPENSE</b>	<u>285,709</u>	<u>278,476</u>	<u>278,893</u>	<u>417</u>
<b>DEBT PRINCIPAL PAYMENT</b>	<u>380,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
<b>BOND COSTS</b>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>8,000</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 7,750,399</u>	<u>\$ 8,913,343</u>	<u>\$ 13,402,528</u>	<u>\$ 4,487,374</u>

See accompanying independent auditors' report.

**SECURITY WATER 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>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	\$ 14,344,739	\$ 11,316,351	<u>\$ 6,400,836</u>	<u>\$ 4,913,704</u>
Less:				
Depreciation	(1,008,553)	(833,595)		
Beginning fund balance	(16,241,339)	(14,344,739)		
Add:				
Amortization	13,974	13,974		
Debt principal payment	380,000	400,000		
Capital outlay	2,559,494	3,106,116		
Gain (loss) on sale of assets	-	(1,156)		
Gain (loss) on involuntary conversion	<u>(12,637)</u>	<u>-</u>		
<b>CHANGE IN NET POSITION</b>	<u>\$ (83,596)</u>	<u>\$ (343,049)</u>		

Ending fund balance is calculated as follows:

Current assets	15,501,259	12,705,033
Current liabilities	(643,289)	(894,317)
Deferred inflows	(704,433)	(721,150)
Bonds payable - current	400,000	450,000
Compensated absences	<u>(208,798)</u>	<u>(223,215)</u>
	<u>\$ 14,344,739</u>	<u>\$ 11,316,351</u>

See accompanying independent auditors' report.

**SECURITY WATER DISTRICT  
SCHEDULE OF SOURCES AND USES (NON-GAAP)  
GOVERNMENT & ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Actual	General Fund	Enterprise Fund
<b>Budget sources:</b>			
Water assessments	\$ 4,138,942	\$ -	\$ 4,138,942
Late and reconnect charges	162,387	-	162,387
General and specific tax revenues	799,551	799,551	-
Investment income	104,633	-	104,633
Sale of meters	16,873	-	16,873
Connection fees	532,600	-	532,600
Rental income	95,017	-	95,017
Other	34,952	-	34,952
<b>TOTAL BUDGET SOURCES</b>	<b>5,884,955</b>	<b>799,551</b>	<b>5,085,404</b>
<b>Budget uses:</b>			
Water purchase	1,459,974	-	1,459,974
Production payroll	870,038	-	870,038
Production cost	252,926	2,713	250,213
Truck expenses	25,444	73	25,371
Equipment, maintenance and repair	141,929	2,314	139,615
Office payroll	286,830	143,415	143,415
Office expense	90,480	80,023	10,457
Insurance expense	338,142	67,488	270,654
Professional fees	361,853	202,542	159,311
Trade service	35,322	20,334	14,988
Collection expense	38,884	35,713	3,171
Pipeline and Storage projects	42,952	-	42,952
Capital outlay	3,106,116	1,537	3,104,579
Interest expense	278,476	278,476	-
Bond principal payment	400,000	400,000	-
Joint ventures	1,183,978	-	1,183,978
<b>TOTAL BUDGET USES</b>	<b>8,913,344</b>	<b>1,234,628</b>	<b>7,678,716</b>
Budget sources over uses before interest allocation	(3,028,389)	(435,077)	(2,593,312)
Interest allocation	-	81,982	(81,982)
Budget sources over uses after interest allocation	(3,028,389)	(353,095)	(2,675,294)
Transfer equal to 9% of Enterprise fund revenue	-	(450,308)	450,308
<b>BUDGET SOURCES OVER USES</b>	<b>\$ (3,028,389)</b>	<b>\$ (803,403)</b>	<b>\$ (2,224,986)</b>

See accompanying independent auditors' report.