

# **SECURITY WATER DISTRICT**

FINANCIAL STATEMENTS  
With Independent Auditors' Report

Years Ended December 31, 2018 and 2017

**SECURITY WATER DISTRICT  
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DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations and its cash flows 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 17, 2019

**SECURITY WATER DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR FISCAL YEAR ENDED DECEMBER 31, 2018**

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, 2018. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

**FINANCIAL HIGHLIGHTS**

- The District's total assets of \$46,170,463 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$36,932,536 (*net position*). Of this amount, \$13,052,943 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 \$1,497,548.
- Capital assets net of depreciation decreased by \$775,018 from the prior year.
- The District's total outstanding long-term debt decreased by \$463,974 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, 2018, the District's assets exceeded liabilities and deferred inflows by \$36,932,536 resulting in a positive net position. The following reflects key financial information in a condensed format:

### Condensed Statements of Net Position

|                                  | <u>2018</u>          | <u>2017</u>          |
|----------------------------------|----------------------|----------------------|
| Current and other assets         | \$ 14,333,057        | \$ 12,705,033        |
| Capital assets, net              | <u>31,837,406</u>    | <u>32,612,424</u>    |
| Total assets                     | <u>46,170,463</u>    | <u>45,317,457</u>    |
| Current and other liabilities    | 722,420              | 894,318              |
| Long-term liabilities            | <u>7,793,516</u>     | <u>8,267,001</u>     |
| Total liabilities                | <u>8,515,936</u>     | <u>9,161,319</u>     |
| Deferred inflow of resources     | <u>721,991</u>       | <u>721,150</u>       |
| Net position:                    |                      |                      |
| Net investment in capital assets | 23,807,593           | 24,118,637           |
| Restricted                       | 72,000               | 72,000               |
| Unrestricted                     | <u>13,052,943</u>    | <u>11,244,351</u>    |
| Total net position               | <u>\$ 36,932,536</u> | <u>\$ 35,434,988</u> |

Unrestricted net position of the District at the end of the year was \$13,052,943, an increase of \$1,808,592 from the prior year.

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

|  | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|
| Operating revenues                       | \$ 5,161,085         | \$ 4,336,281         |
| Operating expenses                       | <u>(6,359,137)</u>   | <u>(5,962,346)</u>   |
| Operating income (loss)                  | (1,198,502)          | (1,626,065)          |
| Non-operating revenues and expenses, net | <u>2,259,442</u>     | <u>750,416</u>       |
| Income (Loss) before contributions       | 1,061,390            | (875,649)            |
| Capital contributions – tap fees         | <u>436,158</u>       | <u>532,600</u>       |
| Change in net position                   | 1,497,548            | (343,049)            |
| Net position, beginning                  | <u>35,434,988</u>    | <u>35,778,037</u>    |
| Net position, ending                     | <u>\$ 36,932,536</u> | <u>\$ 35,434,988</u> |

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District's investment in capital assets as of December 31, 2018 amounts to \$31,837,406. This investment in capital assets includes land, water rights, buildings and improvements, equipment, transmission lines, and elevated tanks.

|                                       | <u>2018</u>          | <u>2017</u>          |
|---------------------------------------|----------------------|----------------------|
| Capital assets, not being depreciated | \$ 11,537,622        | \$ 11,533,878        |
| Capital assets, being depreciated     | 32,946,269           | 32,594,658           |
| Less accumulated depreciation         | <u>(12,646,485)</u>  | <u>(11,516,112)</u>  |
| Total capital assets, net             | <u>\$ 31,837,406</u> | <u>\$ 32,612,424</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, 2018 was \$8,029,813 and consisted of general obligation bonds.

|                               | <u>2018</u>         | <u>2017</u>         |
|-------------------------------|---------------------|---------------------|
| General obligation bonds, net | <u>\$ 8,029,813</u> | <u>\$ 8,493,787</u> |
| Total long-term debt          | <u>\$ 8,029,813</u> | <u>\$ 8,493,787</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. In 2018, the Air Force began to help offset the costs of purchasing replacement water. Although the Air Force payments are expected to continue into the future, the PFC contamination is also expected to have a budgetary impact for the foreseeable future. Consequently, 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 2018, however there are several projects within the District that may be initiated in 2019 and continue into the next few years. The general economy within the region is strong. 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 safe and 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, 2018 AND 2017**

|                                      | <b>2018</b>  | <b>2017</b>  |
|--------------------------------------|--------------|--------------|
| <b>ASSETS</b>                        |              |              |
| Current assets:                      |              |              |
| Cash and cash equivalents            | \$ 680,351   | \$ 518,679   |
| Investments                          | 11,979,989   | 10,680,287   |
| Accounts receivable                  | 339,856      | 305,600      |
| Other receivables                    | 500          | 500          |
| Due from county treasurer            | 8,006        | 7,386        |
| Interest receivable                  | 55,089       | 32,658       |
| Property taxes receivable            | 721,991      | 721,150      |
| Inventory, at cost                   | 201,424      | 102,880      |
| Prepaid expenses                     | 340,689      | 333,393      |
| Restricted cash and cash equivalents | 2,500        | 2,500        |
| Other assets                         | 2,662        | -            |
|                                      | 14,333,057   | 12,705,033   |
|                                      |              |              |
| Noncurrent assets:                   |              |              |
| Capital assets:                      |              |              |
| Land                                 | 1,904,390    | 1,904,390    |
| Water rights                         | 9,629,488    | 9,629,488    |
| Construction in progress             | 3,744        | -            |
| Buildings and land improvements      | 551,307      | 593,112      |
| Equipment                            | 11,135,417   | 10,834,689   |
| Transmission lines                   | 19,238,130   | 19,145,442   |
| Elevated tank                        | 2,021,415    | 2,021,415    |
| Less accumulated depreciation        | (12,646,485) | (11,516,112) |
|                                      | 31,837,406   | 32,612,424   |
|                                      |              |              |
| Total assets                         | 46,170,463   | 45,317,457   |
|                                      |              |              |
| <b>LIABILITIES</b>                   |              |              |
| Current liabilities:                 |              |              |
| Accounts payable                     | 184,681      | 384,040      |
| Accrued Liabilities                  | 3,344        | -            |
| Deposits                             | 24,712       | 26,100       |
| Interest payable                     | 21,449       | 22,575       |
| Compensated absences payable         | 33,234       | 11,603       |
| Bonds payable - current              | 455,000      | 450,000      |
|                                      | \$ 722,420   | \$ 894,318   |

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

**SECURITY WATER DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2018 AND 2017**

|                                      | <b>2018</b>   | <b>2017</b>   |
|--------------------------------------|---------------|---------------|
| Noncurrent liabilities:              |               |               |
| Compensated absences                 | \$ 218,703    | \$ 223,214    |
| Bonds payable                        | 7,574,813     | 8,043,787     |
| Total noncurrent liabilities         | 7,793,516     | 8,267,001     |
| Total liabilities                    | 8,515,936     | 9,161,319     |
| <b>DEFERRED INFLOW OF RESOURCES</b>  |               |               |
| Unavailable revenue - property taxes | 721,991       | 721,150       |
| <b>NET POSITION</b>                  |               |               |
| Net investment in capital assets     | 23,807,593    | 24,118,637    |
| Restricted                           | 72,000        | 72,000        |
| Unrestricted                         | 13,052,943    | 11,244,351    |
| Total net position                   | \$ 36,932,536 | \$ 35,434,988 |

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, 2018 AND 2017**

|  | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|
| Operating revenues:                    |                      |                      |
| Water assessments                      | \$ 4,992,586         | \$ 4,138,942         |
| Late and reconnect charges             | 156,594              | 162,387              |
| Other                                  | 11,905               | 34,952               |
| Total operating revenues               | <u>5,161,085</u>     | <u>4,336,281</u>     |
| <br>                                   |                      |                      |
| Operating expenses:                    |                      |                      |
| Transmission and distribution          | 2,676,622            | 2,734,957            |
| Purchased water                        | 1,579,407            | 1,459,974            |
| Maintenance                            | 115,388              | 167,373              |
| Administration and general             | 738,630              | 766,447              |
| Depreciation                           | 1,249,090            | 833,595              |
| Total operating expenses               | <u>6,359,137</u>     | <u>5,962,346</u>     |
| <br>                                   |                      |                      |
| Operating income (loss)                | <u>(1,198,052)</u>   | <u>(1,626,065)</u>   |
| <br>                                   |                      |                      |
| Nonoperating revenues (expenses):      |                      |                      |
| General and specific tax revenues      | 812,519              | 799,551              |
| Investment income                      | 238,737              | 104,633              |
| Mitigation payments                    | 1,210,185            | -                    |
| Rental income                          | 91,086               | 95,017               |
| Sale of meters                         | 10,145               | 16,873               |
| Gain/(loss) on disposal of assets      | 152,814              | (1,156)              |
| Interest and fiscal charges            | (270,018)            | (278,476)            |
| Amortization                           | 13,974               | 13,974               |
| Total non-operating revenue (expenses) | <u>2,259,442</u>     | <u>750,416</u>       |
| <br>                                   |                      |                      |
| Income (loss) before contributions     | 1,061,390            | (875,649)            |
| <br>                                   |                      |                      |
| Capital contributions - tap fees       | <u>436,158</u>       | <u>532,600</u>       |
| <br>                                   |                      |                      |
| Change in net position                 | 1,497,548            | (343,049)            |
| Net position-beginning                 | <u>35,434,988</u>    | <u>35,778,037</u>    |
| <br>                                   |                      |                      |
| Net position-ending                    | <u>\$ 36,932,536</u> | <u>\$ 35,434,988</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, 2018 AND 2017**

|   | <b>2018</b>        | <b>2017</b>        |
|---|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                    |                    |
| Receipts from customers and users                               | \$ 5,114,924       | \$ 4,286,936       |
| Payments to suppliers   | (4,232,905)        | (3,645,145)        |
| Payments to employees for salaries and benefits                 | (1,165,927)        | (1,142,295)        |
| Receipts from rent  | 91,086             | 95,017             |
| Other receipts  | 1,232,235          | 51,825             |
|   | <u>1,039,413</u>   | <u>(353,662)</u>   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                    |                    |
| Cash received from general and specific ownership tax revenues  | 811,899            | 799,015            |
|   | <u>811,899</u>     | <u>799,015</u>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                    |                    |
| Capital contributions - tap fees                                | 436,158            | 532,600            |
| Proceeds from sale of capital assets                            | 2,680              | -                  |
| Interest paid on debt   | (268,893)          | (277,809)          |
| Principal paid on debt  | (450,000)          | (400,000)          |
| Acquisition and construction of capital assets                  | (526,496)          | (3,106,116)        |
| Insurance proceeds  | 202,557            | -                  |
|   | <u>(603,994)</u>   | <u>(3,251,325)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                    |                    |
| Purchase of investments   | (10,211,892)       | (4,420,312)        |
| Proceeds from sales and maturities of investments               | 8,960,000          | 6,375,021          |
| Interest received   | 166,246            | 143,121            |
|   | <u>(1,085,646)</u> | <u>2,097,830</u>   |
| Net cash provided (used) by investing activities                | <u>(1,085,646)</u> | <u>2,097,830</u>   |
| Net increase (decrease) in cash and cash equivalents            | 161,672            | (708,142)          |
| Cash and cash equivalents at beginning of year                  | 521,179            | 1,229,321          |
| Cash and cash equivalents at ending of year                     | <u>\$ 682,851</u>  | <u>\$ 521,179</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, 2018 AND 2017**

|   | <b>2018</b>    | <b>2017</b>    |
|---|----------------|----------------|
| <b>Reconciliation of cash and cash equivalents to the statement of net position:</b>                  |                |                |
| Cash and cash equivalents   | \$ 680,351     | \$ 518,679     |
| Restricted cash and cash equivalents  | 2,500          | 2,500          |
| Cash and cash equivalents at year end   | \$ 682,851     | \$ 521,179     |
| <b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b> |                |                |
| Operating income (loss)   | \$ (1,198,052) | \$ (1,626,065) |
| Adjustments to reconcile operating loss to net cash used by operating activities:                     |                |                |
| Depreciation expense  | \$ 1,249,090   | \$ 833,595     |
| Miscellaneous nonoperating income (expense):  |                |                |
| Mitigation payments   | 1,210,185      | -              |
| Rental income   | 91,087         | 95,017         |
| Sale of meters  | 10,145         | 16,873         |
| <i>(Increase) decrease in assets:</i>   |                |                |
| Accounts receivable   | (34,256)       | (27,627)       |
| Accounts receivable - other   | -              | 13,233         |
| Inventory   | (98,544)       | 17,810         |
| Prepaid expenses  | (7,296)        | 107,391        |
| Other assets  | (2,663)        | -              |
| <i>Increase (decrease) in liabilities:</i>  |                |                |
| Accounts payable  | (199,359)      | 201,538        |
| Accrued Liabilities   | 3,344          | -              |
| Deposits  | (1,388)        | -              |
| Compensated absences payable  | 17,120         | 14,573         |
| Total adjustments   | 2,237,465      | 1,272,403      |
| Net Cash Provided (Used) by Operating Activities  | \$ 1,039,413   | \$ (353,662)   |
| <b>Schedule of non-cash investing, capital and financing activities:</b>                              |                |                |
| Increase (decrease) in fair value of investments  | \$ 32,955      | \$ (16,598)    |
| Accretion (Amortization)  | \$ 17,354      | \$ (21,296)    |

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

## **NOTES TO FINANCIAL STATEMENTS**

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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, 2018 AND 2017**

**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, 2018 and 2017, 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 District's capitalization threshold is \$1,000.

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, 2018 AND 2017**

**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, 2018 and 2017 were 5.703 mills and 5.695 mills, respectively. The District's assessed valuations for 2018 and 2017 were \$126,442,210 and \$123,700,650 respectively.

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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, 2018 AND 2017**

**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, 2018 and 2017, the carrying amounts of the District's deposits were \$(117,080) and \$(177,047), respectively and the bank balances were \$41,681 and \$39,389, 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, 2018 AND 2017**

**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, 2018, 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, 2018 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     | \$ 638,044           | \$ 638,044                   | \$ -                     | \$ -                | \$ -                |
| COLOTRUST              | 159,313              | 159,313                      | -                        | -                   | -                   |
| U.S. Treasuries        | 7,316,288            | 2,047,710                    | 2,494,180                | 2,774,398           | -                   |
| U.S. Agencies          | <u>4,663,701</u>     | <u>497,700</u>               | <u>2,137,287</u>         | <u>2,028,714</u>    | -                   |
| Total                  | <u>\$ 12,777,346</u> | <u>\$ 3,342,767</u>          | <u>\$ 4,631,467</u>      | <u>\$ 4,803,112</u> | <u>\$ -</u>         |

As of December 31, 2018, the District has invested \$159,313 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, 2018 AND 2017**

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

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

|                                       | <u>2018</u>          | <u>2017</u>          |
|---------------------------------------|----------------------|----------------------|
| Cash and cash equivalents:            |                      |                      |
| Cash on hand                          | \$ 74                | \$ 74                |
| Deposits                              | (117,080)            | (177,047)            |
| Money Market Funds                    | 638,044              | 539,616              |
| COLOTRUST                             | <u>159,313</u>       | <u>156,036</u>       |
|                                       | <u>\$ 680,351</u>    | <u>\$ 518,679</u>    |
| Investments:                          |                      |                      |
| U.S. Treasuries                       | \$ 7,316,288         | \$ 4,402,158         |
| U.S. Agencies                         | <u>4,663,701</u>     | <u>6,278,129</u>     |
|                                       | <u>\$ 11,979,989</u> | <u>\$ 10,680,287</u> |
| Restricted cash and cash equivalents: |                      |                      |
| Deposits                              | <u>\$ 2,500</u>      | <u>\$ 2,500</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, 2018 AND 2017**

**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, 2018 |                      |                |                      |
|----------------------------------|-------------------|----------------------|----------------|----------------------|
|                                  | <u>Level 1</u>    | <u>Level 2</u>       | <u>Level 3</u> | <u>Total</u>         |
| Investments - unrestricted       |                   |                      |                |                      |
| U.S. Treasury Notes              | \$ -              | \$ 7,316,288         | \$ -           | \$ 7,316,288         |
| Agency Notes                     | -                 | <u>4,663,701</u>     | -              | <u>4,663,701</u>     |
| Total Investments - unrestricted | <u>\$ -</u>       | <u>\$ 11,979,989</u> | <u>\$ -</u>    | <u>\$ 11,979,989</u> |

|                                  | 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> |

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increase</u>     | <u>Decrease</u>     | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|
| Capital assets, not being depreciated:       |                              |                     |                     |                           |
| Land   | \$ 1,904,390                 | \$ -                | \$ -                | \$ 1,904,390              |
| Water rights                                 | 9,629,488                    | -                   | -                   | 9,629,488                 |
| Construction in progress                     | <u>-</u>                     | <u>3,744</u>        | <u>-</u>            | <u>3,744</u>              |
| Total capital assets, not being depreciated  | <u>11,533,878</u>            | <u>3,744</u>        | <u>-</u>            | <u>11,537,622</u>         |
| Capital assets, being depreciated:           |                              |                     |                     |                           |
| Buildings and improvements                   | 593,112                      | 9,394               | (51,199)            | 551,307                   |
| Equipment                                    | 10,834,689                   | 420,670             | (119,942)           | 11,135,417                |
| Transmission lines                           | 19,145,442                   | 140,308             | (47,620)            | 19,238,130                |
| Elevated tank                                | <u>2,021,415</u>             | <u>-</u>            | <u>-</u>            | <u>2,021,415</u>          |
| Total capital assets, being depreciated      | 32,594,658                   | 570,372             | (218,761)           | 32,946,269                |
| Less accumulated depreciation                | <u>(11,516,112)</u>          | <u>(1,249,090)</u>  | <u>118,717</u>      | <u>(12,646,485)</u>       |
| Total capital assets, being depreciated, net | <u>21,078,546</u>            | <u>(678,718)</u>    | <u>(100,044)</u>    | <u>20,299,784</u>         |
| Total capital assets, net                    | <u>\$ 32,612,424</u>         | <u>\$ (674,974)</u> | <u>\$ (100,044)</u> | <u>\$ 31,837,406</u>      |

| Depreciation expense was charged to functions/programs as follows: | <u>2018</u>         | <u>2017</u>       |
|--|---------------------|-------------------|
| Transmission and distribution                                      | \$ 1,243,326        | \$ 827,345        |
| Administration and general   | <u>5,764</u>        | <u>6,250</u>      |
| Total depreciation expense   | <u>\$ 1,249,090</u> | <u>\$ 833,595</u> |

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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%.

\$ 7,840,000

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

| <u>Fiscal Year<br/>Ending December 31</u> | <u>Principal</u>    | <u>Interest</u>     |
|---|---------------------|---------------------|
| 2019                                      | \$ 455,000          | \$ 257,392          |
| 2020                                      | 470,000             | 243,743             |
| 2021                                      | 485,000             | 229,642             |
| 2022                                      | 495,000             | 215,093             |
| 2023                                      | 510,000             | 200,242             |
| 2024 – 2028                               | 2,805,000           | 745,513             |
| 2029 – 2032                               | <u>2,620,000</u>    | <u>226,998</u>      |
| Total                                     | <u>\$ 7,840,000</u> | <u>\$ 2,118,623</u> |

*Compensated Absences Payable*

Compensated absences consisted of the following:

|                     | <u>2018</u>       | <u>2017</u>       |
|---------------------|-------------------|-------------------|
| Sick leave benefits | \$ 199,741        | \$ 190,243        |
| Vacation benefits   | <u>52,196</u>     | <u>44,574</u>     |
| Total               | <u>\$ 251,937</u> | <u>\$ 234,817</u> |

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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, 2018:

|                          | <u>Balance<br/>12/31/17</u> | <u>Debt Issued<br/>And Additions</u> | <u>Reductions</u> | <u>Balance<br/>12/31/18</u> | <u>Due Within<br/>One year</u> |
|--------------------------|-----------------------------|--------------------------------------|-------------------|-----------------------------|--------------------------------|
| General obligation bonds | \$ 8,290,000                | \$ -                                 | \$ 450,000        | \$ 7,840,000                | \$ 455,000                     |
| Unamortized premium      | <u>203,787</u>              | <u>-</u>                             | <u>13,974</u>     | <u>189,813</u>              | <u>-</u>                       |
|                          | 8,493,787                   | -                                    | 463,974           | 8,029,813                   | 455,000                        |
| Compensated absences     | <u>234,817</u>              | <u>102,710</u>                       | <u>85,590</u>     | <u>251,937</u>              | <u>33,234</u>                  |
| Total                    | <u>\$ 8,728,604</u>         | <u>\$ 102,710</u>                    | <u>\$ 549,564</u> | <u>\$ 8,281,750</u>         | <u>\$ 488,234</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, 2018 and 2017, net investment in capital assets was as follows:

|                                     | <u>2018</u>          | <u>2017</u>          |
|-------------------------------------|----------------------|----------------------|
| Capital assets, net of depreciation | \$ 31,837,406        | \$ 32,612,424        |
| Related debt                        | <u>(8,029,813)</u>   | <u>(8,493,787)</u>   |
|                                     | <u>\$ 23,807,593</u> | <u>\$ 24,118,637</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, 2018 and 2017, 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, 2018 AND 2017**

**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, 2018, 2017 and 2016 were \$37,549, \$34,533, and \$34,914, respectively.

Employees also made additional voluntary contributions for the years ending December 31, 2018, 2017 and 2016 of \$54,532, \$42,238, and \$37,541.

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017.

|                           | <u>2018</u>         | <u>2017</u>         |
|---------------------------|---------------------|---------------------|
| Filter plant bond payment | \$ 135,663          | \$ 136,220          |
| Variable costs            | 319,112             | 372,673             |
| Conveyance charge         | 305,578             | 303,840             |
| Fixed charges             | <u>378,278</u>      | <u>371,245</u>      |
| Total                     | <u>\$ 1,138,631</u> | <u>\$ 1,183,978</u> |

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS**

*Fountain Valley Authority (continued)*

The joint venture summary financial information as of December 31, 2018 and 2017 is as follows:

|   | <u>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
| Assets and Deferred Outflows of Resources | \$ 59,928,697        | \$ 58,475,701        |
| Liabilities                               | 30,028,063           | 36,610,200           |
| Net Position (deficit)                    | <u>29,900,634</u>    | <u>21,865,501</u>    |
| Total Liabilities and Net Position        | <u>\$ 59,928,697</u> | <u>\$ 58,475,701</u> |
| Revenues                                  | \$ 14,812,397        | \$ 16,259,167        |
| Expenditures                              | <u>(6,777,264)</u>   | <u>(7,620,159)</u>   |
| Change in Net Position                    | <u>\$ 8,035,133</u>  | <u>\$ 8,639,008</u>  |

Long-term liability activity for the year ended December 31, 2018 was as follows:

|                                    | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u>   | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One year</u> |
|------------------------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Revenue bonds                      | \$ 1,730,000                 | \$ -             | \$ 850,000          | \$ 880,000                | \$ 880,000                     |
| Unamortized Premium                | <u>65,155</u>                | -                | <u>33,994</u>       | <u>31,161</u>             | -                              |
|                                    | 1,795,155                    | -                | 883,994             | 911,161                   | 880,000                        |
| Loans payable                      | 2,690,113                    | -                | 617,315             | 2,072,798                 | 655,806                        |
| Obligations under capital<br>lease | <u>26,336,341</u>            | -                | <u>5,199,203</u>    | <u>21,137,138</u>         | <u>4,708,915</u>               |
| Total                              | <u>\$ 30,821,609</u>         | <u>\$ -</u>      | <u>\$ 6,700,512</u> | <u>\$ 24,121,097</u>      | <u>\$ 6,244,721</u>            |

*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 2018 and in 2017 for operating expenses of the venture.

**SECURITY WATER DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**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 2018 and 2017.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

*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 2018, and is expected to impact the budget for the foreseeable future. The District is seeking reimbursement from several sources to help offset these costs.

As one means of seeking reimbursement, the District has filed a Federal Tort Claims Act lawsuit against the United States seeking recovery of costs associated with securing and delivering alternate sources of water. The lawsuit is in its early stages and the United States has not yet responded to the complaint. The complaint alleges that the United States committed trespass and nuisance, and has acted in a negligent manner, by releasing fire-fighting foam that contains PFCs to the environment, causing contamination of the District’s water supply. Litigation carries inherent uncertainty and there is a risk that the District’s claims will be dismissed in whole or in part, with little or no recovery of damages.

**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, 2018 AND 2017**

**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, 2018 and 2017, see Note 6 – Net Position.

## **SUPPLEMENTAL INFORMATION**

**SECURITY WATER DISTRICT  
SCHEDULES OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

|   | <u>2018</u>                           | <u>2017</u>                           |
|---|---------------------------------------|---------------------------------------|
| Transmission and distribution:          |                                       |                                       |
| Production payroll                      | \$ 883,538                            | \$ 870,038                            |
| Production cost                         | 179,483                               | 252,926                               |
| Insurance expense                       | 308,943                               | 278,123                               |
| Professional fees                       | 130,521                               | 91,952                                |
| Trade service                           | 12,617                                | 14,988                                |
| Pipeline and storage projects           | 22,890                                | 42,952                                |
| Joint ventures                          | <u>1,138,630</u>                      | <u>1,183,978</u>                      |
| <br>TOTAL TRANSMISSION AND DISTRIBUTION | <br><u>2,676,622</u>                  | <br><u>2,734,957</u>                  |
| <br>PURCHASED WATER                     | <br><u>1,579,407</u>                  | <br><u>1,459,974</u>                  |
| <br>Maintenance:                        |                                       |                                       |
| Truck expenses                          | 37,691                                | 25,444                                |
| Equipment, maintenance and repair       | <u>77,697</u>                         | <u>141,929</u>                        |
| <br>TOTAL MAINTENANCE                   | <br><u>115,388</u>                    | <br><u>167,373</u>                    |
| <br>Administration and general:         |                                       |                                       |
| Office payroll                          | 300,190                               | 286,830                               |
| Office expense                          | 64,679                                | 90,480                                |
| Insurance expense                       | 64,855                                | 60,019                                |
| Professional fees                       | 246,968                               | 269,900                               |
| Trade service                           | 21,726                                | 20,334                                |
| Collection expense                      | <u>40,212</u>                         | <u>38,884</u>                         |
| <br>TOTAL ADMINISTRATION AND GENERAL    | <br><u>738,630</u>                    | <br><u>766,447</u>                    |
| <br>DEPRECIATION                        | <br><u>1,249,090</u>                  | <br><u>833,595</u>                    |
| <br><b>TOTAL OPERATING EXPENSES</b>     | <br><b><u><u>\$ 6,359,137</u></u></b> | <br><b><u><u>\$ 5,962,346</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, 2018**  
(With comparative actuals for the year ended December 31, 2017)

|                                       | <u>2017</u>       | <u>2018</u>       | <u>Budget</u>     | Variance<br>Favorable<br>(Unfavorable) |
|---------------------------------------|-------------------|-------------------|-------------------|--|
| <b>REVENUES</b>                       |                   |                   |                   |  |
| Beginning fund balance                | \$ 14,344,739     | \$ 11,316,351     | \$ 11,275,044     | \$ 41,307                              |
| Water assessments                     | 4,138,942         | 4,992,586         | 4,600,000         | 392,586                                |
| Late and reconnect charges            | 162,387           | 156,594           | 157,000           | (406)                                  |
| Other                                 | 34,952            | 1,222,090         | 66,000            | 1,156,090                              |
| General property taxes                | 703,199           | 720,410           | 721,150           | (740)                                  |
| S.O.T. taxes                          | 95,517            | 91,201            | 75,000            | 16,201                                 |
| Delinquent taxes                      | 835               | 908               | 2,000             | (1,092)                                |
| Investment income                     | 104,633           | 238,737           | 143,000           | 95,737                                 |
| Sale of meters                        | 16,873            | 10,145            | 20,000            | (9,855)                                |
| Connection fees                       | 532,600           | 436,158           | 169,000           | 267,158                                |
| Rental income                         | 95,017            | 91,086            | 91,000            | 86                                     |
| Proceeds from asset sales / insurance | -                 | 205,237           | 2,000             | 203,237                                |
| Bond Proceeds                         | -                 | -                 | 2,500,000         | (2,500,000)                            |
| <b>TOTAL REVENUES</b>                 | <u>20,229,694</u> | <u>19,481,503</u> | <u>19,821,194</u> | <u>(339,691)</u>                       |
| <b>EXPENDITURES</b>                   |                   |                   |                   |  |
| Water purchase:                       |                   |                   |                   |  |
| Southern Delivery System              | 810,949           | 1,004,988         | 925,000           | (79,988)                               |
| Pinello Ranch lease                   | 27                | (63)              | 10,000            | 10,063                                 |
| Frying Pan/Arkansas                   | 8,771             | 3,782             | 18,000            | 14,218                                 |
| CSU Contract                          | 285,481           | 395,223           | 400,000           | 4,777                                  |
| Other                                 | 354,745           | 175,477           | 258,000           | 82,523                                 |
| <b>TOTAL WATER PURCHASE</b>           | <u>1,459,973</u>  | <u>1,579,407</u>  | <u>1,611,000</u>  | <u>31,593</u>                          |
| <b>PRODUCTION PAYROLL</b>             | <u>870,038</u>    | <u>883,538</u>    | <u>949,800</u>    | <u>66,262</u>                          |
| Production cost:                      |                   |                   |                   |  |
| Electricity                           | 77,558            | 69,804            | 95,000            | 25,196                                 |
| Natural gas                           | 12,618            | 13,104            | 20,000            | 6,896                                  |
| Water quality improvement             | 1,292             | 2,446             | -                 | (2,446)                                |
| Telephone and radios                  | 20,465            | 21,171            | 30,000            | 8,829                                  |
| Supplies, tools, freight              | 130,830           | 59,693            | 30,000            | (29,693)                               |
| Chlorine                              | 1,197             | 2,054             | 4,000             | 1,946                                  |
| Uniforms                              | 8,777             | 11,031            | 13,000            | 1,969                                  |
| Other Production Costs                | 189               | 180               | 2,000             | 1,820                                  |
| <b>TOTAL PRODUCTION COST</b>          | <u>\$ 252,926</u> | <u>\$ 179,483</u> | <u>\$ 194,000</u> | <u>\$ 12,697</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, 2018**  
**(With comparative actuals for the year ended December 31, 2017)**

|   | <u>2017</u>       | <u>2018</u>       | <u>Budget</u>     | Variance<br>Favorable<br>(Unfavorable) |
|---|-------------------|-------------------|-------------------|--|
| <b>EXPENDITURES (continued)</b>                   |                   |                   |                   |  |
| Truck expenses:                                   |                   |                   |                   |  |
| Repairs and maintenance                           | \$ 14,292         | \$ 22,257         | \$ 20,000         | \$ (2,257)                             |
| Gas, oil and diesel                               | 11,152            | 15,434            | 20,000            | 4,566                                  |
| <b>TOTAL TRUCK EXPENSES</b>                       | <u>25,444</u>     | <u>37,691</u>     | <u>40,000</u>     | <u>2,309</u>                           |
| Equipment, maintenance and repair:                |                   |                   |                   |  |
| Inventory, equipment and supplies                 | 26,114            | 21,701            | 28,000            | 6,299                                  |
| Repairs and maintenance                           | 15,217            | 8,132             | 20,000            | 11,868                                 |
| Pump and well repairs                             | -                 | -                 | 30,000            | 30,000                                 |
| Well house maintenance                            | 95,971            | 43,317            | 75,000            | 31,683                                 |
| Office and garage maintenance                     | 4,627             | 4,546             | 6,000             | 1,454                                  |
| <b>TOTAL EQUIPMENT<br/>MAINTENANCE AND REPAIR</b> | <u>141,929</u>    | <u>77,696</u>     | <u>159,000</u>    | <u>81,304</u>                          |
| <b>OFFICE SALARIES</b>                            | <u>286,830</u>    | <u>300,190</u>    | <u>328,900</u>    | <u>28,710</u>                          |
| Office expense:                                   |                   |                   |                   |  |
| Office supplies                                   | 15,035            | 7,981             | 13,000            | 5,019                                  |
| Equipment maintenance contracts                   | 9,519             | 9,542             | 14,000            | 4,458                                  |
| Water quality office expense                      | 20,914            | 1,379             | 35,000            | 33,621                                 |
| Miscellaneous office expenses                     | 14,093            | 17,727            | 20,000            | 2,273                                  |
| Election  | -                 | -                 | 4,000             | 4,000                                  |
| Health administrative fees                        | 1,322             | 1,075             | -                 | (1,075)                                |
| Bank charges                                      | 29,597            | 26,974            | 35,000            | 8,026                                  |
| <b>TOTAL OFFICE EXPENSE</b>                       | <u>90,480</u>     | <u>64,678</u>     | <u>121,000</u>    | <u>56,322</u>                          |
| Insurance expense:                                |                   |                   |                   |  |
| Workman's compensation                            | 25,067            | 13,091            | 26,000            | 12,909                                 |
| Liability, errors and omissions                   | 76,860            | 93,214            | 92,000            | (1,214)                                |
| Health  | 231,156           | 261,734           | 325,000           | 63,266                                 |
| Damages/Deductibles                               | -                 | 500               | 2,000             | 1,500                                  |
| PebSCO  | 1,275             | 1,475             | 7,500             | 6,025                                  |
| Unum LTC  | 3,784             | 3,784             | 0                 | (3,784)                                |
| <b>TOTAL INSURANCE EXPENSE</b>                    | <u>\$ 338,142</u> | <u>\$ 373,798</u> | <u>\$ 452,500</u> | <u>\$ 78,702</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, 2018**  
(With comparative actuals for the year ended December 31, 2017)

|  | <u>2017</u>         | <u>2018</u>         | <u>Budget</u>        | <u>Variance<br/>Favorable<br/>(Unfavorable)</u> |
|--|---------------------|---------------------|----------------------|---|
| <b>EXPENDITURES (continued)</b>          |                     |                     |                      |   |
| Professional fees:                       |                     |                     |                      |   |
| Audit                                    | \$ 13,200           | \$ 13,600           | \$ 13,600            | \$ -  |
| Legal                                    | 189,342             | 184,239             | 140,000              | (44,239)  |
| Engineering                              | 91,953              | 130,521             | 140,000              | 9,479   |
| Other professional services              | 67,358              | 49,129              | 60,000               | 10,871  |
| <b>TOTAL PROFESSIONAL FEES</b>           | <u>361,853</u>      | <u>377,489</u>      | <u>353,600</u>       | <u>(23,889)</u>                                 |
| Trade service:                           |                     |                     |                      |   |
| Dues and membership                      | 20,334              | 21,726              | 26,000               | 4,274   |
| Schools and seminars                     | 14,988              | 12,617              | 20,000               | 7,383   |
| <b>TOTAL TRADE SERVICE</b>               | <u>35,322</u>       | <u>34,343</u>       | <u>46,000</u>        | <u>11,657</u>                                   |
| Collection expense:                      |                     |                     |                      |   |
| Trade Service                            | -                   | 184                 |                      |   |
| Billing forms                            | 7,206               | 7,994               | 12,000               | 4,006   |
| Advertising                              | 3,171               | 2,993               | 5,000                | 2,007   |
| Postage                                  | 17,946              | 18,218              | 24,000               | 5,782   |
| Tax collection fees                      | 10,561              | 10,824              | 15,000               | 4,176   |
| <b>TOTAL COLLECTION EXPENSE</b>          | <u>38,884</u>       | <u>40,213</u>       | <u>56,000</u>        | <u>15,971</u>                                   |
| <b>PIPELINE AND<br/>STORAGE PROJECTS</b> | <u>42,952</u>       | <u>22,890</u>       | <u>54,000</u>        | <u>31,110</u>                                   |
| Joint Ventures:                          |                     |                     |                      |   |
| Fountain Valley Authority                | 1,183,978           | 1,138,631           | 1,360,828            | 222,197   |
| Widefield Aquifer Recharge Assoc.        | -                   | -                   | 5,000                | 5,000   |
| <b>TOTAL JOINT VENTURES</b>              | <u>1,183,978</u>    | <u>1,138,631</u>    | <u>1,365,828</u>     | <u>227,197</u>                                  |
| <b>CAPITAL OUTLAYS</b>                   | <u>3,106,116</u>    | <u>526,496</u>      | <u>6,276,000</u>     | <u>5,749,504</u>                                |
| <b>INTEREST EXPENSE</b>                  | <u>278,476</u>      | <u>270,018</u>      | <u>270,893</u>       | <u>875</u>                                      |
| <b>DEBT PRINCIPAL PAYMENT</b>            | <u>400,000</u>      | <u>450,000</u>      | <u>450,000</u>       | <u>-</u>  |
| <b>BOND COSTS</b>                        | <u>-</u>            | <u>-</u>            | <u>500</u>           | <u>500</u>                                      |
| <b>TOTAL EXPENDITURES</b>                | <u>\$ 8,913,343</u> | <u>\$ 6,356,561</u> | <u>\$ 12,729,021</u> | <u>\$ 6,370,824</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, 2018**  
(With comparative actuals for the year ended December 31, 2017)

|  | <u>2017</u>         | <u>2018</u>         | <u>Budget</u>       | Variance<br>Favorable<br>(Unfavorable) |
|--|---------------------|---------------------|---------------------|--|
| <b>EXCESS OF REVENUE OVER<br/>EXPENDITURES</b> | \$ 11,316,351       | \$ 13,124,942       | <u>\$ 7,092,173</u> | <u>\$ 6,031,133</u>                    |
| Less:  |                     |                     |                     |  |
| Depreciation                                   | (833,595)           | (1,249,090)         |                     |  |
| Beginning fund balance                         | (14,344,739)        | (11,316,351)        |                     |  |
| Add:   |                     |                     |                     |  |
| Amortization                                   | 13,974              | 13,974              |                     |  |
| Debt principal payment                         | 400,000             | 450,000             |                     |  |
| Capital outlay                                 | 3,106,116           | 526,496             |                     |  |
| Gain (loss) on sale of assets                  | <u>(1,156)</u>      | <u>(52,423)</u>     |                     |  |
| <b>CHANGE IN NET POSITION</b>                  | <u>\$ (343,049)</u> | <u>\$ 1,497,548</u> |                     |  |

Ending fund balance is calculated as follows:

|                         |                      |                      |
|-------------------------|----------------------|----------------------|
| Current assets          | 12,705,033           | 14,333,057           |
| Current liabilities     | (894,317)            | (722,420)            |
| Deferred inflows        | (721,150)            | (721,991)            |
| Bonds payable - current | 450,000              | 455,000              |
| Compensated absences    | <u>(223,215)</u>     | <u>(218,704)</u>     |
|                         | <u>\$ 11,316,351</u> | <u>\$ 13,124,942</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, 2018**

|  | Actual              | General<br>Fund       | Enterprise<br>Fund  |
|--|---------------------|-----------------------|---------------------|
| <b>Budget sources:</b>                                 |                     |                       |                     |
| Water assessments                                      | \$ 4,992,586        | \$ -                  | \$ 4,992,586        |
| Late and reconnect charges                             | 156,594             | -                     | 156,594             |
| General and specific tax revenues                      | 812,519             | 812,519               | -                   |
| Investment income                                      | 238,737             | -                     | 238,737             |
| Sale of meters   | 10,145              | -                     | 10,145              |
| Connection fees  | 436,158             | -                     | 436,158             |
| Rental income  | 91,086              | -                     | 91,086              |
| Other  | 1,222,090           | -                     | 1,222,090           |
| Proceeds from asset sales / insurance                  | 205,237             | -                     | 205,237             |
| <b>TOTAL BUDGET SOURCES</b>                            | <b>8,165,152</b>    | <b>812,519</b>        | <b>7,352,633</b>    |
| <b>Budget uses:</b>                                    |                     |                       |                     |
| Water purchase   | 1,579,407           | -                     | 1,579,407           |
| Production payroll                                     | 883,538             | -                     | 883,538             |
| Production cost  | 179,483             | 2,628                 | 176,855             |
| Truck expenses   | 37,691              | 101                   | 37,590              |
| Equipment, maintenance and repair                      | 77,696              | 2,273                 | 75,423              |
| Office payroll   | 300,190             | 150,095               | 150,095             |
| Office expense   | 64,678              | 63,989                | 689                 |
| Insurance expense                                      | 373,798             | 69,508                | 304,290             |
| Professional fees                                      | 377,489             | 197,839               | 179,650             |
| Trade service  | 34,343              | 21,726                | 12,617              |
| Collection expense                                     | 40,212              | 37,219                | 2,993               |
| Pipeline and Storage projects                          | 22,890              | -                     | 22,890              |
| Capital outlay   | 526,496             | -                     | 526,496             |
| Interest expense                                       | 270,018             | 270,018               | -                   |
| Bond principal payment                                 | 450,000             | 450,000               | -                   |
| Joint ventures   | 1,138,631           | -                     | 1,138,631           |
| <b>TOTAL BUDGET USES</b>                               | <b>6,356,560</b>    | <b>1,265,396</b>      | <b>5,091,164</b>    |
| Budget sources over uses<br>before interest allocation | 1,808,592           | (452,877)             | 2,261,469           |
| Interest allocation                                    | -                   | 93,258                | (93,258)            |
| Budget sources over uses<br>after interest allocation  | 1,808,592           | (359,619)             | 2,168,211           |
| Transfer equal to 9% of<br>Enterprise fund revenue     | -                   | (653,344)             | 653,344             |
| <b>BUDGET SOURCES OVER USES</b>                        | <b>\$ 1,808,592</b> | <b>\$ (1,012,963)</b> | <b>\$ 2,821,555</b> |

See accompanying independent auditors' report.