

SECURITY SANITATION DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2019 and 2018

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DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Security Sanitation District

We have audited the accompanying financial statements of Security Sanitation District, which comprise the statements of net position as of December 31, 2019 and 2018, 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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Security Sanitation District, as of December 31, 2019 and 2018, 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 Sanitation District's financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The supplemental information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 11, 2020, on our consideration of Security Sanitation District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Security Sanitation District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Security Sanitation District's internal control over financial reporting and compliance.

Hoelting & Company Inc.

Colorado Springs, Colorado
June 11, 2020

SECURITY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2019

As management of Security Sanitation District (the District) we offer readers of the District's annual financial report this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2019. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$34,447,756 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$18,309,724 (*net position*). Of this amount, \$9,525,115 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 \$1,045,320.
- Capital assets net of depreciation increased by \$7,294,812 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

OVERALL FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. For the year ended December 31, 2019, the District's assets exceeded liabilities and deferred inflows by \$18,309,724 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 22,932,635	\$ 28,992,161
Capital assets, net	<u>11,515,121</u>	<u>4,220,309</u>
Total assets	<u>34,447,756</u>	<u>33,212,470</u>
Current and other liabilities	2,250,484	1,542,026
Long-term liabilities	<u>13,774,109</u>	<u>14,296,741</u>
Total liabilities	<u>16,024,593</u>	<u>15,838,767</u>
Deferred inflow of resources	<u>113,439</u>	<u>109,299</u>
Net position:		
Net investment in capital assets	8,747,092	4,220,309
Restricted	37,517	37,517
Unrestricted	<u>9,525,115</u>	<u>13,006,578</u>
Total net position	<u>\$ 18,309,724</u>	<u>\$ 17,264,404</u>

Unrestricted net position of the District at the end of the year was \$9,525,115, a decrease of \$3,481,463 from the prior year.

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

	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 3,338,692	\$ 3,273,165
Operating expenses	<u>(2,627,048)</u>	<u>(2,549,574)</u>
Operating income (loss)	711,644	723,591
Non-operating revenues and expenses, net	<u>123,613</u>	<u>210,955</u>
Income (loss) before contributions	835,257	934,546
Capital contributions – tap fees	<u>210,063</u>	<u>150,728</u>
Change in net position	1,045,320	1,085,274
Net position, beginning	<u>17,264,404</u>	<u>16,179,130</u>
Net position, ending	<u>\$ 18,309,724</u>	<u>\$ 17,264,404</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2019 amounts to \$11,515,121. This investment in capital assets includes land, buildings and lagoon, equipment, and sewer main.

	<u>2019</u>	<u>2018</u>
Capital assets, not being depreciated	\$ 9,019,708	\$ 1,547,543
Capital assets, being depreciated	10,361,106	10,285,813
Less accumulated depreciation	<u>(7,865,693)</u>	<u>(7,613,047)</u>
Total capital assets, net	<u>\$ 11,515,121</u>	<u>\$ 4,220,309</u>

The major capital asset acquisitions during 2019 include the purchase of plant equipment and plant upgrades.

Long-Term Debt

	<u>Beginning</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>
CWRPDA loan	\$ 14,606,528	\$ -	\$ (528,282)	\$ 14,078,246
Compensated absences	<u>237,167</u>	<u>108,043</u>	<u>(93,135)</u>	<u>252,075</u>
Total long-term liabilities	<u>\$ 14,843,695</u>	<u>\$ 108,043</u>	<u>\$ (621,417)</u>	<u>\$ 14,330,321</u>

ECONOMIC FACTORS AND OUTLOOK

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

Economic and Environmental Factors - Development within the District continued to be slow in 2019, however there are several projects within the District that will likely be initiated in 2020 and continue into the next few years. The District will need to continue to upgrade facilities, in part to accommodate anticipated long-term growth. Regulatory requirements are expected to provide ever-increasing treatment challenges in the future and will demand substantial resources in order for the District to maintain regulatory compliance. Although the general economy within the region is strong, COVID-19 has affected the world, the region, and the District in 2020. The pandemic has had an impact certain operating expense categories as well as policies involving fees, charges and delinquency shut-offs. Although it is too early to assess the full financial effect of COVID-19, it is not expected to be material.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

**SECURITY SANITATION DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,450,380	\$ 712,661
Restricted cash and cash equivalents	11,315,380	14,611,691
Investments	9,615,698	13,137,511
Due from County Treasurer	1,194	1,220
Accounts receivable	376,044	360,743
Property taxes receivable	113,439	109,299
Interest receivable	60,500	59,036
Total current assets	22,932,635	28,992,161
Noncurrent assets:		
Capital assets, net of depreciation	11,515,121	4,220,309
Total assets	34,447,756	33,212,470
LIABILITIES		
Current liabilities:		
Accounts payable	1,550,019	920,676
Compensated absences payable	20,051	18,672
Payroll taxes payable	918	918
Accrued interest	140,285	69,984
Unearned assessment revenue	3,050	3,494
Current portion - loan payable	536,161	528,282
Total current liabilities	2,250,484	1,542,026
Noncurrent liabilities:		
Loan payable	13,542,085	14,078,246
Compensated absences	232,024	218,495
Total noncurrent liabilities	13,774,109	14,296,741
Total liabilities	16,024,593	15,838,767
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue - property tax	113,439	109,299
Total deferred inflows of resources	113,439	109,299
NET POSITION		
Net investment in capital assets	8,747,092	4,220,309
Restricted	37,517	37,517
Unrestricted	9,525,115	13,006,578
Total net position	\$ 18,309,724	\$ 17,264,404

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

SECURITY SANITATION DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Charges for sales and services		
Sanitation assessments	\$ 3,313,924	\$ 3,257,410
Other	24,768	15,755
Total operating revenues	<u>3,338,692</u>	<u>3,273,165</u>
Operating expenses:		
Sewage pumping and treatment	1,276,301	1,263,790
Waste disposal	427,178	392,994
Maintenance	111,339	71,895
Administration and general	559,584	569,759
Depreciation	252,646	251,136
Total operating expenses	<u>2,627,048</u>	<u>2,549,574</u>
Operating income (loss)	<u>711,644</u>	<u>723,591</u>
Nonoperating revenues (expenses):		
General property and specific ownership taxes	121,698	123,774
Investment income	339,974	248,645
Gain(Loss) on disposal of capital assets	-	9,348
Interest expense	(338,059)	(69,984)
Debt issuance expense	-	(100,828)
Total non-operating revenues (expenses)	<u>123,613</u>	<u>210,955</u>
Income (loss) before capital contributions	835,257	934,546
Capital contributions - tap fees	<u>210,063</u>	<u>150,728</u>
Change in net position	1,045,320	1,085,274
Net position-beginning	<u>17,264,404</u>	<u>16,179,130</u>
Net position-ending	<u><u>\$ 18,309,724</u></u>	<u><u>\$ 17,264,404</u></u>

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

**SECURITY SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 3,298,180	\$ 3,237,333
Cash payments to suppliers for goods and services	(719,958)	(973,780)
Cash payments to employees for services	(1,176,192)	(1,133,105)
Other operating revenues	24,768	15,755
	<u>1,426,798</u>	<u>1,146,203</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from general and specific ownership tax revenues	121,723	123,681
	<u>121,723</u>	<u>123,681</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan proceeds	-	14,606,528
Capital contributions	210,063	150,728
Proceeds from the sale of assets	-	1,000
Insurance proceeds	-	30,059
Debt issuance costs	-	(100,828)
Acquisition and construction of capital assets	(7,381,459)	(911,449)
Principal on loan	(528,282)	-
Interest on loan	(267,758)	-
	<u>(7,967,436)</u>	<u>13,776,038</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(12,025,318)	(9,634,343)
Proceeds from matured securities	15,610,000	8,440,000
Interest received	275,641	199,065
	<u>3,860,323</u>	<u>(995,278)</u>
Net cash provided (used) by investing activities	<u>3,860,323</u>	<u>(995,278)</u>
Net increase (decrease) in cash and cash equivalents	(2,558,592)	14,050,644
Cash and cash equivalents at beginning of year	15,324,352	1,273,708
	<u>15,324,352</u>	<u>1,273,708</u>
Cash and cash equivalents at end of year	<u>\$ 12,765,760</u>	<u>\$ 15,324,352</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	\$ 1,450,380	\$ 712,661
Restricted cash and cash equivalents	11,315,380	14,611,691
	<u>11,315,380</u>	<u>14,611,691</u>
Cash and cash equivalents at end of year	<u>\$ 12,765,760</u>	<u>\$ 15,324,352</u>

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

**SECURITY SANITATION DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 711,644	\$ 723,591
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation expense	252,646	251,136
Changes in assets and liabilities:		
<i>(Increase) decrease in assets:</i>		
Accounts receivable	(15,302)	(19,173)
Prepaid expenses	-	16,891
<i>Increase (decrease) in liabilities:</i>		
Accounts payable	463,345	156,158
Compensated absences payable	14,908	18,506
Unearned assessment revenue	(443)	(906)
Total Adjustments	715,154	422,612
Net Cash Provided (Used) by Operating Activities	\$ 1,426,798	\$ 1,146,203
Schedule of non-cash investing, capital and financing activities:		
Increase (decrease) in fair value of investments	\$ 49,835	\$ 26,342
Amortization of investment premium	\$ 13,020	\$ 1,405

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

NOTES TO FINANCIAL STATEMENTS

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS

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

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash and cash equivalents

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

Investments

Investments are stated at fair value.

Accounts Receivable

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

Capital Assets

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

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

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

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

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

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Deferred outflows/inflows of resources

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

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

Net position flow assumption

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

E. REVENUES AND EXPENSES

Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of January 1. The tax levy is payable in two installments due February 28 and June 15, or in one installment due April 30. The El Paso County Treasurer bills and collects the District's property tax. District property tax revenues are recognized when levied to the extent they result in current receivables. The tax rates were 0.854 and 0.863 mills for the years ended December 31, 2019 and 2018, respectively. The District's assessed valuations for 2019 and 2018 were \$127,951,850 and \$127,282,600 respectively.

Compensated Absences

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

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. REVENUES AND EXPENSES (CONTINUED)

Operating and non-operating revenues and expenses

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

F. ESTIMATES

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

G. COMPARATIVE DATA

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

BUDGETARY INFORMATION

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

Expenditures may not legally exceed budgeted appropriations.

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

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

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

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

At December 31, 2019 and 2018, the carrying amounts of the District's deposits were (\$1,538,154) and \$308, and the bank balances were \$42,202 and \$41,833 respectively. All of the total bank balances at December 31, 2019 and 2018 were covered by FDIC insurance.

Investments

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

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

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

Credit Risk: The District's investment policy limits investments as described above. As of December 31, 2019, the District's U.S. Treasuries and Agencies were rated Aaa and Commercial Paper was rated P-1 by Moody's Investor Services. Standard & Poor's rated U.S. Treasuries and Agencies held by the District AA+, Commercial Paper A-1, and all other investments AAA.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2019 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	\$ 2,915,494	\$ 2,915,494	\$ -	\$ -	\$ -
COLOTRUST	72,941	72,941	-	-	-
U.S. Treasuries	4,274,083	601,390	3,672,693	-	-
U.S. Agencies	4,841,114	524,949	2,267,025	1,541,433	507,707
Short Term Notes	<u>500,501</u>	<u> </u>	<u>500,501</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,604,133</u>	<u>\$ 4,114,774</u>	<u>\$ 6,440,219</u>	<u>\$ 1,541,433</u>	<u>\$ 507,707</u>

As of December 31, 2019, the District has invested \$72,941 in the Colorado Government Liquid Asset Trust (COLOTRUST). COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. This investment vehicle operates similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

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

Reconciliation of Deposits and Investments to the Statements of Net Position

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents:		
Cash on hand	\$ 100	\$ 100
Deposits	(1,538,155)	308
Money Market Funds	2,915,494	640,995
COLOTRUST	<u>72,941</u>	<u>71,258</u>
	<u>\$ 1,450,380</u>	<u>\$ 712,661</u>
Investments:		
U.S. Treasuries	\$ 4,274,083	\$ 6,191,683
U.S. Agencies	4,841,114	6,125,879
Short Term Notes	<u>500,501</u>	<u>819,949</u>
	<u>\$ 9,615,698</u>	<u>\$ 13,137,511</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 – FAIR VALUE MEASUREMENT

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

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

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

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

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

	December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 4,274,083	\$ -	\$ 4,274,083
Agency Notes	-	4,841,114	-	4,841,114
Short Term Notes	-	500,501	-	500,501
Total Investments - unrestricted	\$ -	\$ 9,615,698	\$ -	\$ 9,615,698

	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - unrestricted				
U.S. Treasury Notes	\$ -	\$ 6,191,683	\$ -	\$ 6,191,683
Agency Notes	-	6,125,879	-	6,125,879
Short Term Notes	-	819,949	-	819,949
Total Investments - unrestricted	\$ -	\$ 13,137,511	\$ -	\$ 13,137,511

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 13,218	\$ -	\$ -	\$ 13,218
CIP – Treatment Plant Extension	<u>1,534,325</u>	<u>7,472,165</u>	<u>-</u>	<u>9,006,490</u>
Total capital assets, not being depreciated	<u>1,547,543</u>	<u>7,472,165</u>	<u>-</u>	<u>9,019,708</u>
Capital assets, being depreciated:				
Buildings and lagoon	947,340	-	-	947,340
Sanitation plant	6,215,226	52,700	-	6,267,926
Sewer main	1,291,548	-	-	1,291,548
Equipment	<u>1,831,699</u>	<u>22,593</u>	<u>-</u>	<u>1,854,292</u>
Total capital assets, being depreciated	10,285,813	75,293	-	10,361,106
Less accumulated depreciation	<u>(7,613,047)</u>	<u>(252,646)</u>	<u>-</u>	<u>(7,865,693)</u>
Total capital assets, being depreciated, net	<u>2,672,766</u>	<u>(177,353)</u>	<u>-</u>	<u>2,495,413</u>
Total capital assets, net	<u>\$ 4,220,309</u>	<u>\$ 7,294,812</u>	<u>\$ -</u>	<u>\$ 11,515,121</u>
Depreciation expense was charged to functions/programs as follows:		<u>2019</u>	<u>2018</u>	
Sewage pumping and treatment		\$ 246,946	\$ 243,126	
Administration and general		<u>5,700</u>	<u>8,010</u>	
Total depreciation expense		<u>\$ 252,646</u>	<u>\$ 251,136</u>	

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - LONG-TERM LIABILITIES

Loan

On November 1, 2018, the District entered into a loan agreement with Colorado Water Resource & Power Development Authority in the sum of \$14,606,528. Principal and interest are payable semi-annually with interest at 2.34%. This loan is to be repaid from and secured by a pledge of net revenues.

Annual debt service for the loan are as follows:

Fiscal Year <u>Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 536,161	\$ 336,683
2021	553,398	323,184
2022	566,011	309,433
2023	578,897	295,934
2024	590,008	282,434
2025 – 2029	3,162,932	1,214,667
2030 – 2034	3,439,583	931,211
2035 – 2039	3,807,068	567,120
2040	<u>844,188</u>	<u>30,310</u>
Total	<u>\$ 14,078,246</u>	<u>\$ 4,290,976</u>

Compensated absences

Compensated absences consisted of the following:

	<u>2019</u>	<u>2018</u>
Sick leave benefits	\$ 197,363	\$ 186,465
Vacation benefits	<u>54,712</u>	<u>50,702</u>
Total	<u>\$ 252,075</u>	<u>\$ 237,167</u>

The changes in long-term liabilities for the year ended December 31, 2019 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
CWRPDA loan	\$14,606,528	\$ -	\$ (528,282)	\$14,078,246	\$ 536,161
Compensated absences	<u>237,167</u>	<u>108,043</u>	<u>(93,135)</u>	<u>252,075</u>	<u>20,051</u>
Total long-term liabilities	<u>\$14,843,695</u>	<u>\$ 108,043</u>	<u>\$ (621,417)</u>	<u>\$14,330,321</u>	<u>\$ 556,212</u>

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

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, 2019 and 2018, net investment in capital assets was as follows:

	2019	2018
Capital assets, net of depreciation	\$ 11,515,121	\$ 4,220,309
Capital related debt	(14,078,246)	(14,606,528)
Remaining project cash	11,310,217	14,606,528
Net investment in capital assets	\$ 8,747,092	\$ 4,220,309

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings). The District has established an Emergency Reserve in the amount of \$37,517 for years ended December 31, 2019 and 2018, as per Article X, Section 20 of the Colorado Constitution. This Emergency Reserve balance represents at least 3% of the governmental fiscal year spending as required.

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

NOTE 8 – DEFINED CONTRIBUTION PENSION PLAN

Pension Plan

Plan Description

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

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 – DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)

Funding Policy

Plan members and the District are required to contribute at a rate set by statute. The contribution requirements of plan members and the District are established under Title 24, Article 54, Part 101 of the CRS, as amended. The District is required to contribute a minimum of 3% of the participant's base salary or wage. The District's board approved rate is 4% of compensation. Participants are required to contribute an amount equal to the District's contribution. A participant may elect to make additional after tax contributions up to certain statutory limits. Total required contributions made by both the District and participants for the years ending December 31, 2019, 2018 and 2017 were \$38,232, \$37,643, and \$36,603. Employees also made additional contributions for the years ending December 31, 2019, 2018 and 2017 of \$26,839, \$20,252, and \$19,917.

NOTE 9 - RELATED PARTIES

The Security Sanitation District and Security Water District are separate accounting districts and have separate boards of directors. Management and office expenses are divided equally between the two Districts. The office space used by the Security Sanitation District is owned by the Security Water District. Security Sanitation District paid \$960 for the rent of this space during 2019 and 2018.

NOTE 10 - RISK MANAGEMENT

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

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

NOTE 11 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance. For the required Emergency Reserve balances as of December 31, 2019 and 2018, see Note 7 – Net Position.

SUPPLEMENTAL INFORMATION

**SECURITY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Pumping and treatment:		
Production payroll	\$ 870,343	\$ 849,935
Production cost	148,520	136,409
Insurance expense	245,277	264,928
Professional services	3,903	5,176
Trade services	8,258	7,342
	<u>1,276,301</u>	<u>1,263,790</u>
 Waste disposal:		
Production cost	364,783	352,983
Professional services	62,395	40,011
	<u>427,178</u>	<u>392,994</u>
 Maintenance:		
Truck expense	22,267	14,420
Equipment and maintenance	89,072	57,475
	<u>111,339</u>	<u>71,895</u>
 Administration and general:		
Office payroll	320,757	301,676
Office expense	66,516	66,895
Insurance	53,948	64,863
Professional services	69,913	88,562
Trade services	10,105	9,839
Collection expense	38,345	37,924
	<u>559,584</u>	<u>569,759</u>
 DEPRECIATION	<u>252,646</u>	<u>251,136</u>
 TOTAL OPERATING EXPENSES	<u><u>\$ 2,627,048</u></u>	<u><u>\$ 2,549,574</u></u>

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	2018	2019	Budget	Variance Favorable (Unfavorable)
REVENUES				
Beginning fund balance	\$ 13,269,971	\$ 27,650,623	\$ 27,724,726	\$ (74,103)
Sanitation assessments	3,257,410	3,313,924	3,405,000	(91,076)
Other	15,755	24,768	34,400	(9,632)
General property taxes	109,877	108,450	109,499	(1,049)
S.O.T. Taxes	13,897	13,248	13,000	248
Investment income	248,645	339,974	361,800	(21,826)
Tap fees	150,728	210,063	350,000	(139,937)
Insurance proceeds	30,059	-	-	-
Loan proceeds	14,606,528	-	-	-
Proceeds from sale of capital assets	1,000	-	1,000	(1,000)
TOTAL REVENUES	31,703,870	31,661,050	31,999,425	(338,375)
EXPENDITURES				
Production Payroll and Payroll Taxes	849,935	870,343	934,800	64,457
Production cost:				
Supplies and tools	1,836	2,050	20,000	17,950
Electricity	79,841	87,795	95,000	7,205
Natural gas	23,273	24,992	40,000	15,008
Communication	17,695	19,331	22,000	2,669
Uniforms	13,764	14,352	15,000	648
Sludge removal	278,680	278,777	150,000	(128,777)
Laboratory testing & supplies	74,303	86,006	120,000	33,994
Total Production Cost	489,392	513,303	462,000	(51,303)
Truck expense:				
Repairs and maintenance	4,076	14,591	18,000	3,409
Gas and oil	10,343	7,676	12,000	4,324
Total Truck Expense	\$ 14,419	\$ 22,267	\$ 30,000	\$ 7,733

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	<u>2018</u>	<u>2019</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Equipment and maintenance:				
Repairs and maintenance	\$ 45,873	\$ 70,809	\$ 69,000	\$ (1,809)
Small tools and supplies	9,741	13,285	14,000	715
Building: office and warehouse	1,861	4,978	4,000	(978)
	<u>57,475</u>	<u>89,072</u>	<u>87,000</u>	<u>(2,072)</u>
Total Equipment and Maintenance				
Office Payroll, Payroll Taxes and Directors Fees	<u>301,676</u>	<u>320,757</u>	<u>348,000</u>	<u>27,243</u>
Office expense:				
Supplies	7,537	5,997	11,000	5,003
Miscellaneous office expenses	15,993	19,132	20,000	868
Lease	960	960	960	-
Equipment maintenance	15,519	13,521	20,000	6,479
Health administrative fees	1,075	1,097	-	(1,097)
Bank charges	25,811	25,809	31,000	5,191
	<u>66,895</u>	<u>66,516</u>	<u>82,960</u>	<u>16,444</u>
Total Office Expense				
Insurance:				
Liability and errors/omissions	46,168	48,762	55,000	6,238
Health	267,206	231,623	353,000	121,377
Workman's compensation	13,048	14,097	16,500	2,403
PEPSCO	2,400	2,275	5,500	3,225
Damages	-	1,500	4,000	2,500
Unum LTC	968	968	-	(968)
	<u>\$ 329,790</u>	<u>\$ 299,225</u>	<u>\$ 434,000</u>	<u>\$ 134,775</u>
Total Insurance				

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	<u>2018</u>	<u>2019</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
EXPENDITURES (continued)				
Professional services:				
Audit	\$ 13,600	\$ 14,000	\$ 14,000	\$ -
Legal	57,600	45,281	50,000	4,719
Engineering	30,726	52,538	40,000	(12,538)
Pretreatment	5,176	3,903	10,000	6,097
Stream discharge fees	9,286	9,858	12,000	2,142
Other professional services	17,363	10,631	24,000	13,369
Total Professional Services	<u>133,751</u>	<u>136,211</u>	<u>150,000</u>	<u>13,789</u>
Trade services:				
Dues and membership	9,839	10,105	25,000	14,895
Schools and conventions	7,342	8,258	12,000	3,742
Total Trade Services	<u>17,181</u>	<u>18,363</u>	<u>37,000</u>	<u>18,637</u>
Collection expense:				
Advertising	2,902	2,756	3,000	244
Postage	27,098	27,379	32,000	4,621
Tax collection fees	1,649	1,632	2,500	868
Billing expense	6,275	6,578	12,000	5,422
Total Collection Expense	<u>37,924</u>	<u>38,345</u>	<u>49,500</u>	<u>11,155</u>
Debt service:				
Debt issuance expense	100,828	-	-	-
Principal on capital lease	-	528,282	528,282	-
Interest expense	69,984	338,059	278,568	(59,491)
Total Debt Service	<u>170,812</u>	<u>866,341</u>	<u>806,850</u>	<u>(59,491)</u>
Capital outlay	<u>1,583,997</u>	<u>7,547,458</u>	<u>16,474,500</u>	<u>8,927,042</u>
TOTAL EXPENDITURES	<u>\$ 4,053,247</u>	<u>\$ 10,788,201</u>	<u>\$ 19,896,610</u>	<u>\$ 9,108,409</u>

See accompanying independent auditors' report.

SECURITY SANITATION DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2019
(With comparative actuals for the year ended December 31, 2018)

	2018	2019	Budget	Variance Favorable (Unfavorable)
EXCESS OF REVENUE OVER EXPENDITURES	\$ 27,650,623	\$ 20,872,849	\$ 12,102,815	\$ 8,770,034
Less:				
Depreciation	(251,136)	(252,646)		
Proceeds from sale of capital assets	(1,000)	-		
Insurance proceeds	(30,059)	-		
Loan proceeds	(14,606,528)	-		
Beginning fund balance	(13,269,971)	(27,650,623)		
Add:				
Principal paid on capital lease	-	528,282		
Involuntary gain	9,348	-		
Capital outlay	1,583,997	7,547,458		
CHANGE IN NET POSITION	\$ 1,085,274	\$ 1,045,320		

Ending fund balance is calculated as follows:

Current assets	28,992,161	\$ 22,932,635
Current liabilities	(1,542,026)	(2,250,484)
Current portion - loan payable	528,282	536,161
Compensated absences	(218,495)	(232,024)
Deferred inflows	(109,299)	(113,439)
	\$ 27,650,623	\$ 20,872,849

See accompanying independent auditors' report.

**SECURITY SANITATION DISTRICT
SCHEDULE OF BUDGET SOURCES AND USES (NON-GAAP)
GOVERNMENT & ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

	Actual	General Fund	Enterprise Fund
Budget sources:			
Sanitation assessments	\$ 3,313,924	\$ -	\$ 3,313,924
General property taxes	108,450	108,450	-
S.O.T. Taxes	13,248	13,248	-
Investment income	339,974	-	339,974
Tap fees	210,063	-	210,063
Other	24,768	-	24,768
TOTAL BUDGET SOURCES	4,010,427	121,698	3,888,729
Budget uses:			
Production payroll	870,343	-	870,343
Production costs	513,303	1,317	511,986
Truck	22,267	192	22,075
Equipment and maintenance	89,072	-	89,072
Office payroll	320,757	160,379	160,378
Other office expense	66,516	66,516	-
Insurance	299,225	54,916	244,309
Professional services	136,211	69,914	66,297
Trade services	18,363	10,105	8,258
Collection	38,345	29,011	9,334
Debt service	866,341	-	866,341
Capital outlay	7,547,458	-	7,547,458
TOTAL BUDGET USES	10,788,201	392,350	10,395,851
BUDGET SOURCES OVER USES	<u>\$ (6,777,774)</u>	<u>\$ (270,652)</u>	<u>\$ (6,507,122)</u>

See accompanying independent auditors' report.

SINGLE AUDIT

**SECURITY SANITATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Environmental Protection Agency				
<i>Clean Water State Revolving Funds Cluster</i>				
Passed Through Colorado Water Resources & Power Development Authority				
Capitalization Grants for Clean Water State Revolving Funds	66.458	W18A416	\$ -	<u>\$ 1,784,251</u>
Total Federal Awards				<u><u>\$ 1,784,251</u></u>

See the accompanying independent auditors' report.

**SECURITY SANITATION DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Security Sanitation District under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Security Sanitation District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Security Sanitation District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Security Sanitation District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Security Sanitation District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Security Sanitation District, which comprise the statements of net position as of December 31, 2019 and 2018, 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, which collectively comprise Security Sanitation District’s basic financial statements, and have issued our report thereon dated June 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Security Sanitation District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Security Sanitation District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Security Sanitation District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Security Sanitation District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoelting & Company, Inc.

Colorado Springs, Colorado
June 15, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Security Sanitation District

Report on Compliance for Each Major Federal Program

We have audited Security Sanitation District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Security Sanitation District's major federal programs for the year ended December 31, 2019. Security Sanitation District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Security Sanitation District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Security Sanitation District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Security Sanitation District's compliance.

Opinion on Each Major Federal Program

In our opinion, Security Sanitation District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Security Sanitation District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Security Sanitation District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Security Sanitation District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hoelting & Company, Inc.

Colorado Springs, Colorado
June 15, 2020

**SECURITY SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section I—Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes x no
- Significant deficiency(ies) identified? ___ yes x none reported

Noncompliance material to financial statements noted? ___ yes x no

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? ___ yes x no
- Significant deficiency(ies) identified? ___ yes x none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA 66.458	Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs? \$750,000

Auditee qualified as low-risk auditee? ___ yes x no

**SECURITY SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Section II—Financial Statement Findings

No findings reported.

Section III—Findings and Questioned Costs for Federal Awards

No findings reported.