

SECURITY SANITATION DISTRICT

FINANCIAL STATEMENTS
With Independent Auditors' Report

Years Ended December 31, 2020 and 2019

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DECEMBER 31, 2020 AND 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2021, 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, 2021

SECURITY SANITATION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED DECEMBER 31, 2020

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, 2020. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- The District's total assets of \$50,980,180 exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$19,325,845 (*net position*). Of this amount, \$10,044,586 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 \$1,016,121.
- Capital assets net of depreciation increased by \$11,464,249 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, 2020, the District's assets exceeded liabilities and deferred inflows by \$19,325,845 resulting in a positive net position. The following reflects key financial information in a condensed format:

Condensed Statements of Net Position

| | <u>2020</u> | <u>2019</u> |
|----------------------------------|----------------------|----------------------|
| Current and other assets | \$ 28,000,810 | \$ 22,932,635 |
| Capital assets, net | <u>22,979,370</u> | <u>11,515,121</u> |
| Total assets | <u>50,980,180</u> | <u>34,447,756</u> |
| Current and other liabilities | 4,186,477 | 2,250,484 |
| Long-term liabilities | <u>27,355,044</u> | <u>13,774,109</u> |
| Total liabilities | <u>31,541,521</u> | <u>16,024,593</u> |
| Deferred inflow of resources | <u>112,814</u> | <u>113,439</u> |
| Net position: | | |
| Net investment in capital assets | 9,243,742 | 8,747,092 |
| Restricted | 37,517 | 37,517 |
| Unrestricted | <u>10,044,586</u> | <u>9,525,115</u> |
| Total net position | <u>\$ 19,325,845</u> | <u>\$ 18,309,724</u> |

Unrestricted net position of the District at the end of the year was \$10,044,586, an increase of \$519,471 from the prior year.

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

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| Operating revenues | \$ 3,388,470 | \$ 3,338,692 |
| Operating expenses | <u>(2,609,154)</u> | <u>(2,627,048)</u> |
| Operating income (loss) | 779,316 | 711,644 |
| Non-operating revenues and expenses, net | <u>(270,179)</u> | <u>123,613</u> |
| Income (loss) before contributions | 509,137 | 835,257 |
| Capital contributions – tap fees | <u>506,984</u> | <u>210,063</u> |
| Change in net position | 1,016,121 | 1,045,320 |
| Net position, beginning | <u>18,309,724</u> | <u>17,264,404</u> |
| Net position, ending | <u>\$ 19,325,845</u> | <u>\$ 18,309,724</u> |

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2020 amounts to \$22,979,370. This investment in capital assets includes land, buildings and lagoon, equipment, and sewer main.

| | <u>2020</u> | <u>2019</u> |
|---------------------------------------|----------------------|----------------------|
| Capital assets, not being depreciated | \$ 20,712,430 | \$ 9,019,708 |
| Capital assets, being depreciated | 10,144,001 | 10,361,106 |
| Less accumulated depreciation | <u>(7,877,061)</u> | <u>(7,865,693)</u> |
| Total capital assets, net | <u>\$ 22,979,370</u> | <u>\$ 11,515,121</u> |

The major capital asset acquisitions during 2020 include the purchase of plant equipment and plant capital construction.

Long-Term Debt

| | <u>Beginning</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> |
|-----------------------------|----------------------|----------------------|---------------------|----------------------|
| CWRPDA loan | \$ 14,078,246 | \$ 14,610,008 | \$ (642,489) | \$ 28,045,765 |
| Compensated absences | <u>252,075</u> | <u>114,703</u> | <u>(92,146)</u> | <u>274,632</u> |
| Total long-term liabilities | <u>\$ 14,330,321</u> | <u>\$ 14,724,711</u> | <u>\$ (734,635)</u> | <u>\$ 28,320,397</u> |

ECONOMIC FACTORS AND OUTLOOK

Budgetary Highlights – The District is incurring 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 have also been increased 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 2020, however there are several projects within the District that may be initiated in the near-term. 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 affected the world, the region, and the District in 2020. The pandemic is expected to have a continued impact into 2021, however the financial effect of COVID-19 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, 2020 AND 2019**

| | 2020 | 2019 |
|--------------------------------------|---------------|---------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,135,884 | \$ 1,450,380 |
| Restricted cash and cash equivalents | 14,315,623 | 11,315,380 |
| Investments | 11,078,378 | 9,615,698 |
| Due from County Treasurer | 995 | 1,194 |
| Accounts receivable | 315,912 | 376,044 |
| Property taxes receivable | 112,814 | 113,439 |
| Interest receivable | 41,204 | 60,500 |
| Total current assets | 28,000,810 | 22,932,635 |
| Noncurrent assets: | | |
| Capital assets, net of depreciation | 22,979,370 | 11,515,121 |
| Total assets | 50,980,180 | 34,447,756 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 2,929,092 | 1,550,019 |
| Compensated absences payable | 20,772 | 20,051 |
| Payroll taxes payable | 825 | 918 |
| Accrued interest | 287,988 | 140,285 |
| Unearned assessment revenue | 3,219 | 3,050 |
| Current portion - loans payable | 944,581 | 536,161 |
| Total current liabilities | 4,186,477 | 2,250,484 |
| Noncurrent liabilities: | | |
| Loans payable | 27,101,184 | 13,542,085 |
| Compensated absences | 253,860 | 232,024 |
| Total noncurrent liabilities | 27,355,044 | 13,774,109 |
| Total liabilities | 31,541,521 | 16,024,593 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable revenue - property tax | 112,814 | 113,439 |
| Total deferred inflows of resources | 112,814 | 113,439 |
| NET POSITION | | |
| Net investment in capital assets | 9,243,742 | 8,747,092 |
| Restricted | 37,517 | 37,517 |
| Unrestricted | 10,044,586 | 9,525,115 |
| Total net position | \$ 19,325,845 | \$ 18,309,724 |

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, 2020 AND 2019

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Charges for sales and services | | |
| Sanitation assessments | \$ 3,372,010 | \$ 3,313,924 |
| Other | 16,460 | 24,768 |
| Total operating revenues | <u>3,388,470</u> | <u>3,338,692</u> |
| Operating expenses: | | |
| Sewage pumping and treatment | 1,357,571 | 1,276,301 |
| Waste disposal | 283,035 | 427,178 |
| Maintenance | 101,937 | 111,339 |
| Administration and general | 623,839 | 559,584 |
| Depreciation | 242,772 | 252,646 |
| Total operating expenses | <u>2,609,154</u> | <u>2,627,048</u> |
| Operating income (loss) | <u>779,316</u> | <u>711,644</u> |
| Nonoperating revenues (expenses): | | |
| General property and specific ownership taxes | 125,340 | 121,698 |
| Investment income | 189,775 | 339,974 |
| Gain(Loss) on disposal of capital assets | (6,190) | - |
| Interest expense | (561,800) | (338,059) |
| Debt issuance expense | (17,304) | - |
| Total non-operating revenues (expenses) | <u>(270,179)</u> | <u>123,613</u> |
| Income (loss) before capital contributions | 509,137 | 835,257 |
| Capital contributions - tap fees | <u>506,984</u> | <u>210,063</u> |
| Change in net position | 1,016,121 | 1,045,320 |
| Net position-beginning | <u>18,309,724</u> | <u>17,264,404</u> |
| Net position-ending | <u><u>\$ 19,325,845</u></u> | <u><u>\$ 18,309,724</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, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 3,432,312 | \$ 3,298,180 |
| Cash payments to suppliers for goods and services | 291,316 | (719,958) |
| Cash payments to employees for services | (1,247,594) | (1,176,192) |
| Other operating revenues | <u>16,460</u> | <u>24,768</u> |
| Net cash provided (used) by operating activities | <u>2,492,494</u> | <u>1,426,798</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Cash received from general and specific ownership tax revenues | <u>125,540</u> | <u>121,723</u> |
| Net cash provided (used) by noncapital financing activities | <u>125,540</u> | <u>121,723</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Loan proceeds | 14,610,008 | - |
| Capital contributions | 506,984 | 210,063 |
| Debt issuance costs | (17,304) | - |
| Acquisition and construction of capital assets | (11,721,778) | (7,381,459) |
| Principal on loan | (642,489) | (528,282) |
| Interest on loan | <u>(414,098)</u> | <u>(267,758)</u> |
| Net cash provided (used) by capital and related financing activities | <u>2,321,323</u> | <u>(7,967,436)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investment securities | (11,012,525) | (12,025,318) |
| Proceeds from matured securities | 9,535,000 | 15,610,000 |
| Interest received | <u>223,915</u> | <u>275,641</u> |
| Net cash provided (used) by investing activities | <u>(1,253,610)</u> | <u>3,860,323</u> |
| Net increase (decrease) in cash and cash equivalents | 3,685,747 | (2,558,592) |
| Cash and cash equivalents at beginning of year | <u>12,765,760</u> | <u>15,324,352</u> |
| Cash and cash equivalents at end of year | <u>\$ 16,451,507</u> | <u>\$ 12,765,760</u> |
| Reconciliation of cash and cash equivalents to the statements of net position: | | |
| Cash and cash equivalents | \$ 2,135,884 | \$ 1,450,380 |
| Restricted cash and cash equivalents | <u>14,315,623</u> | <u>11,315,380</u> |
| Cash and cash equivalents at end of year | <u>\$ 16,451,507</u> | <u>\$ 12,765,760</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, 2020 AND 2019**

| | 2020 | 2019 |
|---|----------------------------|----------------------------|
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | |
| Operating income (loss) | <u>\$ 779,316</u> | <u>\$ 711,644</u> |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation expense | 242,772 | 252,646 |
| Changes in assets and liabilities: | | |
| <i>(Increase) decrease in assets:</i> | | |
| Accounts receivable | 60,133 | (15,302) |
| <i>Increase (decrease) in liabilities:</i> | | |
| Accounts payable | 1,387,640 | 463,345 |
| Compensated absences payable | 22,557 | 14,908 |
| Payroll taxes payable | (93) | - |
| Unearned assessment revenue | <u>169</u> | <u>(443)</u> |
| Total Adjustments | <u>1,713,178</u> | <u>715,154</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ 2,492,494</u></u> | <u><u>\$ 1,426,798</u></u> |
| Schedule of non-cash investing, capital and financing activities: | | |
| Increase (decrease) in fair value of investments | \$ (31,097) | \$ 49,835 |
| Amortization of investment premium | \$ 16,253 | \$ 13,020 |

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

NOTES TO FINANCIAL STATEMENTS

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 AND 2019**

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 with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are valued at the pool's share price, the price at which the investment could be sold.

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 |

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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 operations.

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 0.757 and 0.854 mills for the years ended December 31, 2020 and 2019, respectively. The District's assessed valuations for 2020 and 2019 were \$149,666,040 and \$127,951,850, 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, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 and 2019, the carrying amounts of the District's deposits were (\$134,165) and (\$1,538,154), and the bank balances were \$38,472 and \$42,202 respectively. All of the total bank balances at December 31, 2020 and 2019 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, 2020, the District's U.S. Treasuries and Agencies were rated Aaa, Short Term Notes were rated P-1 by Moody's Investor Services, and all other investments AAA.

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2020 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 | \$ 2,196,476 | \$ 2,196,476 | \$ - | \$ - | \$ - |
| COLOTRUST | 73,473 | 73,473 | - | - | - |
| U.S. Treasuries | 4,121,146 | 1,002,447 | 2,104,734 | 1,013,965 | - |
| U.S. Agencies | 5,377,601 | 541,413 | 1,008,738 | 2,296,606 | 1,530,844 |
| Short Term Notes | <u>1,579,631</u> | <u>509,994</u> | <u>1,069,637</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 13,348,327</u> | <u>\$ 4,323,803</u> | <u>\$ 4,183,109</u> | <u>\$ 3,310,571</u> | <u>\$ 1,530,844</u> |

As of December 31, 2020, the District has invested \$73,473 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>2020</u> | <u>2019</u> |
|----------------------------|----------------------|---------------------|
| Cash and cash equivalents: | | |
| Cash on hand | \$ 100 | \$ 100 |
| Deposits | (134,165) | (1,538,155) |
| Money Market Funds | 2,196,476 | 2,915,494 |
| COLOTRUST | <u>73,473</u> | <u>72,941</u> |
| | <u>\$ 2,135,884</u> | <u>\$ 1,450,380</u> |
| Investments: | | |
| U.S. Treasuries | \$ 4,121,146 | \$ 4,274,083 |
| U.S. Agencies | 5,377,601 | 4,841,114 |
| Short Term Notes | <u>1,579,631</u> | <u>500,501</u> |
| | <u>\$ 11,078,378</u> | <u>\$ 9,615,698</u> |

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 | | | |
|----------------------------------|-------------------|----------------------|----------------|----------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investments - unrestricted | | | | |
| U.S. Treasury Notes | \$ - | \$ 4,121,146 | \$ - | \$ 4,121,146 |
| Agency Notes | - | 5,377,601 | - | 5,377,601 |
| Short Term Notes | - | 1,579,631 | - | 1,579,631 |
| Total Investments - unrestricted | <u>\$ -</u> | <u>\$ 11,078,378</u> | <u>\$ -</u> | <u>\$ 11,078,378</u> |
| | | | | |
| | 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 | <u>\$ -</u> | <u>\$ 9,615,698</u> | <u>\$ -</u> | <u>\$ 9,615,698</u> |

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2020 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 |
| Construction in progress | <u>9,006,490</u> | <u>11,692,722</u> | <u>-</u> | <u>20,699,212</u> |
| Total capital assets, not being depreciated | <u>9,019,708</u> | <u>11,692,722</u> | <u>-</u> | <u>20,712,430</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and lagoon | 947,340 | - | - | 947,340 |
| Sanitation plant | 6,267,926 | 13,026 | (206,368) | 6,074,584 |
| Sewer main | 1,291,548 | - | - | 1,291,548 |
| Equipment | <u>1,854,292</u> | <u>7,463</u> | <u>(31,226)</u> | <u>1,830,529</u> |
| Total capital assets, being depreciated | 10,361,106 | 20,489 | (237,594) | 10,144,001 |
| Less accumulated depreciation | <u>(7,865,693)</u> | <u>(242,772)</u> | <u>231,404</u> | <u>(7,877,061)</u> |
| Total capital assets, being depreciated, net | <u>2,495,413</u> | <u>(222,283)</u> | <u>(6,190)</u> | <u>2,266,940</u> |
| Total capital assets, net | <u>\$ 11,515,121</u> | <u>\$ 11,470,439</u> | <u>\$ (6,190)</u> | <u>\$ 22,979,370</u> |

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 - LONG-TERM LIABILITIES

CWRPDA 2018 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.

CWRPDA 2020 Loan

On May 1, 2020, the District entered into a loan agreement with Colorado Water Resource & Power Development Authority in the sum of \$14,610,008. Principal and interest are payable semi-annually with interest at 1.75%. This loan is to be repaid from and secured by a pledge of net revenues.

Annual debt service for the loans are as follows:

| <u>Fiscal Year Ending December 31</u> | <u>Principal</u> | <u>Interest</u> |
|---|----------------------|---------------------|
| 2021 | \$ 944,581 | \$ 575,976 |
| 2022 | 964,774 | 552,476 |
| 2023 | 985,191 | 529,226 |
| 2024 | 1,007,337 | 506,226 |
| 2025 | 1,030,830 | 483,476 |
| 2026 – 2030 | 5,505,005 | 2,081,881 |
| 2031 – 2035 | 5,942,392 | 1,634,205 |
| 2036 – 2040 | 6,487,592 | 1,095,603 |
| 2041 – 2045 | 2,744,018 | 462,810 |
| 2046 – 2049 | <u>2,434,045</u> | <u>135,480</u> |
| Total | <u>\$ 28,045,765</u> | <u>\$ 8,057,359</u> |

Compensated absences

Compensated absences consisted of the following:

| | <u>2020</u> | <u>2019</u> |
|---------------------|-------------------|-------------------|
| Sick leave benefits | \$ 212,933 | \$ 197,363 |
| Vacation benefits | <u>61,699</u> | <u>54,712</u> |
| Total | <u>\$ 274,632</u> | <u>\$ 252,075</u> |

The changes in long-term liabilities for the year ended December 31, 2020 were as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------------|------------------------------|----------------------|---------------------|---------------------------|--------------------------------|
| CWRPDA Loans | \$ 14,078,246 | \$ 14,610,008 | \$ (642,489) | \$ 28,045,765 | \$ 944,581 |
| Compensated absences | <u>252,075</u> | <u>114,703</u> | <u>(92,146)</u> | <u>274,632</u> | <u>20,772</u> |
| Total long-term liabilities | <u>\$ 14,330,321</u> | <u>\$ 14,724,711</u> | <u>\$ (734,635)</u> | <u>\$ 28,320,397</u> | <u>\$ 965,353</u> |

**SECURITY SANITATION DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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, 2020 and 2019, net investment in capital assets was as follows:

| | 2020 | 2019 |
|-------------------------------------|---------------|---------------|
| Capital assets, net of depreciation | \$ 22,979,370 | \$ 11,515,131 |
| Capital related debt | (28,045,765) | (14,078,246) |
| Remaining project cash | 14,310,137 | 11,310,217 |
| Net investment in capital assets | \$ 9,243,742 | \$ 8,747,092 |

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, 2020 and 2019, 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, 2020 AND 2019**

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. Employees are immediately vested in their own contributions and investment earnings. Employees vest in District contributions and in the earnings, losses, and changes in fair value of retirement plan assets at rates ranging from 10% per year to immediately. Any District contribution forfeited by a participant due to termination of employment before becoming fully vested is available to the District to offset against future contributions or to be allocated to remaining participants. Total required contributions made by both the District and participants for the years ending December 31, 2020, 2019 and 2018 were \$40,752, \$38,232, and \$37,643. Employees also made additional contributions for the years ending December 31, 2020, 2019 and 2018 of \$36,866, \$26,839, and \$20,252. No material liability exists as of the report date.

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 2020 and 2019.

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, 2020 and 2019, see Note 7 – Net Position.

SUPPLEMENTAL INFORMATION

**SECURITY SANITATION DISTRICT
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

| | <u>2020</u> | <u>2019</u> |
|--------------------------------------|----------------------------|----------------------------|
| Pumping and treatment: | | |
| Production payroll | \$ 916,322 | \$ 870,343 |
| Production cost | 162,642 | 148,520 |
| Insurance expense | 271,752 | 245,277 |
| Professional services | 4,245 | 3,903 |
| Trade services | 2,610 | 8,258 |
| | <u>1,357,571</u> | <u>1,276,301</u> |
| TOTAL PUMPING AND TREATMENT | | |
| Waste disposal: | | |
| Production cost | 233,444 | 364,783 |
| Professional services | 49,591 | 62,395 |
| | <u>283,035</u> | <u>427,178</u> |
| TOTAL WASTE DISPOSAL | | |
| Maintenance: | | |
| Truck expense | 14,134 | 22,267 |
| Equipment and maintenance | 87,803 | 89,072 |
| | <u>101,937</u> | <u>111,339</u> |
| TOTAL MAINTENANCE | | |
| Administration and general: | | |
| Office payroll | 353,736 | 320,757 |
| Office expense | 79,682 | 66,516 |
| Insurance | 58,938 | 53,948 |
| Professional services | 83,678 | 69,913 |
| Trade services | 6,556 | 10,105 |
| Collection expense | 41,249 | 38,345 |
| | <u>623,839</u> | <u>559,584</u> |
| TOTAL ADMINISTRATION AND GENERAL | | |
| DEPRECIATION | <u>242,772</u> | <u>252,646</u> |
| TOTAL OPERATING EXPENSES | <u><u>\$ 2,609,154</u></u> | <u><u>\$ 2,627,048</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, 2020
(With comparative actuals for the year ended December 31, 2019)

| | <u>2019</u> | <u>2020</u> | <u>Budget</u> | Variance Favorable (Unfavorable) |
|--------------------------------------|-------------------|-------------------|-------------------|--|
| REVENUES | | | | |
| Beginning fund balance | \$ 27,650,623 | \$ 20,872,849 | \$ 21,920,622 | \$ (1,047,773) |
| Sanitation assessments | 3,313,924 | 3,372,010 | 3,450,000 | (77,990) |
| Other | 24,768 | 16,460 | 24,000 | (7,540) |
| General property taxes | 108,450 | 113,008 | 113,639 | (631) |
| S.O.T. Taxes | 13,248 | 12,332 | 12,000 | 332 |
| Loan Proceeds | - | 14,610,008 | 15,000,000 | (389,992) |
| Investment income | 339,974 | 189,775 | 206,000 | (16,225) |
| Tap fees | 210,063 | 506,984 | 557,500 | (50,516) |
| TOTAL REVENUES | <u>31,661,050</u> | <u>39,693,426</u> | <u>41,283,761</u> | <u>(1,590,335)</u> |
| EXPENDITURES | | | | |
| Production Payroll and Payroll Taxes | <u>870,343</u> | <u>916,322</u> | <u>942,000</u> | <u>25,678</u> |
| Production cost: | | | | |
| Supplies and tools | 2,050 | 3,845 | 20,000 | 16,155 |
| Electricity | 87,795 | 98,868 | 105,000 | 6,132 |
| Natural gas | 24,992 | 16,783 | 40,000 | 23,217 |
| Communication | 19,331 | 26,268 | 24,000 | (2,268) |
| Uniforms | 14,352 | 16,878 | 15,500 | (1,378) |
| Sludge removal | 278,777 | 153,689 | 200,000 | 46,311 |
| Laboratory testing & supplies | 86,006 | 79,755 | 120,000 | 40,245 |
| Total Production Cost | <u>513,303</u> | <u>396,086</u> | <u>524,500</u> | <u>128,414</u> |
| Truck expense: | | | | |
| Repairs and maintenance | 14,591 | 6,331 | 20,000 | 13,669 |
| Gas and oil | 7,676 | 7,803 | 12,000 | 4,197 |
| Total Truck Expense | <u>\$ 22,267</u> | <u>\$ 14,134</u> | <u>\$ 32,000</u> | <u>\$ 17,866</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, 2020
(With comparative actuals for the year ended December 31, 2019)

| | <u>2019</u> | <u>2020</u> | <u>Budget</u> | Variance Favorable (Unfavorable) |
|---|-------------------|-------------------|-------------------|--|
| EXPENDITURES (continued) | | | | |
| Equipment and maintenance: | | | | |
| Repairs and maintenance | \$ 70,809 | \$ 69,467 | \$ 95,000 | \$ 25,533 |
| Small tools and supplies | 13,285 | 15,360 | 15,000 | (360) |
| Building: office and warehouse | 4,978 | 2,976 | 10,000 | 7,024 |
| Total Equipment and Maintenance | <u>89,072</u> | <u>87,803</u> | <u>120,000</u> | <u>32,197</u> |
| Office Payroll, Payroll Taxes and Directors Fees | <u>320,757</u> | <u>353,736</u> | <u>371,000</u> | <u>17,264</u> |
| Office expense: | | | | |
| Supplies | 5,997 | 6,622 | 11,000 | 4,378 |
| Election | - | 131 | 4,000 | 3,869 |
| Miscellaneous office expenses | 19,132 | 32,881 | 20,000 | (12,881) |
| Lease | 960 | 960 | 960 | - |
| Equipment maintenance | 13,521 | 14,209 | 20,000 | 5,791 |
| Health administrative fees | 1,097 | 901 | - | (901) |
| Bank charges | 25,809 | 23,978 | 35,000 | 11,022 |
| Total Office Expense | <u>66,516</u> | <u>79,682</u> | <u>90,960</u> | <u>11,278</u> |
| Insurance: | | | | |
| Liability and errors/omissions | 48,762 | 54,384 | 57,000 | 2,616 |
| Health | 231,623 | 257,693 | 353,000 | 95,307 |
| Workman's compensation | 14,097 | 12,364 | 13,000 | 636 |
| PEPSCO | 2,275 | 2,400 | 6,000 | 3,600 |
| Damages | 1,500 | 2,800 | 4,000 | 1,200 |
| Unum LTC | 968 | 1,049 | - | (1,049) |
| Total Insurance | <u>\$ 299,225</u> | <u>\$ 330,690</u> | <u>\$ 433,000</u> | <u>\$ 102,310</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, 2020
(With comparative actuals for the year ended December 31, 2019)

| | <u>2019</u> | <u>2020</u> | <u>Budget</u> | Variance Favorable (Unfavorable) |
|---------------------------------|----------------------|----------------------|----------------------|--|
| EXPENDITURES (continued) | | | | |
| Professional services: | | | | |
| Audit | \$ 14,000 | \$ 18,155 | \$ 14,500 | \$ (3,655) |
| Legal | 45,281 | 30,283 | 50,000 | 19,717 |
| Engineering | 52,538 | 40,964 | 42,000 | 1,036 |
| Pretreatment | 3,903 | 4,245 | 6,000 | 1,755 |
| Stream discharge fees | 9,858 | 8,627 | 12,000 | 3,373 |
| Other professional services | <u>10,631</u> | <u>35,240</u> | <u>24,000</u> | <u>(11,240)</u> |
| Total Professional Services | <u>136,211</u> | <u>137,514</u> | <u>148,500</u> | <u>10,986</u> |
| Trade services: | | | | |
| Dues and membership | 10,105 | 6,556 | 25,000 | 18,444 |
| Schools and conventions | <u>8,258</u> | <u>2,610</u> | <u>12,000</u> | <u>9,390</u> |
| Total Trade Services | <u>18,363</u> | <u>9,166</u> | <u>37,000</u> | <u>27,834</u> |
| Collection expense: | | | | |
| Advertising | 2,756 | 2,949 | 3,000 | 51 |
| Postage | 27,379 | 27,111 | 32,000 | 4,889 |
| Tax collection fees | 1,632 | 1,696 | 2,800 | 1,104 |
| Billing expense | <u>6,578</u> | <u>9,493</u> | <u>12,000</u> | <u>2,507</u> |
| Total Collection Expense | <u>38,345</u> | <u>41,249</u> | <u>49,800</u> | <u>8,551</u> |
| Debt service: | | | | |
| Debt issuance expense | - | 17,304 | - | 17,304 |
| Principal on capital lease | 528,282 | 642,489 | 536,161 | 106,328 |
| Interest expense | <u>338,059</u> | <u>561,800</u> | <u>336,683</u> | <u>(225,117)</u> |
| Total Debt Service | <u>866,341</u> | <u>1,221,593</u> | <u>872,844</u> | <u>(101,485)</u> |
| Capital outlay | <u>7,547,458</u> | <u>11,713,211</u> | <u>18,870,000</u> | <u>7,156,789</u> |
| TOTAL EXPENDITURES | <u>\$ 10,788,201</u> | <u>\$ 15,301,186</u> | <u>\$ 22,491,604</u> | <u>\$ 7,437,682</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, 2020
(With comparative actuals for the year ended December 31, 2019)

| | <u>2019</u> | <u>2020</u> | <u>Budget</u> | Variance Favorable (Unfavorable) |
|--|---------------------|---------------------|----------------------|--|
| EXCESS OF REVENUE OVER EXPENDITURES | \$ 20,872,849 | \$ 24,392,240 | <u>\$ 18,792,157</u> | <u>\$ 5,847,347</u> |
| Less: | | | | |
| Depreciation | (252,646) | (242,772) | | |
| Loan proceeds | - | (14,610,008) | | |
| Beginning fund balance | (27,650,623) | (20,872,849) | | |
| Add: | | | | |
| Gain(loss) on disposal of capital assets | - | (6,190) | | |
| Principal paid on capital lease | 528,282 | 642,489 | | |
| Capital outlay | <u>7,547,458</u> | <u>11,713,211</u> | | |
| CHANGE IN NET POSITION | <u>\$ 1,045,320</u> | <u>\$ 1,016,121</u> | | |

Ending fund balance is calculated as follows:

| | | |
|--------------------------------|----------------------|----------------------|
| Current assets | \$ 22,932,635 | \$ 28,000,810 |
| Current liabilities | (2,250,484) | (4,186,477) |
| Current portion - loan payable | 536,161 | 944,581 |
| Compensated absences | (232,024) | (253,860) |
| Deferred inflows | <u>(113,439)</u> | <u>(112,814)</u> |
| | <u>\$ 20,872,849</u> | <u>\$ 24,392,240</u> |

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, 2020**

| | <u>Actual</u> | <u>General Fund</u> | <u>Enterprise Fund</u> |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| Budget sources: | | | |
| Sanitation assessments | \$ 3,372,010 | \$ - | \$ 3,372,010 |
| General property taxes | 113,008 | 113,008 | - |
| S.O.T. Taxes | 12,332 | 12,332 | - |
| Investment income | 189,775 | - | 189,775 |
| Tap fees | 506,984 | - | 506,984 |
| CWRPDA Loan Proceeds | 14,610,008 | - | 14,610,008 |
| Other | 16,460 | - | 16,460 |
| | <u>18,820,577</u> | <u>125,340</u> | <u>18,695,237</u> |
| TOTAL BUDGET SOURCES | | | |
| Budget uses: | | | |
| Production payroll | 916,322 | - | 916,322 |
| Production costs | 396,086 | 1,483 | 394,603 |
| Truck | 14,134 | 195 | 13,939 |
| Equipment and maintenance | 87,803 | - | 87,803 |
| Office payroll | 353,736 | 176,868 | 176,868 |
| Other office expense | 79,682 | 79,682 | - |
| Insurance | 330,690 | 59,987 | 270,703 |
| Professional services | 137,514 | 83,678 | 53,836 |
| Trade services | 9,166 | 6,556 | 2,610 |
| Collection | 41,249 | 28,807 | 12,442 |
| Debt service | 1,221,593 | - | 1,221,593 |
| Capital outlay | 11,713,211 | - | 11,713,211 |
| | <u>15,301,186</u> | <u>437,256</u> | <u>14,863,930</u> |
| TOTAL BUDGET USES | | | |
| BUDGET SOURCES OVER USES | <u><u>\$ 3,519,391</u></u> | <u><u>\$ (311,916)</u></u> | <u><u>\$ 3,831,307</u></u> |

See accompanying independent auditors' report.

SINGLE AUDIT

**SECURITY SANITATION DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

| 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>\$ 2,645,249</u> |
| Total Federal Awards | | | | <u><u>\$ 2,645,249</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, 2020**

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, 2020. 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, 2020 and 2019, 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 11, 2021.

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 11, 2021



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, 2020. 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, 2020.

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 11, 2021

**SECURITY SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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 <u>x</u> no |

**SECURITY SANITATION DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

Section II—Financial Statement Findings

No findings reported.

Section III—Findings and Questioned Costs for Federal Awards

No findings reported.