

Bow Mar Water and Sanitation District

Annual Financial Report and Independent Auditor's Report

December 31, 2016 and 2015



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Independent Auditor's Report

Board of Directors
Bow Mar Water and Sanitation District
Arapahoe and Jefferson Counties, Colorado

We have audited the accompanying financial statements of Bow Mar Water and Sanitation District (District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Bow Mar Water and Sanitation District, as of December 31, 2016 and 2015, and the changes in its financial position 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

Management has omitted the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SCHILLING & COMPANY, INC.

Highlands Ranch, Colorado
July 12, 2017

Basic Financial Statements

Bow Mar Water and Sanitation District
Statements of Net Position
December 31, 2016 and 2015

Assets	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 285,295	\$ 325,345
Investments	103,973	103,506
Accounts receivable	38,400	27,032
Property taxes receivable	267,578	268,176
Unbilled service fees receivable	6,116	6,143
Prepaid expenses	12,699	13,965
Total current assets	<u>714,061</u>	<u>744,167</u>
Noncurrent Assets:		
Water system	3,080,430	2,692,066
Sewer system	361,492	361,492
Total capital assets	3,441,922	3,053,558
Accumulated depreciation	<u>(1,380,037)</u>	<u>(1,337,992)</u>
Net capital assets	<u>2,061,885</u>	<u>1,715,566</u>
Total Assets	<u>2,775,946</u>	<u>2,459,733</u>
Liabilities		
Current Liabilities:		
Accounts payable	22,844	14,231
Accrued interest payable	1,099	-
Current portion of note payable	29,538	-
Unearned sewer revenue	4,886	4,886
Total current liabilities	<u>58,367</u>	<u>19,117</u>
Long-Term Liabilities:		
Note payable, net of current portion	<u>301,869</u>	<u>-</u>
Total long-term liabilities	<u>301,869</u>	<u>-</u>
Total liabilities	<u>360,236</u>	<u>19,117</u>
Deferred Inflow of Resources:		
Deferred property tax revenue	<u>267,578</u>	<u>268,176</u>
Total deferred inflow of resources	<u>267,578</u>	<u>268,176</u>
Net Position		
Net Investment in capital assets	1,730,478	1,715,566
Restricted		
Emergency reserve	20,000	20,000
Unrestricted	<u>397,654</u>	<u>436,874</u>
Total Net Position	<u>\$ 2,148,132</u>	<u>\$ 2,172,440</u>

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

Bow Mar Water and Sanitation District
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Water Operations		
Revenues		
Water service fees	\$ 353,275	\$ 283,831
Direct water expenses		
Water purchases	476,135	362,643
Repairs and maintenance	32,617	32,629
Depreciation	72,815	68,202
Permits	155	155
Meter reading	3,077	3,077
Total operating expenses	<u>584,799</u>	<u>466,706</u>
Net water operations (loss)	<u>(231,524)</u>	<u>(182,875)</u>
Sewer Operations		
Revenue		
Sewer service fees	<u>58,738</u>	<u>58,482</u>
Direct sewer expenses		
Sewage treatment charges	56,655	57,775
Repairs and maintenance	30,680	5,744
Depreciation	1,499	1,499
Total operating expenses	<u>88,834</u>	<u>65,018</u>
Net sewer Operations (loss)	<u>(30,096)</u>	<u>(6,536)</u>
Gross (Loss) From Operations	<u>(261,620)</u>	<u>(189,411)</u>
General and Administrative Expenses		
Accounting and audit	33,770	32,901
Insurance	2,621	2,399
Legal	9,309	7,546
Management fees	24,822	34,245
Other	11,909	12,743
Total general and administrative expenses	<u>82,431</u>	<u>89,834</u>
Net (Loss) from Operations	<u>(344,051)</u>	<u>(279,245)</u>
Nonoperating Revenue and (Expense)		
Property taxes	266,587	233,520
Specific ownership taxes	20,255	18,343
Grant income	36,602	-
Investment income	898	663
Tap fees	3,700	2,200
Miscellaneous	94	529
Debt issuance costs	(3,295)	-
Interest expense	(1,099)	-
County Treasurers' fees	(3,999)	(3,505)
Total nonoperating revenue, net	<u>319,743</u>	<u>251,750</u>
Change in Net Position	<u>(24,308)</u>	<u>(27,495)</u>
Net Position—Beginning of Year	<u>2,172,440</u>	<u>2,199,935</u>
Net Position—End of Year	<u>\$ 2,148,132</u>	<u>\$ 2,172,440</u>

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

Bow Mar Water and Sanitation District
Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 400,672	\$ 330,738
Cash paid to vendors	(671,871)	(565,634)
Net cash used by operating activities	<u>(271,199)</u>	<u>(234,896)</u>
Cash Flows from Capital and Related Financing Activities		
Note proceeds	331,407	-
Debt issuance costs	(3,295)	-
Tap fees	3,700	2,200
Acquisition of water and sewer system improvements	(420,633)	(204,295)
Net cash used by capital and related financing activities	<u>(88,821)</u>	<u>(202,095)</u>
Cash Flows from Noncapital Financing Activities		
Property taxes	266,587	233,520
Specific ownership taxes	20,255	18,343
Grant proceeds	36,602	-
Miscellaneous revenue	94	529
County Treasurers' fees	(3,999)	(3,505)
Cash flows provided by noncapital and related financing activities	<u>319,539</u>	<u>248,887</u>
Cash Flows from Investing Activities:		
Investments purchased	(467)	(464)
Interest received	898	663
Net cash provided by investing activities	<u>431</u>	<u>199</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(40,050)	(187,905)
Cash and cash equivalents—beginning of year	<u>325,345</u>	<u>513,250</u>
Cash and cash equivalents—end of year	<u>\$ 285,295</u>	<u>\$ 325,345</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities		
Net (Loss) from operations	\$ (344,051)	\$ (279,245)
Adjustments to reconcile (loss) from operations to net cash (used) by operating activities		
Depreciation	74,314	69,701
Effects of changes in program assets and liabilities:		
Accounts receivable	(11,368)	(11,158)
Unbilled service fees	27	(434)
Deferred sewer revenues	-	17
Prepaid expenses	1,266	(221)
Accounts payable	8,613	(13,556)
Total adjustments	<u>72,852</u>	<u>44,349</u>
Net cash used by operating activities	<u>\$ (271,199)</u>	<u>\$ (234,896)</u>

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

Bow Mar Water and Sanitation District

Notes to Financial Statements

December 31, 2016 and 2015

1. Definition of Reporting Entity

Bow Mar Water and Sanitation District (the District), a quasi-municipal corporation, is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in Arapahoe and Jefferson Counties, Colorado, entirely within the Town of Bow Mar. The District was established to provide water and sanitation services.

The District has no employees and all operations and administrative functions are contracted.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity, including the Town of Bow Mar.

2. Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District's powers are related to those operated in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

Basis of Accounting

The District's records are maintained on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense. Expenditures for property and equipment are shown as increases in assets.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Bow Mar Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Operating Revenues and Expenses

The District distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sanitation services to its customers. Operating revenues consist of charges to customers for service provided. Operating expenses include the cost of service, administrative expenses, and depreciation of assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements.

Cash and Cash Equivalents

The District considers cash deposits and highly liquid investments with an intended maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include the water system and sewer system, are reported by the District. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500. Such assets are recorded at historical cost if purchased or constructed. Additions to the systems which have been constructed by developers are recorded at fair value. Upon completion of developer constructed assets, title is conveyed to the District and the District assumes responsibility for maintenance and service.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Depreciation expense has been computed using the straight-line method over the estimated economic useful lives:

Water system	35 years
Sewer system	35 years

Bow Mar Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2016 and 2015

2. Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessors generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurers collect the determined taxes during the ensuing calendar year. The taxes are payable by April 30 or if in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally tax sales of the tax liens on delinquent properties are held in November or December. The County Treasurers remit the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows of resources in the year they are levied and measurable. The deferred property tax revenues are recorded as revenue in the year they are available or collected.

3. Cash and Investments

Cash and investments as of December 31, 2016 and 2015 are classified in the accompanying financial statements as follows:

	<u>2016</u>	<u>2015</u>
Statement of net assets:		
Cash and cash equivalents	\$ 285,295	\$ 325,345
Investments	<u>103,973</u>	<u>103,506</u>
	<u>\$ 389,268</u>	<u>\$ 428,851</u>

Cash and investments as of December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Deposits with financial institutions	\$ 155,328	\$ 194,571
Cash with County Treasurers	22	1,196
Local government investment pool	129,945	129,578
Certificate of deposit	<u>103,973</u>	<u>103,506</u>
Total cash and investments	<u>\$ 389,268</u>	<u>\$ 428,851</u>

Bow Mar Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2016 and 2015

3. Cash and Investments (continued)

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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

The State Commissioners for banks and financial institutions are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2016 and 2015, the District's bank deposits had carrying balances of \$259,323 and \$299,273, respectively.

Investments

The District has not adopted a formal investment policy; however, the District follows State statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes generally limit investment maturities to five years or less unless formally approved by the Board of Directors. Revenue bonds of U.S. local governments, corporate and bank securities and guaranteed investment contracts not purchased with bond proceeds are limited to maturities of three years or less.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest, which include:

- * Obligations of the United States and certain U.S. government agency securities and securities of the World Bank
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities

Bow Mar Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2016 and 2015

3. Cash and Investments (continued)

- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements and reverse purchase agreements collateralized by certain authorized securities
- Certain money market mutual funds
- Guaranteed investment contracts
- * Local government investment pools.

Fair Value Measurement and Application

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District has invested in COLOTRUST, an external investment pool that records its investments at fair value and measures fair value using Level 2 inputs.

COLOTRUST

As of December 31, 2016 and 2015, the District had invested \$129,945 and \$129,578, respectively, in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust is rated AAAM by Standard & Poor's.

Bow Mar Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2016 and 2015

4. Capital Assets

An analysis of the changes in net capital assets for the year ended December 31, 2016 follows:

	Balance December 31, 2015	Increases	Decreases	Balance December 31, 2016
Capital assets, being depreciated:				
Water system	\$ 2,692,066	\$ 420,633	\$ (32,269)	\$ 3,080,430
Sewer system	<u>361,492</u>	<u>-</u>	<u>-</u>	<u>361,492</u>
Total capital assets, being depreciated	<u>3,053,558</u>	<u>420,633</u>	<u>(32,269)</u>	<u>3,441,922</u>
Less accumulated depreciation for:				
Water system	(1,025,437)	(72,815)	32,269	(1,065,983)
Sewer system	<u>(312,555)</u>	<u>(1,499)</u>	<u>-</u>	<u>(314,054)</u>
Total accumulated depreciation	<u>(1,337,992)</u>	<u>(74,314)</u>	<u>32,269</u>	<u>(1,380,037)</u>
Total capital assets, being depreciated, net	<u>1,715,566</u>	<u>346,319</u>	<u>-</u>	<u>2,061,885</u>
Capital assets, net	<u>\$ 1,715,566</u>	<u>\$ 346,319</u>	<u>\$ -</u>	<u>\$ 2,061,885</u>

An analysis of the changes in net capital asset for the year ended December 31, 2015 follows:

	Balance December 31, 2014	Increases	Decreases	Balance December 31, 2015
Capital assets, being depreciated:				
Water system	\$ 2,487,771	\$ 204,295	\$ -	\$ 2,692,066
Sewer system	<u>361,492</u>	<u>-</u>	<u>-</u>	<u>361,492</u>
Total capital assets, being depreciated	<u>2,849,263</u>	<u>204,295</u>	<u>-</u>	<u>3,053,558</u>
Less accumulated depreciation for:				
Water system	(957,235)	(68,202)	-	(1,025,437)
Sewer system	<u>(311,056)</u>	<u>(1,499)</u>	<u>-</u>	<u>(312,555)</u>
Total accumulated depreciation	<u>(1,268,291)</u>	<u>(69,701)</u>	<u>-</u>	<u>(1,337,992)</u>
Total capital assets, being depreciated, net	<u>1,580,972</u>	<u>(134,594)</u>	<u>-</u>	<u>1,715,566</u>
Capital assets, net	<u>\$ 1,580,972</u>	<u>\$ (134,594)</u>	<u>\$ -</u>	<u>\$ 1,715,566</u>

Bow Mar Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2016 and 2015

5. Long-Term Liabilities

The following is an analysis of the changes in the District's long-term liability for the year ended December 31, 2016:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>	<u>Due Within One Year</u>
Colorado Water Conservation Board Loan	\$ -	\$ 331,407	\$ -	\$ 331,407	\$ 29,538

The detail of the District's loan payable is:

Promissory Note, Colorado Water Conservation Board

A loan from the Colorado Water Conservation Board was received by installments, with the final being received in November 2016. The note has a stated interest rate of 2.65% and is due in annual installments of \$38,320 in principal and interest, over 10 years, beginning November 1, 2017. Proceeds of the loan were used for capital projects that consisted of the replacement of the metering system.

The District has pledged all of its available resources for the repayment of the loan, including property taxes. Additionally, the District covenanted to establish, levy and collect rates, charges and fees in the amounts sufficient to pay the loan, to cover all expenditures for operation and maintenance and emergency repair services, and to maintain adequate debt service reserves. The loan agreement also contains a restrictive covenant which requires a reserve account equal to 10% of the annual debt service requirement, beginning November 1, 2017, and continuing annually for a total of 10 years.

Annual debt service requirement on the loan are as follows:

Year	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 29,538	\$ 8,782	\$ 38,320
2018	30,321	7,999	38,320
2019	31,124	7,196	38,320
2020	31,949	6,371	38,320
2021	32,795	5,525	38,320
2022-2026	175,680	14,117	189,797
	<u>\$ 331,407</u>	<u>\$ 49,990</u>	<u>\$ 381,397</u>

Bow Mar Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2016 and 2015

6. Net Position

The District has net position consisting of three components – net investment in capital assets, restricted and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016, the District had net investment in capital assets calculated as follows:

Capital assets, net	\$2,061,885
Note payable	<u>(331,407)</u>
Net investment in capital assets	<u>\$1,730,478</u>

The restricted component of net position includes assets that are restricted for use as imposed by external parties such as creditors, grantors or contributors, or as imposed by laws and regulations of other governments, or as imposed by law through constitutional provisions or enables legislation. The District had restricted net position of \$20,000 as of December 31, 2016, for emergency reserves (see Note 9).

7. Service Contracts

Water

The District purchases water from the Denver Water Board under a master meter distributor contract and bills users directly.

Sewer

The District has operating agreements with contiguous districts and cities for the transmission and processing of its sewage. The District incurs fees from these entities and bills its customers directly.

8. Risk Management

The District is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2016. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Bow Mar Water and Sanitation District

Notes to Financial Statements (continued)

December 31, 2016 and 2015

8. Risk Management (continued)

The District pays annual premiums to the Pool for liability, property, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

9. Tax, Spending and Debt Limitations

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights (TABOR) contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. An amount of \$20,000 and \$20,000 for the years ended December 31, 2016 and 2015, respectively, has been restricted for this requirement.

On November 2, 1999, voters approved the following election question:

Shall Bow Mar Water and Sanitation District property taxes be increased up to \$107,000 in the 2000 fiscal year, and by whatever additional amounts are raised annually thereafter from an increase in the District's property tax levy for operation and maintenance purposes of an additional 9.965 mills (increasing the total operating tax levy to 11.317 mills); and shall the District be authorized to collect, retain and spend all revenue and other funds collected from ad valorem property taxes and all other District revenue from sources not excluded from fiscal year spending, effective January 2000 and continuing thereafter; and shall the revenue which are the subject of this question be spent for general operation and maintenance purposes as a voter approved revenue change without further limitation under Article X, Section 20, of the Colorado Constitution?

Bow Mar Water and Sanitation District
Notes to Financial Statements (continued)
December 31, 2016 and 2015

9. Tax, Spending and Debt Limitations (continued)

On November 4, 2008, voters approved the following election question:

Shall Bow Mar Water and Sanitation District debt be increased by up to \$1,150,000, with a maximum repayment cost of \$2,450,000 (maximum principal and interest), and shall District taxes be increased by up to \$110,000 annually for the purpose of financing the repair and replacement and improvement of the District's water distribution system by the issuance and payment of a governmental agency bond (representing a loan from the Colorado Water Resources and Power Development Authority) or of general obligation bonds, which bonds shall bear interest at a maximum net effective interest rate not to exceed 7% and mature, be subject to redemption, with or without premium, and be issued, dated and sold. at such time or times, at such prices (at, above or below par) and in such manner and containing such terms, not inconsistent herewith, as the Board of Directors may determine; shall ad valorem property taxes be levied in any year, without limitation as to rate or amount or any other condition, to pay the principal of, premium, if any, and interest on such bonds and to fund any reserves for the payment thereof; and shall any earnings from the investment of the proceeds of such taxes and bonds (regardless of amount) constitute a voter-approved revenue change? The remaining balance of this loan was paid off May 1, 2014 and the related mill levy was eliminated.

On November 3, 2015, voters approved the following election question:

Shall Bow Mar Water and Sanitation District debt be increased by up to \$360,000, with a repayment cost of up to \$400,000, but with no increase in District taxes, for the purpose of financing the costs of replacing and upgrading the water meters throughout the District's water distribution system, along with the District's billing software and other necessary improvements to the District's water distribution system such debt to consist of the issuance of bonds, notes, loan agreements or other multiple fiscal year obligations to be paid from legally available revenues of the District, which bonds, notes, loan agreements or other multiple fiscal year obligations shall bear interest at a maximum net effective interest rate not to exceed 3% per annum, and be issued at such time or times, at such prices (at, above or below par) and in such manner and containing such terms, not inconsistent herewith, as the board of directors may determine; and shall any earnings on the investment of proceeds of such bonds or obligations, (regardless of amount) constitute a voter approved revenue changes within the meaning of Article X, section 20 of the Colorado Constitution?

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits will require judicial interpretation.

Supplementary Information

Bow Mar Water and Sanitation District
Schedule of Revenue, Expenditures and Changes in Funds
Available — Budget and Actual (Budgetary Basis)
For the Year Ended December 31, 2016

	Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
	Final	Final	Final
Revenue			
Water sales	\$ 315,778	\$ 353,275	\$ 37,497
Sewer charges	58,430	58,738	308
Property taxes	268,176	266,587	(1,589)
Specific ownership taxes	20,000	20,255	255
Loan proceeds	332,795	331,407	(1,388)
Grant income	36,602	36,602	-
Net investment income	1,000	898	(102)
Tap fees	-	3,700	3,700
Miscellaneous	-	94	94
Total revenue	1,032,781	1,071,556	38,775
Expenditures			
Water purchases	394,778	476,135	(81,357)
Water main maintenance	62,815	32,617	30,198
Meter reading and permits	3,362	3,232	130
Sewage treatment charges	59,508	56,655	2,853
Sewer repairs and maintenance	45,429	30,680	14,749
Accounting and audit	40,000	33,770	6,230
Insurance	3,000	2,621	379
Legal	5,500	9,309	(3,809)
Management fees	16,000	24,822	(8,822)
Other—Administrative	9,800	11,909	(2,109)
Debt issuance costs	-	3,295	(3,295)
County Treasurers' fees	5,590	3,999	1,591
Capital outlay	402,622	420,633	(18,011)
Debt service	41,832	-	41,832
Contingency	50,000	-	50,000
Total expenditures	1,140,236	1,109,677	30,559
Excess of Revenue Over (Under) Expenditures	(107,455)	(38,121)	69,334
Funds Available — Beginning of Year	382,651	456,874	74,223
Funds Available — End of Year	\$ 275,196	\$ 418,753	\$ 143,557

Funds available at December 31, 2016 is computed as follows:

Current assets	\$ 714,061
Current liabilities (and deferred inflows of resources)	(295,308)
	\$ 418,753

Bow Mar Water and Sanitation District
Reconciliation of Budgetary Basis (Actual)
to Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2016

Revenue (budgetary basis)	\$1,071,556
Loan proceeds	<u>(331,407)</u>
Revenue per statement of revenues, expenses and changes in net position	<u>740,149</u>
Expenditures (budgetary basis)	1,109,677
Depreciation	74,314
Accrued interest	1,099
Acquisition of property, plant and equipment	<u>(420,633)</u>
Total expenses per statement of revenues, expenses and changes in net position	<u>764,457</u>
Change in net position per statement of revenues, expenses and changes in net position	<u>\$ (24,308)</u>

Other Information

Bow Mar Water and Sanitation District
Summary of Assessed Valuation,
Mill Levy and Property Taxes Collected
For the Years Ended December 31

<u>Year Ended</u> <u>December 31,</u>	<u>Prior Year</u> <u>Assessed</u> <u>Valuation</u> <u>for Current</u> <u>Year Property</u> <u>Tax Levy</u>	<u>Mills</u> <u>Levied</u> <u>General</u>	<u>Total Property Taxes</u>		<u>Percent</u> <u>Collected</u> <u>to Levied</u>
			<u>Levied</u>	<u>Collected</u>	
2008	\$ 21,130,150	11.317	\$ 239,130	\$ 239,084	99.98%
2009	\$ 21,450,510	15.774 ♦	\$ 338,360	\$ 337,844	99.85%
2010	\$ 21,565,960	15.774	\$ 340,181	\$ 340,574	100.12%
2011	\$ 22,001,490	15.774	\$ 347,052	\$ 347,050	100.00%
2012	\$ 21,066,813	15.774	\$ 332,307	\$ 332,238	99.98%
2013	\$ 21,076,732	15.774	\$ 332,464	\$ 332,464	100.00%
2014	\$ 20,563,697	11.317	\$ 232,719	\$ 232,716	100.00%
2015	\$ 20,634,395	11.317	\$ 233,519	\$ 233,520	100.00%
2016	\$ 23,696,700	11.317	\$ 268,176	\$ 266,587	99.41%
Estimated for the year ending 12/31/2017	\$ 23,643,920	11.317	\$ 267,578		

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years. Information received from the county treasurer does not permit identification of specific year of assessment.

- ♦ In November 2008, the District raised the mill levy by 4.457 mills for debt service expenditures, for a total mill levy of 15.774 mills. This was done to offset the increase in costs related to replacement of sewer lines. During 2014 the loan was paid off and the additional mill levy was no longer necessary.