

**Spring Canyon Water and Sanitation District
Larimer County, Colorado**

FINANCIAL STATEMENTS

With Independent Auditor's Report

December 31, 2016 and 2015



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Spring Canyon Water and Sanitation District

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Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Spring Canyon Water and Sanitation District
Larimer County, Colorado

We have audited the accompanying financial statements of Spring Canyon Water and Sanitation District, as of and for the years ended December 31, 2016 and 2015, and the related notes to the 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 an opinion 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 respective financial position of Spring Canyon Water and Sanitation District, as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that 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 operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and legal requirements, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic 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 basic financial statements as a whole.

Danner Higgin & Associates, PC

Lakewood, Colorado
July 26, 2017

BASIC FINANCIAL STATEMENTS

Spring Canyon Water and Sanitation District
STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,759,144	\$ 1,475,136
Accounts receivable	69,971	83,191
Prepaid expenses	4,150	5,346
Loan funds receivable	196,328	-
Property taxes receivable	52,209	49,259
Total current assets	2,081,802	1,612,932
Capital assets, net	5,139,361	2,382,844
Total assets	7,221,163	3,995,776
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	576,423	100,021
Accrued interest payable	8,145	-
Current portion of long-term debt	107,491	-
Total current liabilities	692,059	100,021
Long-term obligations		
Loan payable - CWRPDA	2,336,045	-
Accrued compensated absences	5,888	9,116
Total long-term obligations	2,341,933	9,116
Total liabilities	3,033,992	109,137
DEFERRED INFLOWS OF RESOURCES		
Property tax revenue	52,208	49,259
Total deferred inflows of resources	52,208	49,259
NET POSITION		
Net investment in capital assets	2,892,153	2,382,844
Restricted	168,200	181,000
Unrestricted	1,074,610	1,273,536
Total net position	\$ 4,134,963	\$ 3,837,380

The accompanying Notes to Financial Statements are an integral part of these statements.

Spring Canyon 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>
OPERATING REVENUES		
Water and sewer services	\$ 836,641	\$ 836,711
Miscellaneous income	22,280	22,639
Total operating revenues	<u>858,921</u>	<u>859,350</u>
OPERATING EXPENSES		
General and administrative	355,339	416,248
System operations	276,701	301,098
Depreciation	112,249	113,809
Total operating expenses	<u>744,289</u>	<u>831,155</u>
OPERATING INCOME (LOSS)	<u>114,632</u>	<u>28,195</u>
NONOPERATING REVENUES		
Property taxes	53,314	50,092
Interest income	5,621	1,561
Tap fees	158,250	-
Total nonoperating revenues	<u>217,185</u>	<u>51,653</u>
NONOPERATING EXPENSES		
Bond interest	(34,234)	-
Total nonoperating expenses	<u>(34,234)</u>	<u>-</u>
CHANGE IN NET POSITION	297,583	79,848
NET POSITION - BEGINNING OF YEAR	<u>3,837,380</u>	<u>3,757,532</u>
NET POSITION - END OF YEAR	<u>\$ 4,134,963</u>	<u>\$ 3,837,380</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Spring Canyon Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 872,140	\$ 847,860
Payments to suppliers for goods and services	(436,665)	(391,487)
Payments to employees for services	(216,966)	(269,459)
Net cash provided by operating activities	218,509	186,914
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	53,314	50,092
Net cash provided by noncapital financing activities	53,314	50,092
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of fixed assets	(2,372,805)	(412,238)
Tap fees	158,250	-
Loan proceeds	2,303,672	-
Debt principal payments	(56,464)	-
Interest paid on debt	(26,089)	-
Net cash (used) by capital and related financing activities	6,564	(412,238)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earnings received	5,621	1,561
Net cash provided by investing activities	5,621	1,561
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	284,008	(173,671)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,475,136	1,648,807
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,759,144	\$ 1,475,136

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

Spring Canyon Water and Sanitation District
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2016 and 2015
(continued)

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 114,632	\$ 28,195
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities		
Depreciation and amortization	112,249	113,809
Change in assets and liabilities		
(Increase) decrease in		
Accounts receivable	13,218	(11,490)
Prepaid expense	1,196	(421)
Increase (decrease) in		
Accounts payable for operating activities	(19,558)	60,554
Compensated absences	(3,228)	(3,733)
Total adjustments	<u>103,877</u>	<u>158,719</u>
Net cash (used) by operating activities	<u>\$ 218,509</u>	<u>\$ 186,914</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

Spring Canyon Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

Note 1 – Definition of reporting entity

Spring Canyon Water and Sanitation District (the District), a quasi-municipal corporation and political subdivision of the State of Colorado (the State), is governed pursuant to the provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Larimer County, Colorado. The District was organized in 1973 to provide water and sanitation services for the benefit of the public within the District's boundaries.

The District is financially accountable for organizations within the legal entity of the District, provided that they satisfy the criterion for reporting entities per the guidance of the Governmental Accounting Standards Board (GASB) accounting pronouncements. The definition of the reporting entity is based primarily on financial accountability. 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 and a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization's governing body and either the District is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Additionally, the District may also be financially accountable for organizations that are fiscally dependent on it.

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

Note 2 – Summary of significant accounting policies

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

The accounting policies of the District conform to generally accepted accounting principles (GAAP) applicable to governmental units defined as proprietary enterprise funds. The enterprise fund is used because the District's powers operate in a manner similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

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.

Basis of Accounting

The District's financial statements are reported using the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as

Spring Canyon Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

increases in assets and payments on loans are recorded as reductions in liabilities. Tap fees and contributed assets are recorded as capital contributions when received or collectible.

Operating revenues and expenses

The District distinguishes between operating revenues and expenses from 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 sewer 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 capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

Cash equivalents

For purposes of the Statements of Cash Flows, the District considers cash deposits and highly liquid investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

Investments

Investments for the District are reported at fair value.

Accounts receivable, allowance for doubtful accounts

User fees and tap fees constitute a perpetual lien on or against property served until paid. Such liens may be foreclosed upon as provided by the State. Therefore, no provision for uncollectible receivables has been made in the financial statements.

Property Taxes

Property taxes are levied based on assessed valuations determined by the County Assessor 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 Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or in equal installments, at the taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are held in November and December. The County Treasurer remits the taxes collected monthly to the District.

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

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

Capital assets

Capital assets include land, water rights, water and sewer plants and systems, equipment and vehicles. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Interest incurred during the construction phase of capital assets is not included as part of the capitalized value of the assets constructed.

Depreciation expense has been computed using the straight-line method over the following estimated economic useful lives:

Building and improvements	39 years
Water and sewer system	1 to 50 years
Equipment and furniture	1 to 10 years

Water rights

The cost of water rights includes acquisition cost, legal and engineering costs related to the development and augmentation of those rights. Water rights have a perpetual life, thus the cost is not amortized. All other costs, including costs incurred for the protection of those rights are expensed.

Capital contributions

Tap fees are recorded as capital contributions when received.

Budgets

In accordance with the State Budget Law, the District's Board of Directors (the Board) 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 can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements.

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Compensated absences

It is the District's policy to permit employees to accumulate earned but unused vacation to a maximum of 160 hours, depending on length of employment. Unpaid accumulated sick leave, allowed to a maximum of 20 days, is paid to an employee upon termination and is recorded as a liability of the District.

Use of estimates

The preparation of financial statements in conformity with GAAP requires that District management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 3 – Cash and investments

Cash and investments are reflected on the December 31, 2016 and 2015 Statement of Net Position, respectively, as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,759,144	\$ 1,475,136
Cash and cash equivalents - restricted	-	-
Total cash and cash equivalents	<u>\$ 1,759,144</u>	<u>\$ 1,475,136</u>

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

	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 115	\$ 115
Deposits with financial institutions	545,205	309,663
Investments	1,213,824	1,165,358
Total cash and investments	<u>\$ 1,759,144</u>	<u>\$ 1,475,136</u>

Deposits with financial institutions

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. As of December 31, 2016, the federal insurance limit was \$250,000. 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

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, deposits may not be returned to the District. The District has not adopted a deposit policy for custodial credit risk.

As of December 31, 2016 and 2015, the District's bank balances and carrying balances were insured or collateralized as follows:

	<u>2016</u>	<u>2015</u>
Bank balances:		
Cash on hand	\$ 115	\$ 115
Federally insured	250,000	250,000
Collateralized	317,198	82,445
Total bank balances	<u>\$ 567,313</u>	<u>\$ 332,560</u>
Carrying balances:		
Cash on hand	\$ 115	\$ 115
Federally insured	250,000	250,000
Collateralized	295,090	59,548
Total carrying balances	<u>\$ 545,205</u>	<u>\$ 309,663</u>

Investments

The District has not adopted a formal investment policy; however the District follows the State statutes regarding investments. Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest including the following:

- . Obligations of the United States and certain U.S. government agency securities
- . Certain international agency securities
- . General obligation and revenue bonds of U.S. local government entities
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- . Local government investment pools

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

The local government investment pools, which include the Colorado Local Government Liquid Asset Trust (COLOTRUST), is rated AAAM by Standard & Poor's.

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. Investments not measured at fair value and not categorized include governmental money market funds (PFM Funds Governmental Select series); money market funds (generally held by Bank Trust Departments in their role as paying agent or trustee); and CSAFE which record their investments at amortized costs.

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.

As of December 31, 2016 and 2015, the District had the following investments, respectively, recorded at fair value:

<u>Investment</u>	<u>Maturity</u>	<u>2016</u>	<u>2015</u>
Colostrust	Less than 1 year	<u>\$ 1,213,824</u>	<u>\$ 1,165,358</u>

COLOTRUST

During 2016 and 2015, the District invested in COLOTRUST, 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 COLOTRUST. COLOTRUST operates similarly to a money market fund and each share is equal in value to \$1.00. COLOTRUST offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. A designated custodial bank serves as custodian for COLOTRUST's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for COLOTRUST's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by COLOTRUST.

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Note 4 – Capital assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance at December 31, 2015	Increases	Decreases	Balance at December 31, 2016
Capital assets, not being depreciated				
Land and water rights	\$ 463,458	\$ -	\$ -	\$ 463,458
Construction in progress	599,935	2,868,766		3,468,701
Total capital assets, not being depreciated	<u>1,063,393</u>	<u>2,868,766</u>	<u>-</u>	<u>3,932,159</u>
Capital assets being depreciated				
Office building and improvements	40,000	-	-	40,000
Equipment	46,070	-	-	46,070
Water and sewer system	3,367,768	-	-	3,367,768
Total capital assets being depreciated	<u>3,453,838</u>	<u>-</u>	<u>-</u>	<u>3,453,838</u>
Accumulated depreciation	<u>(2,134,387)</u>	<u>(112,249)</u>	<u>-</u>	<u>(2,246,636)</u>
Total capital assets being depreciated, net	<u>1,319,451</u>	<u>(112,249)</u>	<u>-</u>	<u>1,207,202</u>
Capital assets, net	<u>\$ 2,382,844</u>	<u>\$ 2,756,517</u>	<u>\$ -</u>	<u>\$ 5,139,361</u>

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance at December 31, 2014	Increases	Decreases	Balance at December 31, 2015
Capital assets, not being depreciated				
Land and water rights	\$ 463,458	\$ -	\$ -	\$ 463,458
Construction in progress	187,694	412,241	-	599,935
Total capital assets, not being depreciated	<u>651,152</u>	<u>412,241</u>	<u>-</u>	<u>1,063,393</u>
Capital assets being depreciated				
Office building and improvements	40,000	-	-	40,000
Equipment	46,070	-	-	46,070
Water and sewer system	3,367,768	-	-	3,367,768
Total capital assets being depreciated	<u>3,453,838</u>	<u>-</u>	<u>-</u>	<u>3,453,838</u>
Accumulated depreciation	<u>(2,020,578)</u>	<u>(113,809)</u>	<u>-</u>	<u>(2,134,387)</u>
Total capital assets being depreciated, net	<u>1,433,260</u>	<u>(113,809)</u>	<u>-</u>	<u>1,319,451</u>
Capital assets, net	<u>\$ 2,084,412</u>	<u>\$ 298,432</u>	<u>\$ -</u>	<u>\$ 2,382,844</u>

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

Depreciation expense for the years ended December 31, 2016 and 2015 was charged to the following operations:

	2016	2015
Water operations	\$ 53,219	\$ 53,219
Sewer operations	58,004	59,564
General and administrative	1,026	1,026
	<u>\$ 112,249</u>	<u>\$ 113,809</u>

Note 5 – Long term obligations

The following is an analysis of the changes in the District's long-term obligations for the years ended December 31, 2016 and 2015:

	Balance at December 31, 2015	Additions	Reductions	Balance at December 31, 2016	Due within One Year
2015 CWRPDA loan	\$ -	\$ 2,200,000	\$ 55,441	\$ 2,144,559	\$ 94,817
2016 CWRPDA loan	-	300,000	1,023	298,977	12,674
Compensated absences	9,116	-	3,228	5,888	-
	<u>\$ 9,116</u>	<u>\$ 2,500,000</u>	<u>\$ 59,692</u>	<u>\$ 2,449,424</u>	<u>\$ 107,491</u>

	Balance at December 31, 2014	Additions	Reductions	Balance at December 31, 2015	Due within One Year
1977 Sewer Revenue Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Compensated absences	12,849	-	3,733	9,116	-
	<u>\$ 12,849</u>	<u>\$ -</u>	<u>\$ 3,733</u>	<u>\$ 9,116</u>	<u>\$ -</u>

Loan Agreements

On April 15, 2015, the District entered into a loan agreement with Colorado Water Resources and Power Development Authority (the Loan), for the purpose of financing the Project described in Note 8. Draws against the Loan are available for construction of the Project throughout the construction period, to a maximum of \$2,200,000. The term of the Loan is 20 years, with principal and interest payments due semiannually on May and November. The amount of each semiannual payment, including interest, is \$68,168. Interest is payable at 2%. The District is subject to certain covenants under the Loan, including pledging revenue, with a minimum rate guarantee, generated from the water delivery system, and pledging to maintain a three-month reserve of the annual budget for

Spring Canyon Water and Sanitation District

**NOTES TO FINANCIAL STATEMENTS
(continued)**

December 31, 2016 and 2015

operation and maintenance expenses. The District has restricted \$166,600 in satisfaction of the reserve requirement at December 31, 2016.

On February 19, 2016, the District entered into an additional loan agreement with Colorado Water Resources and Power Development Authority, for the purpose of financing additional costs for the Project described in Note 8. Draws against the Loan are available for construction of the Project throughout the construction period, to a maximum of \$300,000. The term of the Loan is 20 years, with principal and interest payments due semiannually on May and November. The amount of each semiannual payment, including interest, will be \$9,296. Interest is payable at 2%.

The anticipated debt requirements for the next five years, and in 5-year increments thereafter, follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 107,491	\$ 47,437	\$ 154,928
2018	109,653	45,275	154,928
2019	111,857	43,071	154,928
2020	114,106	40,823	154,929
2021	116,536	38,529	155,065
2022-2026	618,041	140,535	758,576
2027-2031	682,703	91,935	774,638
2032-2036	583,149	22,563	605,712
	<u>\$ 2,443,536</u>	<u>\$ 470,168</u>	<u>\$ 2,913,704</u>

Note 6 – Net position

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2016 and 2015, the District had net investment in capital assets of \$2,892,153 and \$2,382,844 respectively.

Restricted net position includes assets that are 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. The District had restricted net position of \$168,200 and \$181,000 at December 31, 2016 and December 31, 2015, respectively.

The District's unrestricted net position as of December 31, 2016 and 2015 is \$1,074,610 and \$1,273,536, respectively.

Spring Canyon Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

Note 7 – Deferred Compensation Plan

The District offers employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Service Code Section 457, administered by the Special District Association. The plan is available to all full-time District employees, and permits them to defer a portion of their salaries until future years. The plan allows the District, as resolved annually by the Board, to make discretionary contributions up to 5% of each eligible employee's salary. The Board authorized a contribution rate of 5% for all eligible employees in 2016 and 2015. The District contributed \$7,228 and \$7,003 for the years ended December 31, 2016 and 2015, respectively. The deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency. The assets under the Plan are not property of the District and are held by a second-party administrator for the exclusive benefit of the Plan participants and their beneficiaries.

Note 8 – Agreements

Intergovernmental Agreement

On February 26, 2015, the District and Fort Collins-Loveland Water District (FCLWD) entered into an intergovernmental agreement (the Agreement) whereby the District's existing drinking water system will interconnect with that of FCLWD for the purpose of acquiring a permanent drinking water supply (the Project) as a potable water supply alternative to the District's existing water treatment plant and to allow permanent decommissioning of the District's water treatment plant. Upon completion of the Project, the District will purchase treated potable water, to a maximum of 40,000,000 gallons per year, plus or minus 10%, for the first three years. After three years, the District will purchase on a "take or pay" basis. As a condition of the Agreement, the District will convey certain water rights to FCLWD. The District is responsible for the financing and construction of the necessary capital improvements for the completion of the Project, estimated at \$3,600,599.

The existing water treatment plant (the Plant), on the statement of net position, has a cost of \$854,982 and accumulated depreciation of \$574,112 at December 31, 2016. No adjustment to the value of the Plant, due to future decommissioning, has been considered in these financial statements. Such adjustment to the value of the Plant will be determined upon decommissioning. Total land, rights of way, and water rights are valued on the statement of net position at \$463,458 at December 31, 2016. At the time of transfer of water rights under the Agreement, District management will assess the value of remaining and transferred water rights for appropriate adjustment in value in the financial statements.

Note 9 – 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 or natural disasters. The

Spring Canyon Water and Sanitation District

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2016 and 2015

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 an intergovernmental agreement to provide property, liability, public official's 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.

The District pays annual premiums to the Pool for liability, property and public officials liability 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.

Note 10 – 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.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in grants from all state and local governments combined, are excluded from the provisions of TABOR. The District's management believes its water and sewer operations, and all activities related thereto, fulfill the requirements of an enterprise within the definition of TABOR and the Enterprise Act, C.R.S. 37-45-1-01 et seq. The District's annual budget and financial statements are deemed by the District to be the annual budget and financial statements of the enterprise. The District has restricted \$1,600 as an emergency reserve under TABOR.

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 and qualification as an Enterprise will require judicial interpretation.

Note 11 - Subsequent Event

On February 10, 2017, the District entered into a third loan agreement with Colorado Water Resources and Power Development Authority, for the purpose of financing additional costs for the Project described in Note 8. Draws against the Loan are available for construction of the Project throughout the construction period, to a maximum of \$300,599. The term of the Loan is 20 years, with principal and interest payments due semiannually on May and November. The amount of each semiannual payment, including interest, will be \$9,314. Interest is payable at 2%.

SUPPLEMENTAL INFORMATION

Spring Canyon Water and Sanitation District
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUNDS AVAILABLE - BUDGET AND ACTUAL (BUDGETARY BASIS)

For the year ended December 31, 2016
(with comparative actual amounts for 2015)

	Original and Final Budgeted Amounts	2016 Actual Amounts	Variance Favorable (Unfavorable)	2015 Actual Amounts
Revenues				
Water operations	\$ 468,226	505,212	\$ 36,986	\$ 502,751
Sewer operations	328,472	330,079	1,607	332,180
Transfer fees	-	1,350	1,350	1,780
Property taxes	49,259	53,314	4,055	50,092
Interest income	1,700	5,621	3,921	1,561
Miscellaneous income	17,400	22,280	4,880	22,639
Total revenues	<u>865,057</u>	<u>917,856</u>	<u>52,799</u>	<u>911,003</u>
Expenditures				
General and administrative	456,071	355,339	100,732	416,248
Loan interest	29,079	34,234	(5,155)	-
Sewer operations:				
Collection and transmission	51,500	42,874	8,626	41,279
Sewer treatment	67,680	67,680	-	67,680
Water operations:				
Source of supply	11,036	10,112	924	11,802
Water treatment	109,825	57,589	52,236	59,182
Transmission and distribution	59,800	98,446	(38,646)	121,155
Total expenses	<u>784,991</u>	<u>666,274</u>	<u>118,717</u>	<u>717,346</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>80,066</u>	<u>251,582</u>	<u>171,516</u>	<u>193,657</u>
OTHER FINANCING SOURCES (USES)				
Tap fees	9,425	158,250	148,825	-
Loan proceeds	2,500,000	2,303,672	(196,328)	-
Loan principal paid	(63,001)	(56,464)	6,537	-
Capital outlay	(2,829,835)	(2,868,766)	(38,931)	(412,238)
Total other financing sources (uses)	<u>(383,411)</u>	<u>(463,308)</u>	<u>(79,897)</u>	<u>(412,238)</u>
NET CHANGE IN FUNDS AVAILABLE	(303,345)	(211,726)	91,619	(218,581)
FUNDS AVAILABLE - BEGINNING OF YEAR	<u>1,542,264</u>	<u>1,454,541</u>	<u>(87,723)</u>	<u>1,673,122</u>
FUNDS AVAILABLE - END OF YEAR	<u>\$ 1,238,919</u>	<u>\$ 1,242,815</u>	<u>\$ 3,896</u>	<u>\$ 1,454,541</u>

Spring Canyon Water and Sanitation District
RECONCILIATION OF ACTUAL (BUDGETARY BASIS) TO STATEMENT
OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUNDS
For the year ended December 31, 2016

Revenues (budgetary basis)	\$ 1,076,106
Total revenues per Statement of Revenues, Expenses and Changes in Net Position	<u>1,076,106</u>
Expenditures (budgetary basis)	3,591,504
Depreciation and amortization	112,249
Principal paid	(56,464)
Capital outlay	<u>(2,868,766)</u>
Total expenses per Statement of Revenues, Expenses and Changes in Net Position	<u>778,523</u>
Change in net position per Statement of Revenues, Expenses and Changes in Net Position	<u><u>\$ 297,583</u></u>