

# **Bow Mar Water and Sanitation District**

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## **Annual Financial Report and Independent Auditor's Report**

**December 31, 2017 and 2016**

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Office of the State Auditor

May 22, 2018

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**SCHILLING & COMPANY, INC.**

*Certified Public Accountants*

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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, 2017 and 2016, 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 opinion.

## **Opinion**

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, 2017 and 2016, and the changes in its 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 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  
May 9, 2018

## **Basic Financial Statements**

**Bow Mar Water and Sanitation District**  
**Statements of Net Position**  
**December 31, 2017 and 2016**

<b>Assets</b>	<b>2017</b>	<b>2016</b>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 313,205	\$ 285,295
Investments	104,442	103,973
Accounts receivable	34,374	38,400
Property taxes receivable	283,810	267,578
Unbilled service fees receivable	7,013	6,116
Prepaid expenses	18,079	12,699
Total current assets	<u>760,923</u>	<u>714,061</u>
<b>Noncurrent Assets:</b>		
Water system	3,080,430	3,080,430
Sewer system	361,492	361,492
Total capital assets	3,441,922	3,441,922
Accumulated depreciation	(1,466,369)	(1,380,037)
Net capital assets	<u>1,975,553</u>	<u>2,061,885</u>
<b>Total Assets</b>	<u>2,736,476</u>	<u>2,775,946</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts payable	19,856	22,844
Accrued interest payable	1,333	1,099
Current portion of note payable	30,321	29,538
Unearned sewer revenue	4,903	4,886
Total current liabilities	<u>56,413</u>	<u>58,367</u>
<b>Long-Term Liabilities:</b>		
Note payable, net of current portion	271,548	301,869
Total long-term liabilities	<u>271,548</u>	<u>301,869</u>
<b>Total liabilities</b>	<u>327,961</u>	<u>360,236</u>
<b>Deferred Inflow of Resources:</b>		
Deferred property tax revenue	283,810	267,578
<b>Total deferred inflow of resources</b>	<u>283,810</u>	<u>267,578</u>
<b>Net Position</b>		
Net Investment in capital assets	1,673,684	1,730,478
Restricted		
Emergency reserve	20,000	20,000
Unrestricted	431,021	397,654
<b>Total Net Position</b>	<u>\$ 2,124,705</u>	<u>\$ 2,148,132</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, 2017 and 2016**

<b>Water Operations</b>	<b>2017</b>	<b>2016</b>
Revenues		
Water service fees	\$ 345,258	\$ 353,275
Direct water expenses		
Water purchases	440,258	476,135
Repairs and maintenance	30,915	32,617
Depreciation	84,833	72,815
Permits	155	155
Meter reading	-	3,077
Total operating expenses	<u>556,161</u>	<u>584,799</u>
Net water operations (loss)	<u>(210,903)</u>	<u>(231,524)</u>
<b>Sewer Operations</b>		
Revenue		
Sewer service fees	<u>58,824</u>	<u>58,738</u>
Direct sewer expenses		
Sewage treatment charges	56,122	56,655
Repairs and maintenance	23,190	30,680
Depreciation	1,499	1,499
Total operating expenses	<u>80,811</u>	<u>88,834</u>
Net sewer Operations (loss)	<u>(21,987)</u>	<u>(30,096)</u>
<b>Gross (Loss) From Operations</b>	<u>(232,890)</u>	<u>(261,620)</u>
<b>General and Administrative Expenses</b>		
Accounting and audit	31,777	33,770
Insurance	2,653	2,621
Legal	1,815	9,309
Management fees	24,573	24,822
Other	<u>12,807</u>	<u>11,909</u>
Total general and administrative expenses	<u>73,625</u>	<u>82,431</u>
<b>Net (Loss) from Operations</b>	<u>(306,515)</u>	<u>(344,051)</u>
<b>Nonoperating Revenue and (Expense)</b>		
Property taxes	267,133	266,587
Specific ownership taxes	23,924	20,255
Grant income	-	36,602
Investment income	1,793	898
Tap fees	-	3,700
Miscellaneous	3,368	94
Debt issuance costs	-	(3,295)
Interest expense	(10,116)	(1,099)
County Treasurers' fees	<u>(3,014)</u>	<u>(3,999)</u>
Total nonoperating revenue, net	<u>283,088</u>	<u>319,743</u>
<b>Change in Net Position</b>	<u>(23,427)</u>	<u>(24,308)</u>
<b>Net Position—Beginning of Year</b>	<u>2,148,132</u>	<u>2,172,440</u>
<b>Net Position—End of Year</b>	<u>\$ 2,124,705</u>	<u>\$ 2,148,132</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, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 407,228	\$ 400,672
Cash paid to vendors	(632,633)	(671,871)
Net cash used by operating activities	(225,405)	(271,199)
<b>Cash Flows from Capital and Related Financing Activities</b>		
Note proceeds	-	331,407
Note principal payments	(29,538)	-
Interest payments	(9,882)	-
Debt issuance costs	-	(3,295)
Tap fees	-	3,700
Acquisition of water and sewer system improvements	-	(420,633)
Net cash used by capital and related financing activities	(39,420)	(88,821)
<b>Cash Flows from Noncapital Financing Activities</b>		
Property taxes	267,133	266,587
Specific ownership taxes	23,924	20,255
Grant proceeds	-	36,602
Miscellaneous revenue	3,368	94
County Treasurers' fees	(3,014)	(3,999)
Cash flows provided by noncapital and related financing activities	291,411	319,539
<b>Cash Flows from Investing Activities:</b>		
Investments purchased	(469)	(467)
Interest received	1,793	898
Net cash provided by investing activities	1,324	431
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	27,910	(40,050)
<b>Cash and cash equivalents—beginning of year</b>	285,295	325,345
<b>Cash and cash equivalents—end of year</b>	\$ 313,205	\$ 285,295
<b>Reconciliation of operating (loss) to net cash provided (used) by operating activities</b>		
Net (Loss) from operations	\$ (306,515)	\$ (344,051)
Adjustments to reconcile (loss) from operations to net cash (used) by operating activities		
Depreciation	86,332	74,314
Effects of changes in program assets and liabilities:		
Accounts receivable	4,026	(11,368)
Unbilled service fees	(897)	27
Deferred sewer revenues	17	-
Prepaid expenses	(5,380)	1,266
Accounts payable	(2,988)	8,613
Total adjustments	81,110	72,852
Net cash used by operating activities	\$ (225,405)	\$ (271,199)

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

# **Bow Mar Water and Sanitation District**

## **Notes to Financial Statements**

### **December 31, 2017 and 2016**

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#### **1. Definition of Reporting Entity**

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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.

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#### **2. Summary of Significant Accounting Policies**

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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, 2017 and 2016

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## 2. Summary of Significant Accounting Policies (continued)

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### 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, 2017 and 2016**

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**2. Summary of Significant Accounting Policies (continued)**

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**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.

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**3. Cash and Investments**

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Cash and investments as of December 31, 2017 and 2016 are classified in the accompanying financial statements as follows:

	<u>2017</u>	<u>2016</u>
Statement of net position:		
Cash and cash equivalents	\$ 313,205	\$ 285,295
Investments	<u>104,442</u>	<u>103,973</u>
	<u>\$ 417,647</u>	<u>\$ 389,268</u>

Cash and investments as of December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Deposits with financial institutions	\$ 180,378	\$ 155,328
Cash with County Treasurers	1,865	22
Local government investment pool	130,962	129,945
Certificate of deposit	<u>104,442</u>	<u>103,973</u>
Total cash and investments	<u>\$ 417,647</u>	<u>\$ 389,268</u>

# **Bow Mar Water and Sanitation District**

## **Notes to Financial Statements (continued)**

### **December 31, 2017 and 2016**

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### **3. Cash and Investments (continued)**

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#### **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, 2017 and 2016, the District's bank deposits had carrying balances of \$284,820 and \$259,301, 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, 2017 and 2016**

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**3. Cash and Investments (continued)**

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- 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.

**COLOTRUST**

As of December 31, 2017 and 2016, the District had invested \$130,962 and \$129,945, 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 is measured at net asset value, equal to \$1.00 per share. The Trust is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method.

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**4. Capital Assets**

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An analysis of the changes in net capital assets for the year ended December 31, 2017 follows:

	<b>Balance December 31, 2016</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2017</b>
	<u>2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>2017</u>
Capital assets, being depreciated:				
Water system	\$ 3,080,430	\$ -	\$ -	\$ 3,080,430
Sewer system	<u>361,492</u>	<u>-</u>	<u>-</u>	<u>361,492</u>
Total capital assets, being depreciated	<u>3,441,922</u>	<u>-</u>	<u>-</u>	<u>3,441,922</u>
Less accumulated depreciation for:				
Water system	(1,065,983)	(84,833)	-	(1,150,816)
Sewer system	<u>(314,054)</u>	<u>(1,499)</u>	<u>-</u>	<u>(315,553)</u>
Total accumulated depreciation	<u>(1,380,037)</u>	<u>(86,332)</u>	<u>-</u>	<u>(1,466,369)</u>
Total capital assets, being depreciated, net	<u>2,061,885</u>	<u>(86,332)</u>	<u>-</u>	<u>1,975,553</u>
Capital assets, net	<u>\$ 2,061,885</u>	<u>\$ (86,332)</u>	<u>\$ -</u>	<u>\$ 1,975,553</u>

**Bow Mar Water and Sanitation District**  
**Notes to Financial Statements (continued)**  
**December 31, 2017 and 2016**

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**4. Capital Assets (continued)**

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

	<b>Balance December 31, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2016</b>
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>\$ 2,061,855</u>

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**5. Long-Term Liabilities**

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The following is an analysis of the changes in the District's long-term liability for the years ended December 31, 2017 and 2016:

	<b>Balance December 31, 2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2017</b>	<b>Due Within One Year</b>
Colorado Water Conservation Board Loan	<u>\$ 331,407</u>	<u>\$ -</u>	<u>\$ (29,538)</u>	<u>\$ 301,869</u>	<u>\$ 30,321</u>

  

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

**Bow Mar Water and Sanitation District**  
**Notes to Financial Statements (continued)**  
**December 31, 2017 and 2016**

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**5. Long-Term Liabilities (continued)**

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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:

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	33,665	4,655	38,320
2023-2026	<u>142,015</u>	<u>9,462</u>	<u>151,477</u>
	<u>\$ 301,869</u>	<u>\$ 41,208</u>	<u>\$ 343,077</u>

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**6. Net Position**

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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, 2017 and 2016, the District had net investment in capital assets calculated as follows:

**Bow Mar Water and Sanitation District**  
**Notes to Financial Statements (continued)**  
**December 31, 2017 and 2016**

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**6. Net Position (continued)**

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	<u>2017</u>	<u>2016</u>
Capital assets, net	\$1,975,553	\$2,061,885
Note payable	<u>(301,869)</u>	<u>(331,407)</u>
Net investment in capital assets	<u>\$1,673,684</u>	<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, 2017 and 2016, for emergency reserves (see Note 9).

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**7. Service Contracts**

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**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.

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**8. Risk Management**

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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, 2017. 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, 2017 and 2016**

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#### **8. Risk Management (continued)**

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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.

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#### **9. Tax, Spending and Debt Limitations**

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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, 2017 and 2016, 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, 2017 and 2016**

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**9. Tax, Spending and Debt Limitations (continued)**

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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, 2017**

	<b>Budget Amounts</b>	<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Final</b>	<b>Final</b>	<b>Final</b>
<b>Revenue</b>			
Water sales	\$ 334,937	\$ 345,258	\$ 10,321
Sewer charges	60,183	58,824	(1,359)
Property taxes	267,578	267,133	(445)
Specific ownership taxes	21,018	23,924	2,906
Net investment income	700	1,793	1,093
Miscellaneous	3,000	3,368	368
Total revenue	687,416	700,300	12,884
<b>Expenditures</b>			
Water purchases	386,250	440,258	(54,008)
Water main maintenance	57,058	30,915	26,143
Meter reading and permits	-	155	(155)
Sewage treatment charges	61,293	56,122	5,171
Sewer repairs and maintenance	30,583	23,190	7,393
Accounting and audit	41,200	31,777	9,423
Insurance	4,000	2,653	1,347
Legal	5,500	1,815	3,685
Management fees	25,000	24,573	427
Other—Administrative	10,004	12,807	(2,803)
County Treasurers' fees	5,758	3,014	2,744
Debt service	41,831	39,420	2,411
Contingency	15,000	-	15,000
Total expenditures	683,477	666,699	16,778
<b>Excess of Revenue Over (Under) Expenditures</b>	3,939	33,601	29,662
<b>Funds Available — Beginning of Year</b>	418,144	418,753	609
<b>Funds Available — End of Year</b>	\$ 422,083	\$ 452,354	\$ 30,271

Funds available at December 31, 2017 is computed as follows:

Current assets	\$ 760,923
Current liabilities (and deferred inflows of resources)	(308,569)
	\$ 452,354

**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, 2017**

Revenue (budgetary basis)	<u>\$ 700,300</u>
Revenue per statement of revenues, expenses and changes in net position	<u>700,300</u>
Expenditures (budgetary basis)	666,699
Depreciation	86,332
Change in accrued interest	234
Debt principal payments	<u>(29,538)</u>
Total expenses per statement of revenues, expenses and changes in net position	<u>723,727</u>
Change in net position per statement of revenues, expenses and changes in net position	<u>\$ (23,427)</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>	
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%
2017	\$ 23,643,920	11.317	\$ 267,578	\$ 267,133	99.83%
Estimated for the year ending 12/31/2018	\$ 25,078,212	11.317	\$ 283,810		

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.