

ARABIAN ACRES METROPOLITAN DISTRICT

BASIC FINANCIAL STATEMENTS

December 31, 2016



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JOHN CUTLER & ASSOCIATES

Board of Directors
Arabian Acres Metropolitan District
Teller County, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business activities and each major fund of the Arabian Acres Metropolitan District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority'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 respective financial position of the business activities and each major fund of the Arabian Acres Metropolitan District as of and for the year ended, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arabian Acres Metropolitan District's basic financial statements. The individual fund financial statement listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 individual fund financial statement is fairly stated in all material respects in relation to the financial statements as a whole.

John Luther & Associates, LLC

July 25, 2017

ARABIAN ACRES METROPOLITAN DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Arabian Acres Metropolitan District's (the District) annual financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2016. Please read it in conjunction with the financial statements.

1. Financial Highlights

The District's net position increased by \$221,159 due to continued efforts in decreasing expenses, consistently making payments on liabilities, and increasing current assets through the reserve fund.

The District lowered the Supplemental Fee (established to recover from the 2013 embezzlement). The Fee was \$100 in 2015; lowered to \$90 per account/per month in 2016; and further lowered in to \$75 per account/per month in 2017.

In 2016 the District became fully compliant with the 2007 Bond Agreement requirement of 125% of the bond payment in reserves; which increased the Restricted position by 247%.

This is the second year that the District had a positive increase in Net Position since the 2013 Embezzlement by Terry Malcom.

Cash & Cash Equivalents increased by 228% from 2015 bringing the total cash to \$251,901; of which approximately \$146,000 is restricted for bond reserves.

Net Income exceeded budget in 2016 by \$162,570, with expenses showing a decrease of \$159,775 under budget. These savings allowed the District to build funds for the required bond reserves of 125% and begin funding for capital improvements.

2. Overview of the Financial Statements

The annual report consists of three parts:

- Management's Discussion and Analysis
- Financial Statements
- Supplementary Information

3. Required Financial Statements

The financial statement of net position provides information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

Statement of Net Position

The statement of net position provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for computing the rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

Statement of Revenues, Expenses and Changes in Net Position

This statement measures the results of the District's operations over the past year and may be used to determine profitability, credit worthiness, and whether the District has successfully recovered all its costs through its user fees, taxes and other charges.

Statement of Cash Flows

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and payments during the reporting period. This statement reports cash receipts, cash payments, and the net changes in cash resulting from operations, non-capital financing, capital related financing, and investing activities. It also provides answers to such questions as where did the cash come from, how was cash used, and what was the change in cash balance during the reporting period.

4. Financial Analysis of the District

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of this year's activities?" The statement of net position and statement of revenues, expenses, and changes in net position report information about the District's activities in a way that can help answer that question. These two statements report the net position of the District and the related change in these assets. The District's net position (the difference between assets and liabilities) is one way to measure financial health or financial position. Over time, increases in the District's net position, is one indicator that the District's financial health is improving. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, or changed governmental legislation.

5. Net Position

As part of our analysis, we provide a summary of the District's statement of net position (on the next page):

Condensed Statement of Net Position

			2016 - 2015 Change	
	<u>2016</u>	<u>2015</u>	<u>\$</u>	<u>%</u>
Current & Other Assets	\$355,413	\$ 180,921	174,492	96.5%
Capital Assets	1,159,852	1,190,997	-31,145	- 2.6%
Total Assets	\$1,515,265	\$1,371,918	143,347	10.5%
Current Liabilities	\$ 125,346	\$ 140,022	-14,676	-10.5%
Noncurrent Liabilities	1,304,394	1,368,130	-63,736	-4.7%
Total Liabilities	1,429,740	1,508,152	-78,412	-5.2%
Deferred Inflows of Resources	\$96,314	\$95,714	\$600	.6%
Net Position:				
Invested in capital assets net of related debt	(\$313,565)	(\$367,155)	-\$53,590	-14.6%
Restricted	215,000	62,000	153,000	246.8%
Unrestricted	87,776	73,207	14,569	19.9%
Total Net Position	(\$10,789)	(\$231,948)	221,159	95.3%
Total Liabilities, Deferred Inflows And Net Position	\$1,515,265	\$1,371,918	143,347	10.4%

Arabian Acres Metropolitan District (AAMD) showed an increase in Current Assets of \$174,492 due to monitoring expenses and investing with ColoTrust, which provided higher rates of return. This increase allowed for funding the bond reserve required by the Bond Agreement. The District also paid off multiple large sum liabilities in 2015; thus allowing the District to build reserves.

While the statement of net position shows the net position, the statement of revenue, expenses and changes in net position answers as to the nature and sources of these changes.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2016 - 2015 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$344,482	\$370,788	\$ -26,306	-7.1%
Non-Operating Revenues	135,800	134,952	849	.6%
Total Revenues	480,282	505,740	-25,457	-5.0%
Expenses				
Other Operating Expense	\$75,789	\$73,957	1,832	2.5%
G & A Expenses	70,198	83,291	-13,093	-15.7%
Non-Operating Expenses	80,800	79,393	1,409	1.8%
Depreciation	32,336	32,140	196	.6%
Total Expenses	259,123	268,781	-9,658	-3.6%
Change in Net Position	221,159	236,959	-15,801	-6.7%
Beginning Net Position	(\$231,948)	(\$468,907)	\$236,959	50.5%
Ending Net Position	(\$10,789)	(\$231,948)	\$221,158	95.4%

Legal, management and water purchase fees decreased as in the second quarter of 2015 the District hired new management and legal counsel and was able to fund water repairs so that external water purchases were not required.

Non-operating expenses decreased as only payments for liabilities (Bond & NRWA) were made in 2016, as the short-term liabilities were paid off in 2015.

Water revenue decreased as AAMD decreased the supplemental fee from \$100 per month in 2015 to \$90 per month in 2016. This supplemental fee was introduced in 2014 to recover the \$200,000 that was embezzled in 2013. The Board decreased the supplemental fee to \$75 per month in 2017. The water usage structure was also changed in 2017, with the Tier usage amount increasing, thus allowing customers to use more water at the lower Tier 1 rate.

Although the operating revenue decreased by \$26,306, the decrease in expenses of \$15,801 helped offset that loss and the District improved its net position by \$221,159; which will assist the District in building lost reserves due to the embezzlement.

5. Budgetary Highlights

As required by state law, the District adopts a budget and appropriates funds by December 15 for the following fiscal year. If an amendment is necessary, the Board will approve a supplemental appropriation at a public hearing and file it with the State of Colorado.

6. Capital Assets and Debt Administration

Capital Assets

The District did not accumulate any substantial new capital assets in 2016. AAMD is working towards building reserves for capital improvements for a later date but the main focus is to eliminate debt first before making major capital improvements.

7. Long-Term Debt

The District had total long term debt of \$1,368,109 at year end. This consists of only two long term debts: the 2007 Bond debt of \$1,285,000 and National Rural Water Association debt of \$83,109.

The District's taxpayers also had a balance of \$50,308 for a Judgment of 10 mills for payment of the previous management firm (SDMS) and previous legal firm (Collins, Cockrel and Cole). This Judgment will be paid off in the first quarter of 2018.

8. Economic Factors And New Year's Budget Rates

The District's Board of Directors and management consider many factors when setting the 2017 budget, including user fees and charges. The following table presents the changes in the District's budget from 2016 to 2017.

2017 vs. 2016 Budget

	<u>2017</u>	<u>2016</u>	<u>2016 - 2015 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$ 316,666	\$ 310,350	6,316	2.0%
Non-Operating Revenues	103,614	101,534	2,080	2.0%
Total Revenues	420,280	411,884	8,396	2.0%
Expenses				
Operating Expense	120,075	122,164	(2,089)	-1.7%
G & A Expenses	78,284	96,337	(18,053)	-18.7%
Non-Operating Expense	133,551	130,227	3,324	2.6%
Bond & Capital Reserve		63,156	(63,156)	-
Total Expenses	\$ 331,910	411,884	(79,974)	-19.4%
 Net Income	 \$88,370	 \$0	 -	 -

Arabian Acres Metropolitan District
Management's Discussion and Analysis

The Budget for 2017 Operating Revenue included tap fees expected to be received. Non-Operating Revenues increased due to having higher balances in investment accounts earning more interest income. Operating expenses in 2017 were lower due to budgeting less for water purchases, as the District now has funds to make repairs and maintenance.

The bond and capital reserves for 2016 of \$63,156 should be compared with the Net income of \$88,370 for 2017. No reserves were funded for 2017 and instead Net income will be moved to reserve funds.

BASIC FINANCIAL STATEMENTS

ARABIAN ACRES METROPOLITAN DISTRICT

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 Year Ended December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and Cash Equivalents	\$ 196,901	\$ 26,893
Restricted Cash	55,000	50,000
Property Taxes Receivable	96,314	95,714
Accounts Receivable, less allowance for doubtful accounts	1,139	8,314
Prepaid Expense	6,059	-
Total Current Assets	<u>355,413</u>	<u>180,921</u>
Noncurrent Assets		
Capital Assets, Net of Accumulated Depreciation	<u>1,159,852</u>	<u>1,190,997</u>
TOTAL ASSETS	<u><u>\$ 1,515,265</u></u>	<u><u>\$ 1,371,918</u></u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 6,151	\$ -
Accrued Interest	5,172	-
Loans Payable, Current Portion	114,023	140,022
Total Current Liabilities	<u>125,346</u>	<u>140,022</u>
Noncurrent Liabilities		
Loans Payable, net of current position	<u>1,304,394</u>	<u>1,368,130</u>
Total Current Liabilities	<u>1,304,394</u>	<u>1,368,130</u>
TOTAL LIABILITIES	<u>1,429,740</u>	<u>1,508,152</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax Revenue	<u>96,314</u>	<u>95,714</u>
NET POSITION		
Net Investment in Capital Assets	(313,565)	(367,155)
Debt Service	55,000	50,000
Emergencies	15,000	12,000
Unrestricted	<u>232,776</u>	<u>73,207</u>
TOTAL NET POSITION	<u>(10,789)</u>	<u>(231,948)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u><u>\$ 1,515,265</u></u>	<u><u>\$ 1,371,918</u></u>

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

ARABIAN ACRES METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2016

	2016	2015
OPERATING REVENUE		
Water Sales	\$ 344,088	\$ 369,336
Miscellaneous Income	394	1,452
TOTAL OPERATING REVENUE	<u>344,482</u>	<u>370,788</u>
OPERATING EXPENSES		
General and Administrative	70,198	83,291
Operating	75,789	73,957
Depreciation	32,336	32,140
TOTAL OPERATING EXPENSES	<u>178,323</u>	<u>189,388</u>
OPERATING LOSS	166,159	181,400
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	126,816	127,997
Specific Ownership Taxes	8,058	6,784
Trustee Fees Payment	(250)	(250)
Capital Expenditures	-	(11,433)
Other	(4,328)	(276)
Interest Income	927	171
Interest Expense	(76,224)	(67,434)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>54,999</u>	<u>55,559</u>
NET INCOME	221,159	236,959
NET POSITION, Beginning	<u>(231,948)</u>	<u>(468,907)</u>
NET POSITION, Ending	<u><u>\$ (10,789)</u></u>	<u><u>\$ (231,948)</u></u>

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

ARABIAN ACRES METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 Year Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from User Fees and Surcharges	\$ 344,482	\$ 370,788
Cash Paid for Goods and Services	<u>(133,548)</u>	<u>(235,850)</u>
Net Cash Provided by Operating Activities	<u>210,934</u>	<u>134,938</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	126,816	127,997
Specific Ownership Taxes	<u>8,058</u>	<u>6,784</u>
Net Cash Provided by Capital and Related Financing Activities	<u>134,874</u>	<u>134,781</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan Payments	(89,735)	(158,553)
Transfer Fee Payment	(250)	(250)
Capital Expenditures	(1,190)	(13,395)
Interest Income	927	171
Interest Payments	(76,224)	(72,933)
Other	<u>(4,328)</u>	<u>(276)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(170,800)</u>	<u>(245,236)</u>
Net Increase in Cash and Cash Equivalents	175,008	24,483
CASH AND CASH EQUIVALENTS, Beginning	<u>76,893</u>	<u>52,410</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 251,901</u></u>	<u><u>\$ 76,893</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 166,159	\$ 181,400
Net Cash Provided by Operating Activities		
Depreciation and Amortization	32,336	32,140
Changes in Assets and Liabilities		
Accounts Receivable	7,175	31,962
Prepaid Expenses	(6,059)	514
Accrued Interest	5,172	-
Accounts Payable	<u>6,151</u>	<u>(111,078)</u>
Total Adjustments	<u>44,775</u>	<u>(46,462)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 210,934</u></u>	<u><u>\$ 134,938</u></u>

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Arabian Acres Metropolitan District (the “District”) is a quasi-municipal corporation and political subdivision of the State of Colorado established under the State of Colorado Special District Act. The District's service area is located in Teller County, Colorado. The District was formed primarily for the purpose of acquiring the water system for the use and benefit of the District's residents, taxpayers and property owners, and for providing for the design, purchase, operation, maintenance and extension of the water system. The District may provide additional services or facilities that may be provided by a metropolitan district, within and outside the District's boundaries, in accordance with its Service Plan. The District has its own governing board which is elected by eligible voters of the District.

The District is operated and accounted for as an enterprise fund and the financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District meets the criteria to be treated as a joint venture. The more significant of the District's policies are described below.

Reporting Entity

In accordance with governmental accounting standards, the District has considered the possibility of inclusion of additional entities in its basic financial statements.

The definition of the reporting entity is based primarily on financial accountability. The financial reporting entity consists of the District and organizations for which the District is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the District. In addition, any legally separate organizations for which the District is financially accountable are considered part of the reporting entity. Financial accountability exists if the District appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the District.

Based on the application of these criteria, the District does not include additional organizations in its reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District uses one fund to report on its financial position and activities. Fund accounting is designed to segregate transactions related to certain government functions and activities. The District's fund is classified as an enterprise fund type.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The District reports all activity in one enterprise fund which is a proprietary fund type. This fund is considered a major fund.

In December of 2013, the District's board of directors approved a supplemental operations fee of \$100 per month per ¾" residential tap and \$220 to \$550 per month for commercial taps. The District enacted this fee to ensure inflows of cash are adequate to pay ongoing operation and maintenance costs and to generate sufficient reserves to maintain and replace the District's facilities as and when needed.

Assets, Liabilities and Fund Balance/Net Position

Cash and Cash Equivalents – Cash and cash equivalents include amounts in deposit accounts and short-term investments with an original maturity of three months or less.

Receivables – Receivables consist of amounts owed to the District by its utility customers. It is the District's policy to file liens on any past due user fees, therefore amounts are considered to be collectible and no allowance for bad debt has been recorded.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

Capital Assets – Assets with useful lives exceeding one year and cost or fair value at contribution of \$1,000 or greater are capitalized. Purchased capital assets are recorded at historical cost. Contributed capital assets are recorded at their fair value on the date received. Additions, improvements, and other capital outlays that significantly extend the life of an asset are capitalized. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Water distribution system and equipment	40 years
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Maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of depreciable property, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in non-operating revenues (expenses).

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

Long-Term Obligations - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Net Position – The business-type fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position are liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (Continued)

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

Property Taxes – Property taxes are levied on November 1 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred inflow of resources are recorded at December 31. As the tax is collected in the succeeding year, the deferred inflow is recognized as revenue and the receivable is reduced.

Risk Management

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

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.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

A budget is adopted for the enterprise fund as a management control device, but is not legally required. The budgetary information presented in the financial statements was approved by the Board of Directors.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents reported in the December 31, 2016 financial statements consisted of deposits in the amount of \$251,901.

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At December 31, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The District has no policy regarding custodial credit risk for deposits.

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$251,901. The bank balances with the financial institutions were \$248,436. At December 31, 2016, all of the District's cash and cash equivalents were insured by FDIC.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 3: CASH AND CASH EQUIVALENTS (Continued)

Investments

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

- Certificates of deposit with an original maturity in excess of three months
- Certain obligations of the United States and U.S. Government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Banker's acceptance of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

The District's policy is to hold investments until maturity.

Custodial Credit Risk – Investments

For investments, custodial credit risk is the risk that in the event of a failure of a counter party, the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a specific policy for custodial credit risk. As of December 31, 2016, the District had no investments exposed to custodial credit risk.

Interest Rate Risk

Colorado Revised Statutes limit investment maturities to five years or less from the date of purchase. This limit on investment maturities is a means of limiting exposure to fair value losses arising from increasing interest rates.

Restricted Cash

The amount shown as restricted cash and cash equivalents has been restricted by the District's debt indenture to be used for future debt service, which is in the form of bank deposits. The District has restricted assets of \$55,000 as of December 31, 2016.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2016, is summarized below.

	Balances <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/16</u>
Business-Type Activities				
Capital Assets, not depreciated,				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water Rights	<u>172,588</u>	<u>-</u>	<u>-</u>	<u>172,588</u>
Total Capital Assets, not depreciated	<u>273,588</u>	<u>-</u>	<u>-</u>	<u>273,588</u>
Capital Assets, depreciated,				
Water Distribution System and Equipment	<u>1,263,637</u>	<u>\$ 1,190</u>	<u>\$ -</u>	<u>1,264,828</u>
Total Capital Assets, depreciated	<u>1,263,637</u>	<u>1,190</u>	<u>-</u>	<u>1,264,828</u>
Less: Accumulated Depreciation				
Water Distribution System and Equipment	<u>346,228</u>	<u>32,336</u>	<u>-</u>	<u>378,564</u>
Total Accumulated Depreciation	<u>346,228</u>	<u>32,336</u>	<u>-</u>	<u>378,564</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 1,190,997</u>	<u>\$ 31,145</u>	<u>\$ -</u>	<u>\$ 1,159,852</u>

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2016.

	Balance <u>12/31/15</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/16</u>	Due In <u>One Year</u>
2007 Series Bonds	\$ 1,335,000	\$ -	\$ 50,000	\$ 1,285,000	\$ 55,000
Judgement Payable	81,585	-	31,277	50,308	50,308
Notes Payable	<u>91,567</u>	<u>-</u>	<u>8,458</u>	<u>83,109</u>	<u>8,715</u>
Total	<u>\$ 1,508,152</u>	<u>\$ -</u>	<u>\$ 89,735</u>	<u>\$ 1,418,417</u>	<u>\$ 114,023</u>

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 5: LONG-TERM DEBT (Continued)

2007 Series Bonds

On April 4, 2007, the District issued \$1,425,000 of water revenue refunding bonds, series 2007 secured by water revenues and property tax revenues; \$455,000 were issued as serial bonds and \$970,000 were issued as term bonds. The serial bonds carry interest rates of 4.05% to 4.40% and mature between December 1, 2014 and December 1, 2021. The term bonds carry interest rate of 5.00% and mature on December 1, 2030. The term bonds are subject to mandatory sinking fund redemption in prescribed amounts before the maturity dates.

Future Debt Service Requirements

The following is a summary of the District's future debt service requirements of the series 2007 revenue bonds

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 55,000	\$ 62,062	\$ 117,062
2018	60,000	59,753	119,753
2019	65,000	57,202	122,202
2020	65,000	54,408	119,408
2021	70,000	51,580	121,580
2022 – 2026	415,000	202,750	617,750
2027 – 2030	<u>555,000</u>	<u>81,500</u>	<u>636,500</u>
Total Debt Service Requirements	<u>\$ 1,285,000</u>	<u>\$ 569,255</u>	<u>\$ 1,854,255</u>

Judgment Payable

On August 20, 2014, the District entered into a joint settlement agreement that was accepted and approved by the District Court on September 12, 2014, with two vendors related to nonpayment of outstanding invoices in the amount of \$113,542. The liability which accrues interest at 8.00% per annum is being repaid using a special assessment on the property holders of the District. As of December 31, 2016, the remaining balances totaled \$50,308 including accrued interest of \$3,260.

Notes Payable

On April 6, 2013, the District obtained a loan in the amount of \$100,000 in order to ensure an adequate water supply. The note payable to National Rural Water Association Revolving Loan Fund ("NRWA RLF") is due in monthly installments of \$966 with a stated interest rate of 3.00% per annum, maturing in May of 2023. The note is secured with an interest in the assets of the District in the amount of the principle balance.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 5: LONG-TERM DEBT (Continued)

On March 23, 2014, the District entered into a new agreement with NRW RLF in the amount of \$102,143 including accrued interest of \$2,859. New additional monthly installments starting on June 1, 2014 are \$500 with a stated interest rate of 3.00% per annum (6.375% per annum for past due amounts), maturing in April of 2037. The accrued interest in the amount of \$2,859 is payable on June 1, 2015. The new note is secured with an interest in the assets of the District in the amount of the principal amount owed and accrued past due interest. The District's agreement with NRW RLF was amended on August 1, 2015. The new principal balance is \$91,567 and new monthly installments starting on August 1, 2015 are \$924 with a stated interest rate of 3.00% per annum, maturing in July of 2025.

Following is a summary of the District's future debt service requirements of the note payable to NRW RLF:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 8,715	\$ 2,372	\$ 11,087
2018	8,980	2,108	11,088
2019	9,253	1,835	11,088
2020	9,535	1,553	11,088
2021	9,826	1,263	11,089
2022 – 2025	<u>36,800</u>	<u>2,930</u>	<u>39,730</u>
Total Debt Service Requirements	<u>\$ 83,109</u>	<u>\$ 12,061</u>	<u>\$ 95,170</u>

NOTE 6: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The District has set aside \$15,000 as of December 31, 2016, for emergencies as defined by the Amendment.

NOTE 7: DEFICIT NET POSITION

As of December 31, 2016, the District had a deficit net position of \$10,789. This deficit is expected to be eliminated with future operations.

INDIVIDUAL FUND FINANCIAL STATEMENT

ARABIAN ACRES METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULE
 PROPRIETARY FUND TYPE
 Year Ended December 31, 2016 and 2015

	2016		VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
User Fees and Surcharges	\$ 152,250	\$ 165,890	\$ 13,640	226,873
Late Fees	1,150	3,536	2,386	2,970
Water Supplemental Operations Fee	156,600	159,462	2,862	131,493
Water Tap Fees	-	15,200	15,200	8,000
Property Taxes	95,714	126,816	31,102	127,997
Specific Ownership Taxes	5,700	8,058	2,358	6,784
Liens and Interest from Users	120	927	807	171
Transfers In	65,604	-	(65,604)	-
Miscellaneous Income	350	394	44	1,452
TOTAL REVENUES	<u>477,488</u>	<u>480,283</u>	<u>2,795</u>	<u>505,740</u>
EXPENDITURES				
Water Fees	88,200	52,000	36,200	37,344
Management Fees	45,837	41,935	3,902	53,079
Director Fees	1,200	3,100	(1,900)	500
Contingency	2,000	-	2,000	-
Treasurer Fees	2,750	3,053	(303)	3,060
Trustee Fees	250	250	-	250
Accounting and Audit Fees	7,000	5,000	2,000	-2,700
Repairs and Maintenance	22,714	17,365	5,349	30,419
Legal Fees	22,000	4,282	17,718	18,845
Office Supplies and Expenses	4,500	3,504	996	2,866
Utilities	11,250	6,423	4,827	6,194
Capital Outlay	-	1,190	(1,190)	13,395
Bank and Credit Card Fees	3,000	2,246	754	1,513
Insurance	6,000	7,078	(1,078)	5,056
Miscellaneous	7,600	4,328	3,272	1,348
Transfers Out	127,960	-	127,960	-
Debt Service				
Principal	58,458	89,735	(31,277)	158,553
Interest	66,769	76,224	(9,455)	67,434
TOTAL EXPENDITURES	<u>477,488</u>	<u>317,713</u>	<u>159,775</u>	<u>397,156</u>
NET INCOME, Budget Basis	<u>\$ -</u>	162,570	<u>\$ 162,570</u>	<u>\$ 108,584</u>
GAAP BASIS ADJUSTMENTS				
Depreciation		(32,336)		
Capital Outlay		1,190		
Principal Paid on Long-term Debt		<u>89,735</u>		
NET GAIN GAAP Basis		221,159		
NET POSITION, Beginning		<u>(231,948)</u>		
NET POSITION, Ending		<u>\$ (10,789)</u>		

See the accompanying independent auditors' report.