

FOREST LAKES METROPOLITAN DISTRICT  
FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016



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**INDEPENDENT AUDITOR'S REPORT**

March 30, 2017

Board of Directors  
Forest Lakes Metropolitan District  
La Plata County, Colorado

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Forest Lakes Metropolitan District, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

March 30, 2017  
Board of Directors  
Forest Lakes Metropolitan District

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Forest Lakes Metropolitan District 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 Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of the District’s Proportionate Share of the Net Pension Liability – Local Government Division Trust Pension Plan, and the Schedule of the District’s Contributions – Local Government Division Trust Pension Plan 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.

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 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 Forest Lake Metropolitan District’s basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual – Proprietary Funds is presented for

March 30, 2017  
Board of Directors  
Forest Lakes Metropolitan District

purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenues, Expenditures, and Changes in Net Position– Budget and Actual – Proprietary Funds is the responsibility of management and was derived from and relates 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 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 statements 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 Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual – Proprietary Funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Beckstead & Co., LLC*

Forest Lakes Metropolitan District

STATEMENT OF NET POSITION

December 31, 2016

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 895,463	\$ -	\$ 895,463
Interfund balances	32,516	(32,516)	-
Due from treasurer	1,368	1,674	3,042
Property taxes receivable	289,114	295,466	584,580
Customer accounts receivable (net of allowance)	24,833	46,888	71,721
Prepaid expenses	16,964	18,269	35,233
Inventory	29,020	15,443	44,463
Capital assets (net of accumulated depreciation)			
Land	785,048	777,342	1,562,390
Water reservoir	-	247,100	247,100
Water rights	-	86,266	86,266
Buildings, net	60,495	24,838	85,333
Recreation facilities, net	43,536	-	43,536
Equipment, net	267,934	141,354	409,288
Infrastructure, net	102,994	-	102,994
Plant and transmission lines, net	-	4,579,920	4,579,920
Total Assets	<u>2,549,285</u>	<u>6,202,044</u>	<u>8,751,329</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amortization related to pension plan	104,799	157,200	261,999
<b>LIABILITIES</b>			
Accounts payable	66,949	-	66,949
Accrued liabilities	27,318	39,032	66,350
Long-term obligations, current	12,059	22,060	34,119
Long-term obligations, noncurrent	25,227	25,227	50,454
Net pension liability	362,978	544,466	907,444
Total Liabilities	<u>494,531</u>	<u>630,785</u>	<u>1,125,316</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue	289,114	295,466	584,580
Deferred amortization related to pension plan	7,815	11,722	19,537
Total Deferred Inflows of Resources	<u>296,929</u>	<u>307,188</u>	<u>604,117</u>
<b>NET POSITION</b>			
Net investment in capital assets	1,222,721	5,809,533	7,032,254
Restricted for emergencies	28,800	-	28,800
Unrestricted	611,103	(388,262)	222,841
Total Net Position	<u>\$ 1,862,624</u>	<u>\$ 5,421,271</u>	<u>\$ 7,283,895</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

Function/Programs	Expenses	Program Revenues		Net (expense) revenue and change in net position		
		Charges for Services	Capital Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
<b>Governmental activities:</b>						
General government	\$ 317,873	\$ 238,711	\$ -	\$ (79,162)		\$ (79,162)
Roads	310,734	7,652	-	(303,082)		(303,082)
Recreation	37,581	1,792	-	(35,789)		(35,789)
Total governmental activities	<u>666,188</u>	<u>248,155</u>	<u>-</u>	<u>(418,033)</u>		<u>(418,033)</u>
<b>Business-type activities:</b>						
Water	567,837	351,887	-		\$ (215,950)	(215,950)
Sewer	373,145	206,380	-		(166,765)	(166,765)
Total business-type activities	<u>940,982</u>	<u>558,267</u>	<u>-</u>		<u>(382,715)</u>	<u>(382,715)</u>
Total	<u>\$ 1,607,170</u>	<u>\$ 806,422</u>	<u>\$ -</u>	<u>(418,033)</u>	<u>(382,715)</u>	<u>(800,748)</u>
<b>General revenues:</b>						
<b>Taxes:</b>						
Property taxes				274,842	294,854	569,696
Specific ownership				53,018	-	53,018
Penalties and interest				677	582	1,259
Highway users tax				57,262	-	57,262
Intergovernmental				8,914	-	8,914
Interest income				2,262	3,968	6,230
Miscellaneous income				19,331	460	19,791
Total general revenues				<u>416,306</u>	<u>299,864</u>	<u>716,170</u>
Change in net position				(1,727)	(82,851)	(84,578)
Net position - beginning of year				1,864,351	5,504,122	7,368,473
Net position - end of year				<u>\$ 1,862,624</u>	<u>\$ 5,421,271</u>	<u>\$ 7,283,895</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUND

December 31, 2016

	General Fund
<b>ASSETS</b>	
Cash and investments	\$ 895,463
Due from other funds	32,516
Due from county treasurer	1,368
Property taxes receivable	289,114
Customer accounts receivable (net of allowance)	24,833
Prepaid expenses	16,964
Inventories at cost	29,020
Total assets	\$ 1,289,278
<b>LIABILITIES</b>	
Accounts payable	\$ 66,949
Accrued liabilities	10,521
Total liabilities	77,470
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred property tax revenue	289,114
<b>FUND EQUITY</b>	
Nonspendable	45,984
Restricted for emergencies	28,800
Unassigned	847,910
Total fund equity	922,694
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,289,278

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF NET POSITION

December 31, 2016

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Amount reported in the governmental activities on the Statement of Net Position  
are different because:

Total fund balance - governmental funds	\$ 922,694
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	1,260,007
Deferred outflows and inflows as well as the net pension liability related to pensions are not financial resources or due and payable in the current period and, therefore, are not reported in the funds.	
Deferred outflows: deferred amortization related to the pension plan	104,799
Net pension liability	(362,978)
Deferred inflows: deferred amortization related to the pension plan	(7,815)
Accrued compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(16,797)
Capital lease obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(37,286)
Total net position - governmental activities	<u>\$ 1,862,624</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND - GENERAL FUND

For the Year Ended December 31, 2016

Revenues	
Taxes	\$ 394,095
Intergovernmental	
Lottery proceeds	8,914
Charges for services	238,711
Impact fees	7,652
Culture - recreation	342
Interest income	2,262
Special assessment fees	1,450
Other	19,331
Total revenues	672,757
Expenditures	
Current	
Roads	305,406
Recreation	34,668
General and administrative	256,247
Capital outlay	343,823
Debt service	
Principal payments	11,702
Interest payments	1,342
Treasurer and paying agent fees	8,296
Total expenditures	961,484
Net change in fund balance	(288,727)
Fund balance, beginning of year	1,211,421
Fund balance, end of year	\$ 922,694

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

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Amount reported in the governmental activities on the Statement of Activities are  
different because:

Net change in fund balance - total governmental funds	\$(288,727)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay reduced by depreciation expense in the current period (\$339,127-\$54,508).	284,619
Governmental funds report principal payments on capital leases as expenditures. However, in the Statement of Activities principal payments are not shown as an expense because they reduce the principal balance outstanding presented in the Statement of Net Position.	11,702
Governmental funds do not record the change in accrued compensated absences during the year as an expenditure. However, in the Statement of Activities, this change is shown as additional expense. This is the amount of change in compensated absences in the current year.	8,763
Governmental funds do not record the changes in deferred outflows and inflows related to pensions and the change in net pension liability for the year as an expenditure. However, in the Statement of Activities, this change is shown as additional expense. This is the amount of change in these accounts for the current year.	(18,084)
Change in net position of governmental activities	<u>\$ (1,727)</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF NET POSITION - ALL PROPRIETARY FUND TYPES

December 31, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>ASSETS</b>			
Cash and investments	\$ -	\$ -	\$ -
Due from county treasurer	973	701	1,674
Property taxes receivable	128,142	167,324	295,466
Customer accounts receivable, net	29,650	17,238	46,888
Due from other funds	371,760	-	371,760
Prepaid expenses	12,152	6,117	18,269
Inventory	15,216	227	15,443
Capital assets, net of accumulated depreciation			
Land	529,309	248,033	777,342
Water reservoir	247,100	-	247,100
Water rights	86,266	-	86,266
Plant and transmission lines, net	2,748,104	1,831,816	4,579,920
Equipment, net	83,947	57,407	141,354
Buildings, net	12,419	12,419	24,838
Total assets	<u>4,265,038</u>	<u>2,341,282</u>	<u>6,606,320</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred amortization related to pension plan	92,678	64,522	157,200
<b>LIABILITIES</b>			
Accrued salaries and wages	22,777	16,255	39,032
Due to other funds	-	404,276	404,276
Long-term obligations, current	8,441	13,619	22,060
Long-term obligations, noncurrent	17,659	7,568	25,227
Net pension liability	324,644	219,822	544,466
Total liabilities	<u>373,521</u>	<u>661,540</u>	<u>1,035,061</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue	128,142	167,324	295,466
Deferred amortization related to pension plan	6,975	4,747	11,722
Total deferred inflows of resources	<u>135,117</u>	<u>172,071</u>	<u>307,188</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,681,045	2,128,488	5,809,533
Unrestricted	168,033	(556,295)	(388,262)
Total net position	<u>\$ 3,849,078</u>	<u>\$ 1,572,193</u>	<u>\$ 5,421,271</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
ALL PROPRIETARY FUND TYPES

For the Year Ended December 31, 2016

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 319,540	\$ 180,818	\$ 500,358
Operating Expenses			
Source of supply	63,180	-	63,180
Treatment	10,799	120,150	130,949
Transmission	193,897	63,562	257,459
Administration	185,904	115,401	301,305
Depreciation	109,343	67,744	177,087
	<u>563,123</u>	<u>366,857</u>	<u>929,980</u>
Total operating expenses			
Operating income (loss)	(243,583)	(186,039)	(429,622)
Non-operating revenues (expenses)			
General property taxes	127,283	167,571	294,854
Special assessment	1,417	1,458	2,875
Penalty and interest	251	331	582
Tap fees	18,000	14,000	32,000
Impact fees	10,931	8,745	19,676
Late fees and tap interest	1,999	1,359	3,358
Interest income	2,000	1,968	3,968
Miscellaneous income	400	60	460
Interest expense	(940)	(1,378)	(2,318)
Treasurer and paying agent fees	(3,774)	(4,910)	(8,684)
	<u>157,567</u>	<u>189,204</u>	<u>346,771</u>
Total non-operating revenues (expenses)			
Change in net position	(86,016)	3,165	(82,851)
Net position - beginning of year	3,935,094	1,569,028	5,504,122
Net position- end of year	<u>\$ 3,849,078</u>	<u>\$ 1,572,193</u>	<u>\$ 5,421,271</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District  
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES  
For the Year Ended December 31, 2016

	Business-type Activites - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 321,038	\$ 181,689	\$ 502,727
Cash paid to suppliers	(234,021)	(147,985)	(382,006)
Cash paid to employees	(196,649)	(140,336)	(336,985)
Other cash receipts	2,399	1,419	3,818
Net cash provided (used) by operating activities	(107,233)	(105,213)	(212,446)
Cash flows from non-capital financing activities			
Property taxes and rebates	128,951	169,360	298,311
Net cash provided (used) by non-capital financing activities	128,951	169,360	298,311
Cash flows from capital and related financing activities			
Debt principal payments	(8,192)	(13,036)	(21,228)
Debt service interest payments	(940)	(1,378)	(2,318)
Paying agent fees	(3,774)	(4,910)	(8,684)
Tap fees and excess impact fees	28,931	22,745	51,676
Advance from other funds for capital acquisition	-	46,881	46,881
Purchase of capital assets	(263,458)	(116,417)	(379,875)
Net cash provided (used) by capital and related financing activities	(247,433)	(66,115)	(313,548)
Cash flows from investing activities			
Advance to other funds	(14,365)	-	(14,365)
Interest income	2,000	1,968	3,968
Net cash provided (used) by investing activities	(12,365)	1,968	(10,397)
Net increase (decrease) in cash and cash equivalents	(238,080)	-	(238,080)
Equity in pooled cash and investments, beginning year	238,080	-	238,080
Equity in pooled cash and investments, end of year	\$ -	\$ -	\$ -
<b><u>Reconciliation of net operating income to net cash provided (used) by operating activities:</u></b>			
Net operating income	\$ (243,583)	\$ (186,039)	\$ (429,622)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:			
Depreciation	109,343	67,744	177,087
(Increase) Decrease in current assets	15,501	3,940	19,441
Increase (Decrease) in current liabilities	(6,715)	(3,579)	(10,294)
Change in pension accounts	15,822	11,302	27,124
Miscellaneous receipts	400	60	460
Late fees	1,999	1,359	3,358
Total adjustments	136,350	80,826	217,176
Net cash provided (used) by operating activities	\$ (107,233)	\$ (105,213)	\$ (212,446)

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF FIDUCIARY NET POSITION  
BOND ESCROW AGENCY FUND

For the Year Ended December 31, 2016

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ASSETS

Equity in pooled cash and investments	\$ 126,654
	<u>\$ 126,654</u>

LIABILITIES

Matured principal payable	\$ 95,000
Matured interest payable	<u>31,654</u>
	<u>\$ 126,654</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Organization

Forest Lakes Metropolitan District is a political subdivision of the State of Colorado. The District was organized and established pursuant to a court order on July 18, 1973. The District currently provides water and sanitation facilities, recreation services and road maintenance operations within the District boundaries.

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it 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. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has both governmental and business-type activities.

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts: net position restricted for emergencies, invested in capital assets net of related debt, and unrestricted net position.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Forest Lakes Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District uses governmental funds and proprietary funds. The following fund descriptions are used by the District:

Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund equity.

The District reports the following major governmental fund:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Proprietary Funds:

Enterprise funds account for operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the District has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Operating revenues and expenses for enterprise funds are those that result from providing services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Forest Lakes Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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The District reports the following major enterprise funds:

Water Fund and Sewer Fund – The Water and Sewer funds are separate funds used to account for District utility operations.

Trust and Agency Fund:

Agency Fund - The Bond Escrow fund is used to account for the payment of the principal and interest on the general obligation bonds refunded in 1989. Agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The District is acting as escrow agent on the refunded 1989 bonds.

5. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

The accrual basis of accounting is utilized in the proprietary fund type. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for property and equipment are shown as increases in assets.

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6. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are property applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

9. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by the Colorado statutes, the District followed the following timetable in approving and enacting a budget for the ensuing years:

- (1) By October 15, the budget is submitted to the Board of Directors. A "Notice of Budget" is published when the budget is received and public hearings are conducted to obtain taxpayer comment.
- (2) By December 31, the District's Board of Directors must adopt the budget.
- (3) After adopting the budget, but before January 1, the Board must enact a resolution making appropriations for the ensuing fiscal year.

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- (4) Budgets for the general fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (5) The Colorado State Statutes require the adoption of a budget for proprietary funds. The budget for the utility fund is prepared essentially on the modified accrual basis of accounting. This basis of accounting is at variance with generally accepted accounting principles for proprietary fund types.
- (6) Appropriations lapse at the end of each fiscal year.
- (7) The board of Directors may authorize supplemental appropriations during the year. During 2015, there were no supplemental appropriations.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end.

10. Investments

Investments are stated at fair value. All investments held by the District are highly liquid (maturity in three months or less) and are considered cash equivalents for the purposes of the statement of cash flows.

11. Inventories

Inventories are stated at the lower of cost or market.

12. Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital asset and long-term debt associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Capital assets used in governmental fund type operations are not accounted for in the governmental funds. These capital assets are presented in the government-wide Statement of Net Position.

All Capital Assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Capital Assets are valued at their estimated fair value on the date donated. As defined by GASB Statement No. 34, infrastructure assets include long-lived capital assets that are normally stationary

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in nature and can be preserved for a significant greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels and lighting systems. The District's infrastructure assets (roads) acquired prior to 2004 (year of GASB 34 implementation) have been included in capital assets.

Long-Term Debt expected to be financed from governmental funds are not accounted for in the governmental funds. This debt is presented in the government-wide Statement of Net Position.

All Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Depreciation of all exhaustible Capital Assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Utility Plant	20-50 years
Machinery and Equipment	5-10 years

13. Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes levied on January 1 are due and payable on February 28 and July 31. In accordance with U.S. generally accepted accounting principles, the District has recorded as taxes receivable, current property taxes which have been levied and are due within one year but are not yet considered delinquent. Because revenue from taxes receivable will not be available for expenditure until next year, management has deferred recognition of this revenue until next year.

14. Allowance for Doubtful Accounts

Accounts receivable are recorded net of allowance for doubtful accounts. The allowance at December 31, 2016 was:

General Fund	\$ 4,149
Water Fund	5,576
Sewer Fund	<u>3,242</u>
	<u>\$12,967</u>

15. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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16. Compensated Absences

Vacation and sick leave with pay are provided to employees of the District. Vacation leave is accrued based on length of employment with two weeks per year for four or less years of service, three weeks with five to nine years of service and four weeks for ten or more years of service. Accrued vacation not taken is paid upon termination. Employees are not allowed to carryover more than two weeks of vacation to a succeeding year without board approval. Sick leave is accrued at a rate of eight hours per month and unused sick leave over 192 hours is paid annually to employees. Upon termination, unused sick leave is paid out based on employee length of service. Employees with 0-4 years of service are not paid for any accrued sick leave. Employees with 5-9 years of service are paid 50% of their accrued sick leave. Employees with 10+ years of service receive 100% of their accrued sick leave at termination.

17. Restricted Assets and Classification of Fund Balance

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. It is the District's policy to use restricted assets first when an expense is incurred for which both restricted and unrestricted assets are available.

In the governmental fund financial statements fund balance is reported in five classifications.

**Nonspendable:** Inventories represent fund balance amounts that are not in spendable form.

**Restricted:** The Colorado Constitution as amended by TABOR (see separate tax, spending, and debt limitation footnote) requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. It is the District's policy to use restricted fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

**Committed:** Committed is that portion of fund balance that has been committed by the highest level of formal action of the District's Board of Directors and does not lapse at year-end. The District does not have any committed fund balance at year end. It is the District's policy to use committed fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

**Assigned:** Assignments of fund balance are designated by District management. The District does not have any assigned fund balance at year end.

**Unassigned:** Fund balance that has not been reported in any other classification is reported as unassigned.

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**CASH AND INVESTMENTS**

Deposits

At year-end, the carrying amount of the District's cash was \$86,628 and the bank balance was \$88,571. Of the bank's balance, \$88,571 was covered by federal depository insurance.

Colorado State Statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least one hundred and two percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledged collateral cannot be released unless approval is obtained by the Commission. Saving and loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the Commissioner.

Investments

Colorado State Statutes authorize the District to invest in direct debt securities of the United States, Colorado State and local governmental entities and any United States created agency, corporation or instrumentality. All investments must be held by the District, in their name, or in custody by a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that in issuer or other counter party to an investment will not fulfill its obligation.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or are collateralized under the Colorado Public Deposits Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

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**Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District places money in public entity cash investment pools authorized by Colorado statutes.

The District had invested \$935,389 in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure.

The captions on the government-wide statement of net position of the District related to cash and investments are as follows:

Cash and investments	
Government activities	\$ 895,463
Agency fund	126,654
Business-type activities	<u>-</u>
Total equity in pooled cash and investments	<u><u>\$1,022,117</u></u>

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Position is as follows:

Deposits	\$ 86,628
Petty cash	100
Colotrust	<u>935,389</u>
Total equity in pooled cash and investments	<u><u>\$1,022,117</u></u>

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**CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 458,806	\$ 326,242		\$ 785,048
Total capital assets not being depreciated	458,806	326,242	-	785,048
Capital assets being depreciated				
Buildings	115,203			115,203
Recreational facilities	127,675			127,675
Machinery and equipment	716,928	12,885	(9,412)	720,401
Roads	266,403			266,403
Total capital assets being depreciated	1,226,209	12,885	(9,412)	1,229,682
Less accumulated depreciation for				
Buildings	50,867	3,841		54,708
Recreational facilities	81,226	2,913		84,139
Machinery and equipment	419,453	42,426	(9,412)	452,467
Roads	158,081	5,328		163,409
Total capital assets being depreciated	709,627	54,508	(9,412)	754,723
Total capital assets being depreciated, net	516,582	(41,623)	-	474,959
Governmental activities capital assets, net	\$ 975,388	\$ 284,619	\$ -	\$ 1,260,007

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated				
Water				
Land	\$ 298,440	\$ 230,869		\$ 529,309
Water rights	77,133	9,133		86,266
Water reservoir	247,100			247,100
Sewer				
Land	144,328	103,705		248,033
Total capital assets not being depreciated	<u>767,001</u>	<u>343,707</u>	-	<u>1,110,708</u>
Capital assets being depreciated				
Water				
Plant and transmission lines	4,198,491	23,757		4,222,248
Buildings	37,781			37,781
Equipment	370,403		(301)	370,102
Sewer				
Plant and transmission lines	2,784,671	12,712		2,797,383
Buildings	37,781			37,781
Equipment	245,387			245,387
Total capital assets being depreciated	<u>7,674,514</u>	<u>36,469</u>	<u>(301)</u>	<u>7,710,682</u>
Less accumulated depreciation for:				
Water				
Plant and transmission lines	1,386,206	87,938		1,474,144
Buildings	24,102	1,260		25,362
Equipment	266,010	20,145		286,155
Sewer				
Plant and transmission lines	912,707	52,860		965,567
Buildings	24,102	1,260		25,362
Equipment	174,356	13,624		187,980
Total accumulated depreciation	<u>2,787,483</u>	<u>177,087</u>	-	<u>2,964,570</u>
Total capital assets being depreciated, net	<u>4,887,031</u>	<u>(140,618)</u>	<u>(301)</u>	<u>4,746,112</u>
Buisness-type activities capital assets, net	<u>\$ 5,654,032</u>	<u>\$ 203,089</u>	<u>\$ (301)</u>	<u>\$ 5,856,820</u>

Depreciation expense was charged to functions / programs of the primary government as follows:

Government activities:	
General government	\$ 46,267
Roads	5,328
Recreation	2,913
Total depreciation expense - governmental activities	<u>\$ 54,508</u>
Buisness-type activities:	
Water	\$ 109,343
Sewer	67,744
Total depreciation expense - business-type activities	<u>\$ 177,087</u>

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**LONG-TERM OBLIGATIONS**

Long-term obligations activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 48,988	\$ -	\$(11,702)	\$ 37,286	\$ 12,059
Business-type Activities:					
Capital-lease obligation	\$ 48,989	\$ -	\$(11,703)	\$ 37,286	\$ 12,059
Note payable - State of Colorado	19,526	-	(9,525)	10,001	10,001
	<u>\$ 68,515</u>	<u>\$ -</u>	<u>\$(21,228)</u>	<u>\$ 47,287</u>	<u>\$ 22,060</u>

Capital Lease Obligation

During 2015, the District entered into a capital lease with John Deere Credit, Inc. to acquire a loader backhoe. The lease requires quarterly payments of \$6,522, including interest at 3%, through November, 2019. The lease provides for a \$1 purchase option at the end of the lease. The asset has been capitalized with a cost of \$135,232 and has accumulated depreciation of \$20,286 at December 31, 2016.

The following is a schedule of future required payments applicable to the capital lease:

<u>Year</u>	
2017	\$ 26,089
2018	26,089
2019	<u>26,089</u>
Total required payments	78,267
Less amount representing interest	<u>3,695</u>
	<u>\$ 74,572</u>

Long-Term Notes Payable – DOLA 2002 Loan

During 2002, the District negotiated a loan agreement with the Colorado Department of Local Affairs for the purpose of adding a third lined basin and related equipment to the existing wastewater treatment plant. The original loan is \$109,000 and bears interest at 5% on the unpaid principal. Annual principal and interest payments are due September 1.

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The following is a schedule of loan payments applicable to this note:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	<u>\$ 10,001</u>	<u>\$ 500</u>	<u>\$ 10,501</u>

### **PROVISION FOR SERVICES TO NON-DISTRICT USERS**

The District provides water and sewer services to the River Ranch Development which is adjacent to, but not included in, the District under a service agreement. Water services are provided to Horseman's Lodge which is also outside of the District. The District charges these properties two times the charges of the District users.

### **BENEFIT PLANS**

#### **Defined Benefit Pension Plan**

##### **Summary of Significant Accounting Policies**

The District participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

##### **General Information about the Pension Plan**

*Plan description.* Eligible employees of the District are provided with pensions through the Local Government Division Trust Fund (LGDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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*Benefits provided.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the LGDTF.

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Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

*Contributions.* Eligible employees and the District are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	Rate
Employer Contribution Rate <sup>1</sup>	10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) <sup>1</sup>	(1.02)%
Amount Apportioned to the LGDTF <sup>1</sup>	8.98%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	1.50%
Total Employer Contribution Rate to the LGDTF <sup>1</sup>	12.68%

<sup>1</sup>Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the District were \$61,465 for the year ended December 31, 2016.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2016, the District reported a liability of \$907,444 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on its contributions to the LGDTF for the calendar year 2015 relative to the total contributions of participating employers to the LGDTF.

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At December 31, 2015, the District's proportion was .0824 percent, which was an increase from its proportion of .0785 percent measured as of December 31, 2014.

For the year ended December 31, 2016, the District recognized pension expense of \$106,674. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 6,808	\$ 31
Changes of assumptions and other inputs	-	16,621
Net difference between projected and actual earnings on pension plan investments	174,689	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	19,037	2,885
Contributions subsequent to the measurement date	61,465	-
Total	\$ 261,999	\$ 19,537

\$61,465 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2017	\$ 86,110
2018	77,225
2019	17,662
Total	\$ 180,997

Amounts reported for net pension liability and deferred outflows and inflows of resources related to the pension are allocated to the funds based on each funds proportion of salaries and wages to total salaries and wages for the District.

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*Actuarial assumptions.* The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.85 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA’s Board on November 13, 2012, and an economic assumption study, adopted by PERA’s Board on November 15, 2013 and January 17, 2014.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
  - Valuation of the full survivor benefit without any reduction for possible remarriage.
  - Reflection of the employer match on separation benefits for all eligible years.
  - Reflection of one year of service eligibility for survivor annuity benefit.
  - Refinement of the 18 month annual increase timing.
  - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
  
- The following methodology changes were made:
  - Recognition of merit salary increases in the first projection year.
  - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
  - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.

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- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The LGDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.

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- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the LGDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

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December 31, 2016

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 1,391,2014	\$ 907,444	\$ 506,213

*Pension plan fiduciary net position.* Detailed information about the LGDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**Defined Contribution Pension Plans**

Voluntary Investment Program

*Plan Description* - Employees of the District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Funding Policy* - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The District does not contribute to the plan. Employees are immediately vested in their own contributions and investment earnings. For the year December 31, 2016, program members contributed \$6,259 to the program.

**Other Post-Employment Benefits**

Health Care Trust Fund

*Plan Description* – The District contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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*Funding Policy* – The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ended December 31, 2014, 2015, and 2016 the District contributions to the HCTF were \$4,389, \$4,772, and \$4,944, respectively, equal to their required contributions for each year.

**RISK OF LOSS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and general liability. The District is a member of the Colorado Special District Property and Liability Pool (“Pool”) for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to \$1,000,000, except if the claim falls within the government immunity statute, then the coverage is \$150,000 per person and a \$600,000 aggregate claim. The Pool is reinsured for 80% of the first \$250,000 of all claims and 100% for claims in excess of \$250,000. The District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. 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. Any settled claims are not expected to exceed coverage. A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2015 (the latest audited information available) is as follows:

Assets	<u>\$44,054,744</u>
Liabilities	<u>\$24,739,781</u>
Surplus	<u>19,314,963</u>
	<u>\$44,054,744</u>
Revenues	\$16,561,452
Expenses	<u>14,839,993</u>
Net Income (Loss)	<u>\$ 1,721,459</u>

Forest Lakes Metropolitan District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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**INTERFUND TRANSACTIONS**

During the course of normal operations, the District has transactions between funds, including expenditures and transfers of resources primarily to provide services. The governmental and proprietary type funds financial statements generally reflect such transactions as due to/due from other funds.

**TAX, SPENDING, AND DEBT LIMITATIONS**

Colorado voters passed an amendment to the State Constitutions, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

On May 3, 1994 the voters of the District approved a referendum that authorized the District to collect, retain or expend all revenues and other funds received from any source notwithstanding any restrictions of fiscal year revenue or spending, including, without limitation the restrictions of the TABOR Amendment effective January 1, 1993, provided there shall be no increase in the District's property tax rate unless approved by the voters. In 2002, the District approved the TABOR refinement question presented on the May 1994 ballot for the removal of the 5.5% revenue limit.

The District believes it is in compliance with the requirements of the amendment and the subsequent referendum noted above. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

**OPERATING LEASE**

The District leases office space in Bayfield, Colorado. The lease requires monthly rent payments of \$1,739. Total lease expense for the year was \$20,868. The lease is currently on a month to month basis.

**BUDGET**

During 2016, the District's expenditures for the general fund exceeded amounts appropriated for the year by \$18,900. This may be a violation of State budget statutes.

REQUIRED SUPPLEMENTARY INFORMATION

Forest Lakes Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Revenues</b>				
Taxes				
General property tax	\$ 285,883	\$ 285,883	\$ 283,138	\$ (2,745)
Specific ownership	50,000	50,000	53,018	3,018
Penalties and interest	700	700	677	(23)
Highway users tax	50,000	50,000	57,262	7,262
Intergovernmental				
State lottery proceeds	7,000	7,000	8,914	1,914
Grant revenue	-	-	-	-
Charges for services	235,400	235,400	238,711	3,311
Impact fees	1,000	1,000	7,652	6,652
Culture - recreation	750	750	342	(408)
Interest income	750	750	2,262	1,512
Special assessment fees	1,000	1,000	1,450	450
Miscellaneous revenues	301,980	301,980	19,331	(282,649)
Total revenues	<u>934,463</u>	<u>934,463</u>	<u>672,757</u>	<u>(261,706)</u>
<b>Expenditures</b>				
Current				
Roads	322,195	322,195	305,406	16,789
Recreation	54,782	54,782	34,668	20,114
General and administrative	273,041	273,041	256,247	16,794
Capital outlay	253,000	253,000	330,519	(77,519)
Debt service				
Principal	8,313	8,313	11,702	(3,389)
Interest	296	296	1,342	(1,046)
Contingency	20,000	20,000	13,304	6,696
Treasurer and paying agent fees	10,957	10,957	8,296	2,661
Total expenditures	<u>942,584</u>	<u>942,584</u>	<u>961,484</u>	<u>(18,900)</u>
Excess (deficit) of revenues over expenditures	(8,121)	(8,121)	(288,727)	(280,606)
<b>Other Financing Sources</b>				
Other	9,000	9,000	-	(9,000)
Excess (deficit) of revenues and other financing sources over expenditures	879	879	(288,727)	(289,606)
Fund balance, beginning of year	<u>1,211,421</u>	<u>1,211,421</u>	<u>1,211,421</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,212,300</u>	<u>\$ 1,212,300</u>	<u>\$ 922,694</u>	<u>\$ (289,606)</u>

Forest Lakes Metropolitan District

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
LOCAL GOVERNMENT DIVISION TRUST PENSION PLAN

December 31,

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.8237650140%	0.0785322410%
District's proportionate share of the net pension liability	\$ 907,444	\$ 703,892
District's covered-employee payroll	\$ 467,834	\$ 430,322
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	193.97%	163.57%
Plan fiduciary net position as a percentage of the total pension liability	76.87%	80.72%

Forest Lakes Metropolitan District

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
LOCAL GOVERNMENT DIVISION TRUST PENSION PLAN

December 31,

	2016	2015
Contractually required contribution	\$ 61,465	\$ 59,321
Contributions in relation to the contractually required contributions	(61,465)	(59,321)
Contribution excess (deficiency)	\$ -	\$ -
District's covered-employee payroll	\$484,738	\$467,834
Contributions as a percentage of covered-employee payroll	12.68%	12.68%

SUPPLEMENTARY INFORMATION  
REQUIRED BY OVERSIGHT AGENCY

Forest Lakes Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION  
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS

For the Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>Business-type Activity - Enterprise Funds</b>				
<b>Water Fund</b>				
Operating revenues	\$ 306,500	\$ 306,500	\$ 319,540	\$ 13,040
Operating expenses	(491,962)	(491,962)	(453,780)	38,182
Excess of operating revenues over (under) operating expenses	(185,462)	(185,462)	(134,240)	51,222
Nonoperating revenues	481,329	481,329	162,281	(319,048)
Nonoperating expenses	(295,870)	(295,870)	(276,364)	19,506
Excess of total revenues over (under) total expenses	<u>\$ (3)</u>	<u>\$ (3)</u>	(248,323)	<u>\$ (248,320)</u>
Reconciliation of change in net position				
Depreciation			(109,343)	
Capital outlay			263,458	
Debt service principal payments			8,192	
Change in net position			<u>\$ (86,016)</u>	
<b>Sewer Fund</b>				
Operating revenues	\$ 177,000	\$ 177,000	\$ 180,818	\$ 3,818
Operating expenses	(697,126)	(697,126)	(299,113)	398,013
Excess of operating revenues over (under) operating expenses	(520,126)	(520,126)	(118,295)	401,831
Nonoperating revenues	528,183	528,183	195,492	(332,691)
Nonoperating expenses	(7,606)	(7,606)	(135,741)	(128,135)
Excess of total revenues over (under) total expenses	<u>\$ 451</u>	<u>\$ 451</u>	(58,544)	<u>\$ (58,995)</u>
Reconciliation of change in net position				
Depreciation			(67,744)	
Capital outlay			116,417	
Debt service principal payments			13,036	
Change in net position			<u>\$ 3,165</u>	