

WOODMEN HILLS METROPOLITAN DISTRICT

Management's Discussion and Analysis,

Financial Statements,

And Supplemental Information

For the Years Ended December 31, 2016 and 2015

And

Independent Auditors' Report



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WOODMEN HILLS METROPOLITAN DISTRICT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Woodmen Hills Metropolitan District

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Woodmen Hills Metropolitan District as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

Report on Other Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedule as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedule as listed in the table of contents 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Stockman Kast Ryan & Co., LLP

June 22, 2017

WOODMEN HILLS METROPOLITAN DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the District's annual financial report presents the highlights of the District's financial activities and financial position. The analysis focuses on significant financial issues and major financial activity and the resulting changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Basic Financial Statements and Other Supplemental Information. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the District's assets, deferred outflows and liabilities, with the difference between these balances reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as an underlying event giving rise to the change occurs, regardless of the time of related cash flows. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses an Enterprise Fund to account for its water and wastewater treatment operations. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 to 24 of this report.

FINANCIAL POSITION AND RESULTS FROM OPERATIONS

As of the current fiscal year, as well as in the previous two fiscal years, the District is able to report a positive balance in its net position:

	2016	2015	2014
ASSETS			
Current assets	\$ 11,595,434	\$ 11,168,676	\$ 9,401,286
Capital assets	47,539,841	48,793,318	50,419,703
Non-current assets	<u>12,965,618</u>	<u>616,184</u>	<u>418,809</u>
Total assets	<u>72,100,893</u>	<u>60,578,178</u>	<u>60,239,798</u>
DEFERRED OUTFLOWS	<u>490,562</u>	<u>545,069</u>	<u>599,576</u>
LIABILITIES			
Current liabilities	1,458,692	6,700,510	5,397,674
Capital lease payables, long-term	18,605,000	5,815,290	6,043,605
Bond payables, long-term	15,365,000	15,570,000	15,905,000
Unearned revenues	213,000	369,504	213,000
Other liabilities, long-term	<u>42,500</u>	<u>85,000</u>	<u>127,500</u>
Total liabilities	<u>35,684,192</u>	<u>28,540,304</u>	<u>27,686,779</u>

	2016	2015	2014
NET POSITION			
Net investment in capital assets	24,262,914	27,478,097	28,986,161
Restricted	11,326,563	116,184	83,970
Unrestricted	<u>1,317,786</u>	<u>4,988,662</u>	<u>4,082,464</u>
Total net position	<u>\$ 36,907,263</u>	<u>\$ 32,582,943</u>	<u>\$ 33,152,595</u>

The District's current assets increased by \$462,758 due in part to increased cash funds.

The District's total capital assets decreased by \$1,253,477 as of December 31, 2016 largely due to depreciation on the District's assets. The District purchased capital assets in the amount of \$671,518 to include land, buildings, improvements, machinery and equipment. The District did not receive any capital contributions in 2016.

The District's non-current assets increased by \$12,349,434 due to proceeds received from the 2016 Lease Purchase agreement. The 2016 Lease Purchase proceeds are restricted for the construction of new wastewater processing facilities.

Current liabilities decreased by \$5,241,811 due to forgiveness of interest payable in connection with refunding of long-term obligations.

As noted, net position may, over time serve as a useful indicator of the District's financial position. Assets and deferred outflows exceeded liabilities by \$36,907,263 at the close of the most recent fiscal year.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Operating and Non-Operating Revenue and Expenses were as follows:

	2016	2015	2014
OPERATING REVENUE			
Water and wastewater service fees	\$ 4,825,668	\$ 4,384,757	\$ 4,123,741
Park and recreation service fees	<u>1,600,698</u>	<u>1,538,396</u>	<u>1,524,532</u>
Total operating fees	6,426,366	5,923,153	5,648,273
Other fees	<u>989,209</u>	<u>503,945</u>	<u>497,933</u>
Total operating revenue	7,415,575	6,427,098	6,146,206
OPERATING EXPENSES	<u>6,222,418</u>	<u>5,490,036</u>	<u>5,447,336</u>
OPERATING INCOME	1,193,157	937,062	698,870
NON-OPERATING EXPENSES	<u>(1,070,008)</u>	<u>(1,506,714)</u>	<u>(1,565,882)</u>
Excess (deficiency) before special items	123,149	(569,652)	(867,012)
Gain on refunding of long-term obligations	<u>4,201,171</u>	_____	_____
Change in net position	4,324,320	(569,652)	(867,012)
NET POSITION, Beginning of year	<u>32,582,943</u>	<u>33,152,595</u>	<u>34,019,607</u>
NET POSITION, End of year	<u>\$ 36,907,263</u>	<u>\$ 32,582,943</u>	<u>\$ 33,152,595</u>

Operating revenue increased by \$988,477 in 2016 in part due to an increase in water usage and water usage rates.

There was operating income of \$1,193,157 in 2016. A large part of the operating income in the current year was due to the increase in operating revenue.

There were no contributions received by the District in 2016.

ADDITIONAL FINANCIAL INFORMATION

The District is in the design stage of an upgrade for a Wastewater Treatment Facility to meet current EPA standards and regulations. See Note 10 to the financial statements which more fully discusses this matter.

In late 2015/early 2016 management and the district engineer developed the 2016 Financial plan. The plan identifies non-discretionary water and sewer improvements. Management believes that the Districts cash reserves are adequate to execute the plan. The District would not have sufficient cash reserve to construct discretionary capital improvements.

On March 29, 2016, the District refinanced its existing debt. As part of the refinancing the District was required to commission a rate study and a market study.

The District is currently meeting the recommendations defined in the rate study, but the District will not meet the revenue projections contained in the market study.

There are 5 major areas of new development that the District anticipated for tap fees sales.

- Bent Grass Metro District (Woodmen Hills)
- Courtyards West (Woodmen Hills)
- Falcon Highlands Metropolitan District
- Paint Brush Hills Metropolitan District
- 4 Way Metropolitan District (\$2,000,000 subsidy for the Wastewater Treatment Facility)

Bent Grass Metro District – 646 potential home sites with a projected revenue of approximately \$8,500,000 in tap fees. The developer has indicated that the project will be suspended after completion of the first 104 lots which is \$1,357,200 of this amount. This was entirely unexpected. The developer is not in compliance with the inclusion agreement which requires them to drill wells on site. This was also unexpected.

Courtyards West – Forecasted to have 150 water and wastewater taps with revenues of (\$1,975,500). The land owner has not indicated the development will continue.

Falcon Highlands Metropolitan District – 350 lots with sewer tap fee sales projected at \$1,925,000. Falcon Highlands Metro District has not solved their water supply issue and at the present time the water supply is inadequate to continue development.

Paint Brush Hills Metropolitan District – 553 home sites with projected tap fee sales of \$1,106,000 plus user fee revenue. In 2016 the District provided commitment letters for 247 taps. While the Paint Brush area has the potential to exceed the market study projection of 14 taps, the District receives only a sewer tap fee of \$2,000 dollars for each tap from this area.

4 Way Metropolitan District – Was to subsidize approximately \$2,000,000 in construction revenue for the Wastewater Treatment Facility upgrade. 4 Way management has indicated that the plan for completing their necessary projects is behind schedule. This raises a concern that 4 Way will not contribute the \$2,000,000 subsidy for the Wastewater Treatment Facility upgrade.

With managements concerns with the changes listed above, there are some trpidations about rising construction cost in the existing economy. However, management believes the District has adequate reserve and cash revenues to execute the plan and successfully operate the maintenance budget.

This financial report is designed to provide an overview of the Woodmen Hills Metropolitan District's finances for all interested parties. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the Accounting Department, 8046 Eastonville Road, Falcon, Colorado 80831, (719) 495-2500.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF NET POSITION DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,924,129	\$ 10,564,695
Accounts receivable	671,305	603,142
Prepays	<u>839</u>	<u>839</u>
Total current assets	<u>11,595,434</u>	<u>11,168,676</u>
NON-CURRENT ASSETS		
Cash and cash equivalents – restricted	12,965,618	616,184
Capital assets:		
Non-depreciable	5,502,151	5,122,947
Depreciable, net	<u>42,037,690</u>	<u>43,670,371</u>
Total non-current assets	<u>60,505,459</u>	<u>49,409,502</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding debt	<u>490,562</u>	<u>545,069</u>
TOTAL	<u>\$ 72,591,455</u>	<u>\$ 61,123,247</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 356,595	\$ 314,167
Interest payable	79,297	5,858,543
Capital leases payable, current portion	470,000	140,000
Bonds payable, current portion	500,000	335,000
Customer deposits	10,300	10,300
Other liabilities, current portion	<u>42,500</u>	<u>42,500</u>
Total current liabilities	<u>1,458,692</u>	<u>6,700,510</u>
LONG-TERM LIABILITIES		
Capital leases payable, long-term portion	18,605,000	5,815,290
Bonds payable, long-term portion	15,365,000	15,570,000
Unearned revenue	213,000	369,504
Other liabilities, long-term portion	<u>42,500</u>	<u>85,000</u>
Total long-term liabilities	<u>34,225,500</u>	<u>21,839,794</u>
Total liabilities	<u>35,684,192</u>	<u>28,540,304</u>
NET POSITION		
Net investment in capital assets	24,262,914	27,478,097
Restricted	11,326,563	116,184
Unrestricted net assets	<u>1,317,786</u>	<u>4,988,662</u>
Total net position	<u>36,907,263</u>	<u>32,582,943</u>
TOTAL	<u>\$ 72,591,455</u>	<u>\$ 61,123,247</u>

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUE		
Water and wastewater use fees	\$ 4,825,668	\$ 4,384,757
Parks and recreation fees	1,600,698	1,538,396
Other fees	<u>989,209</u>	<u>503,945</u>
Total operating revenue	<u>7,415,575</u>	<u>6,427,098</u>
OPERATING EXPENSES		
Depreciation	1,924,995	1,914,964
Wages and employee expenses	1,775,933	1,683,766
Operations	1,085,653	655,173
Utilities	456,173	433,905
Repairs and maintenance	377,286	414,460
General and administrative	<u>602,378</u>	<u>387,768</u>
Total operating expenses	<u>6,222,418</u>	<u>5,490,036</u>
OPERATING INCOME	<u>1,193,157</u>	<u>937,062</u>
NON-OPERATING REVENUE (EXPENSES)		
Interest expense	(1,229,893)	(1,810,519)
Tap fees	1,064,126	281,550
Debt issuance costs	(935,967)	
Interest income	28,726	22,255
Gain on sale of capital assets	<u>3,000</u>	<u> </u>
Total non-operating expense, net	<u>(1,070,008)</u>	<u>(1,506,714)</u>
Income (loss) before special item	123,149	(569,652)
Gain on refunding of long-term obligations	<u>4,201,171</u>	<u> </u>
Change in net position	4,324,320	(569,652)
NET POSITION, Beginning of year	<u>32,582,943</u>	<u>33,152,595</u>
NET POSITION, End of year	<u>\$ 36,907,263</u>	<u>\$ 32,582,943</u>

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 7,190,908	\$ 6,603,308
Cash payments for goods and services	(2,510,572)	(1,831,409)
Cash payments to employees for services	<u>(1,786,084)</u>	<u>(1,670,074)</u>
Net cash provided by operating activities	<u>2,894,252</u>	<u>3,101,825</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds and capital lease obligation	(22,335,290)	(172,828)
Proceeds from issuance of bond and capital lease obligation	35,415,000	
Interest paid on bonds and capital lease obligation	(2,753,461)	(897,900)
Payment of debt issuance cost	(935,967)	
Tap fees collected	1,064,126	281,550
Proceeds from sale of capital assets	3,000	28,877
Acquisition of capital assets	<u>(671,518)</u>	<u>(317,456)</u>
Net cash provided by (used in) capital and related financing activities	<u>9,785,890</u>	<u>(1,077,757)</u>
INVESTING ACTIVITIES		
Cash provided by investing activities —		
Interest income	<u>28,726</u>	<u>22,255</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,708,868	2,046,323
CASH AND CASH EQUIVALENTS, Beginning of year	<u>11,180,879</u>	<u>9,134,556</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 23,889,747</u>	<u>\$ 11,180,879</u>
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents	\$ 10,924,129	\$ 10,564,695
Cash and cash equivalents – restricted	<u>12,965,618</u>	<u>616,184</u>
Total	<u>\$ 23,889,747</u>	<u>\$ 11,180,879</u>

(Continued)

WOODMEN HILLS METROPOLITAN DISTRICT

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,193,157	\$ 937,062
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,924,995	1,914,964
Changes in operating assets and liabilities:		
Accounts receivable	(88,163)	19,706
Prepaid expenses	839	61,852
Accounts payable and accrued expenses	42,428	54,237
Unearned revenue	(156,504)	156,504
Other liabilities	<u>(42,500)</u>	<u>(42,500)</u>
Net cash provided by operating activities	<u>\$ 2,894,252</u>	<u>\$ 3,101,825</u>
NON-CASH TRANSACTION		
Amortization of deferred charge as interest expense	<u>\$ 54,507</u>	<u>\$ 54,507</u>
Forgiveness of bond and lease interest	<u>\$ 4,201,171</u>	<u>\$ —</u>

(Concluded)

See notes to financial statements.

WOODMEN HILLS METROPOLITAN DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Woodmen Hills Metropolitan District (the District) is an independent governmental entity operating within El Paso County, Colorado. The following is a summary of the more significant policies consistently applied in the preparation of the District's financial statements.

Reporting Entity — The District was organized in November, 1995 and is governed by a Board of Directors that is selected by an election of landowners within the District's legal boundaries. As required by generally accepted accounting principles, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District was organized to provide water and wastewater services to the property within its boundaries and to construct and maintain roads, bridges and park and recreation facilities including open space and trails on the property. The District has no component units as defined by the Governmental Accounting Standards Board (GASB).

Basis of Accounting — The financial statements of the District have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable statements of GASB. The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. An enterprise fund is used to account for operations that are financed and operated in a manner similar to a private business enterprise; (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body 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.

Net Position — The District's net position is classified in the following three components:

- **Net investment in capital assets** — This component consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** — This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets are assets which have restrictions placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

- **Unrestricted** — This component consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgets — Budgets are prepared in accordance with the requirements of Colorado Revised Statutes – (29-1-103) and, accordingly, include anticipated income and other means of financing proposed expenditures. Expenditures also include, in addition to those shown in the operating statements, debt redemptions and capital expenditures.

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. Budgets are required by state law for all funds. During September, the proposed budget is submitted to the Board of Directors by the budget officer for the fiscal year commencing the following January 1. The budget includes proposed expenditures and means of financing them.
- B. Public hearings are conducted by the Directors to obtain rate payers comments.
- C. Prior to December 31, the budget is adopted and appropriations made by formal resolution.
- D. Expenditures may not legally exceed appropriations at the fund level. Board approval is required for changes in the total budget of any fund or changes in project or department budgets. Budget amounts included in the financial statements are based on the final, legally amended budget.
- E. Budget appropriations lapse at the end of each year.

Accordingly, budget comparisons are of the legally adopted budget. The level of budget control is determined by the resolution appropriating sums of monies. Encumbrances are neither recorded on the books of the District nor included in the budget. The Board of Directors has the authority to make budget amendments.

Operating Revenue and Expenses — The District distinguishes between operating revenues and expenses and non-operating items in the statement of revenues, expenses and changes in fund net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water and sewer services to its customers. Operating revenues consist of charges to customers for services provided. Operating expenses include the cost of service, administrative expenses and depreciation of assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents — Demand deposits, money market accounts and cash on hand are deemed to be cash equivalents for the purpose of the statement of cash flows.

Accounts Receivable — Accounts receivable are stated at the invoiced amount. The District performs periodic credit evaluations based on its customers' payment history. Management has determined accounts receivable are collectible and no allowance for doubtful accounts is deemed necessary.

Capital Assets — All development costs in excess of \$5,000 which have a useful life of greater than one year and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the lives of assets are capitalized. Capital assets are recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from three to forty years.

Deferred Inflows/Outflows of Resources — In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to future period(s) and thus will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or the life of the refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has no item of this nature.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require 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 amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) requires all units of local government to deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by 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 State Regulatory Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

Federal Deposit Insurance Corporation (FDIC) coverage for government accounts is \$250,000 per official custodian.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2016 and 2015, the District's deposits were not exposed to custodial credit risk, as all deposits were insured by FDIC and collateralized in accordance with PDPA.

At December 31, 2016 and 2015, the District's deposits had a bank balance of \$23,942,784 and \$11,260,831, respectively, of which \$3,387,798 and \$1,531,910, respectively, was covered by federal depository insurance. The remainder of the bank balance of \$20,554,986 and \$9,728,921 at December 31, 2016 and 2015, respectively, was collateralized with securities held by the pledging financial institutions and covered by eligible collateral as determined by PDPA.

Restricted Cash — The District had restricted cash totaling \$12,965,618 and \$616,184 as of December 31, 2016 and 2015. As of December 31, 2016 \$11,172,511 was restricted for the construction new wastewater treatment facility, \$1,639,055 was restricted for bonds and \$154,052 was restricted lottery funds. As of December 31, 2015 \$500,000 was restricted for bonds and \$116,184 was restricted lottery funds.

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2016 and 2015 is as follows:

	Balance at January 1, 2016	Increase	Decrease	Balance at December 31, 2016
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	439,150	\$ 237,751		676,901
Work in progress	<u>477,712</u>	<u>504,526</u>	<u>\$ 363,073</u>	<u>619,165</u>
Total capital assets not being depreciated	<u>5,122,947</u>	<u>742,277</u>	<u>363,073</u>	<u>5,502,151</u>
Capital assets being depreciated:				
Recreational facilities	4,556,560			4,556,560
Water and wastewater infrastructure	60,689,912	252,280		60,942,192
Vehicles and equipment	<u>776,400</u>	<u>40,034</u>	<u>33,200</u>	<u>783,234</u>
Total capital assets being depreciated	<u>66,022,872</u>	<u>292,314</u>	<u>33,200</u>	<u>66,281,986</u>
Less accumulated depreciation for:				
Recreational facilities	3,100,768	229,525		3,330,293
Water and wastewater infrastructure	18,619,542	1,619,403		20,238,945
Vehicles and equipment	<u>632,191</u>	<u>76,067</u>	<u>33,200</u>	<u>675,058</u>
Total accumulated depreciation	<u>22,352,501</u>	<u>1,924,995</u>	<u>33,200</u>	<u>24,244,296</u>
Total capital assets being depreciated, net	<u>43,670,371</u>	<u>(1,632,681)</u>		<u>42,037,690</u>
Total capital assets, net	<u>\$ 48,793,318</u>	<u>\$ (890,404)</u>	<u>\$ 363,073</u>	<u>\$ 47,539,841</u>

	Balance at January 1, 2015	Increase	Decrease	Balance at December 31, 2015
Capital assets not being depreciated:				
Water rights	\$ 4,206,085			\$ 4,206,085
Land	468,027		\$ 28,877	439,150
Work in progress	<u>774,328</u>	<u>\$ 268,331</u>	<u>564,947</u>	<u>477,712</u>
Total capital assets not being depreciated	<u>5,448,440</u>	<u>268,331</u>	<u>593,824</u>	<u>5,122,947</u>
Capital assets being depreciated:				
Recreational facilities	4,556,560			4,556,560
Water and wastewater infrastructure	60,092,140	597,772		60,689,912
Vehicles and equipment	<u>760,100</u>	<u>16,300</u>		<u>776,400</u>
Total capital assets being depreciated	<u>65,408,800</u>	<u>614,072</u>	<u>—</u>	<u>66,022,872</u>
Less accumulated depreciation for:				
Recreational facilities	2,868,498	232,270		3,100,768
Water and wastewater infrastructure	17,008,942	1,610,600		18,619,542
Vehicles and equipment	<u>560,097</u>	<u>72,094</u>		<u>632,191</u>
Total accumulated depreciation	<u>20,437,537</u>	<u>1,914,964</u>	<u>—</u>	<u>22,352,501</u>
Total capital assets being depreciated, net	<u>44,971,263</u>	<u>(1,300,892)</u>	<u>—</u>	<u>43,670,371</u>
Total capital assets, net	<u>\$ 50,419,703</u>	<u>\$ (1,032,561)</u>	<u>\$ 593,824</u>	<u>\$ 48,793,318</u>

The District has incurred depreciation expense of \$1,924,995 and \$1,914,964 for the years ended December 31, 2016 and 2015, respectively.

4. LONG-TERM DEBT

Long-term debt consists of revenue bonds and capital lease agreements. A summary of changes in long-term debt is as follows:

	Balance at January 1, 2016	Increase	Decrease	Balance at December 31, 2016	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds Series, 2016	\$ 16,200,000		\$ 335,000	\$ 15,865,000	\$ 500,000
Lease purchase agreement, 2016	19,215,000		140,000	19,075,000	470,000
Water and Wastewater Enterprise Revenue Refunding Bonds and Recreational Facilities Enterprise Refunding Revenue Bonds, 2009	\$ 15,905,000		\$ 15,905,000		
Lease purchase agreement for groundwater, wells and infrastructure, 2009	5,863,000		5,863,000		
Lease purchase agreement for building, 2007	<u>92,290</u>		<u>92,290</u>		
	<u>\$21,860,290</u>	<u>\$ 35,415,000</u>	<u>\$22,335,290</u>	<u>\$ 34,940,000</u>	<u>\$ 970,000</u>
	Balance at January 1, 2015	Increase	Decrease	Balance at December 31, 2015	Amounts Due Within One Year
Water and Wastewater Enterprise Revenue Refunding Bonds and Recreational Facilities Enterprise Refunding Revenue Bonds, 2009 (refinanced subsequent to year-end, see below)	\$ 15,905,000			\$ 15,905,000	\$ 335,000
Lease purchase agreement for groundwater, wells and infrastructure, 2009	5,863,000			5,863,000	140,000
Lease purchase agreement for building, 2007	<u>265,118</u>		<u>\$ 172,828</u>	<u>92,290</u>	
	<u>\$22,033,118</u>	<u>\$ —</u>	<u>\$ 172,828</u>	<u>\$ 21,860,290</u>	<u>\$ 475,000</u>

Water and Wastewater Enterprise Revenue Refunding Bond, Series 2016 — On March 29, 2016 the District issued Water and Wastewater Enterprise Revenue Refunding Bonds Series 2016 (Series 2016 Bonds), with an original par value of \$16,200,000. The Series 2016 Bonds were issued to refund the Series 2009 Water and Wastewater Bonds and the Series 2009 Recreational Facilities Enterprise Revenue Refunding Bonds. The Series 2016 Bonds bear interest at a fixed rate of 2.75% through December 1, 2025, which is the Tender Date of the bonds. All principal and interest is due on the Tender Date unless the District elects to waive the full payment of the bonds on that date. If the District waives the payment of the bonds on the Tender Date then the bonds will continue to accrue interest at a rate of 8% through the final maturity date of December 1, 2044.

All, but not less than all, of the Series 2016 Bonds may be redeemed prior to maturity, at the option of the District, on June 1, 2016 and on any date thereafter upon payment of the following redemption price:

Optional Redemption Date	Redemption Price
June 1, 2016 through November 30, 2019	103 %
December 1, 2019 through November 30, 2021	102
December 1, 2021 through November 30, 2022	101
December 1, 2022 and thereafter	100

The District may, from new tap fees and subject to the bond agreement, partially redeem the bonds on an annual basis up to \$1,000,000 on any interest payment date.

The following schedule of mandatory sinking fund requirements assumes the District will not redeem all of the bonds at the Tender Date of December 1, 2025.

	Series 2016 Bonds		
	Principal	Interest	Total
2017	\$ 500,000	\$ 436,288	\$ 936,288
2018	510,000	422,538	932,538
2019	525,000	408,513	933,513
2020	540,000	394,075	934,075
2021 – 2025	2,935,000	1,739,238	4,674,238
2026 – 2030	1,535,000	4,115,200	5,650,200
2031 – 2035	2,260,000	3,394,400	5,654,400
2036 – 2040	3,320,000	2,334,000	5,654,000
2041 – 2044	<u>3,740,000</u>	<u>776,800</u>	<u>4,516,800</u>
Total	<u>\$ 15,865,000</u>	<u>\$ 14,021,052</u>	<u>\$ 29,886,052</u>

Water and Wastewater Enterprise Revenue Refunding Bonds, Series 2009 — In August 2009, the District issued Water and Wastewater Enterprise Revenue Refunding Bonds Series 2009 (Series 2009 Water and Wastewater Bonds) in the amount of \$13,015,000. During the year ended December 31, 2016 these bonds were refunded with the Series 2016 Bonds. The proceeds of the Series 2009 Water and Wastewater Bonds were used to refund the outstanding Water and Wastewater Enterprise Refunding Revenue Bonds Series 2004 in the amount of \$12,710,000 and pay the cost of issuance of the Series 2009 Water and Wastewater Bonds. The Series 2009 Water and Wastewater Bonds were special, limited obligations of the District’s Water and Wastewater Enterprise payable solely from and secured by an irrevocable and first lien, but not necessarily an exclusive first lien, on pledged revenue. Pledged revenue consists of moneys derived by the District from the following sources, after payment of any costs of collection: net revenue, water and wastewater fees and any other legally available moneys that the District determines to credit to the bond account.

The Series 2009 Water and Wastewater Bonds bore both base interest and supplemental interest at rates which vary from time to time, totaling 8% per annum payable quarterly on March 1, June 1, September 1 and December 1, until maturity on June 1, 2029. The base interest rate and supplemental interest rate were determined based on the number of new connections to the water system and each new connection to the wastewater system occurring after the issue date of the bonds (new SFE) as follows:

Aggregate New SFEs	Interest Rate Adjustment Date (First Interest Payment Date After Aggregate New SFEs Are Equal to Not Less Than the Following)	Base Interest Rate	Supplemental Interest Rate
0-199	—	3.5 %	4.5 %
200-399	200	4.0	4.0
400-599	400	4.5	3.5
600-799	600	5.0	3.0
800-999	800	5.5	2.5
1,000-1,199	1,000	6.0	2.0
1,200-1,399	1,200	6.5	1.5
1,400-1,599	1,400	7.0	1.0
1,600-1,799	1,600	7.5	0.5
1,800+	1,800	8.0	0.0

The Series 2009 Water and Wastewater Bonds were subject to mandatory sinking fund redemption prior to maturity, in part in integral multiples of \$1,000, by lot or in such other equitable manner as determined by the Trustee, commencing on June 1 of each year following the year in which the base interest rate is adjusted to 8% (the Principal Amortization Commencement Event). On or before the 25th day of each month, commencing with the month in which the Principal Amortization Commencement Event occurs, the District was required to deposit with the Trustee an amount equal to (1) \$13,015,000 divided by the number of months in the period commencing with the month in which the Principal Amortization Commencement Event occurs up to and including the month immediately preceding the maturity date, plus (2) any deficiency in the amount theretofore required to be deposited to the principal account pursuant to the bond agreement.

All, but not less than all, of the Series 2009 Water and Wastewater Bonds could be redeemed prior to maturity, at the option of the District, on June 1, 2015 and on any date thereafter upon payment of the following redemption price:

Optional Redemption Date	Redemption Price
June 1, 2015 through May 31, 2016	103 %
June 1, 2016 through May 31, 2017	102
June 1, 2017 through May 31, 2018	101
June 1, 2018 and thereafter	100

Recreational Facilities Enterprise Revenue Refunding Bonds, Series 2009 — In August 2009, the District issued Recreational Facilities Enterprise Revenue Refunding Bonds Series 2009 (Series 2009 Recreational Bonds) in the amount of \$2,890,000. During the year ended December 31, 2016, these bonds were refunded with the Series 2016 Bonds. The proceeds of the Series 2009 Recreational Bonds were used to refund the outstanding Recreational Facilities Enterprise Refunding Revenue Bonds in the amount of \$2,800,000 and pay the cost of issuance of the Series 2009 Recreational Bonds. The Series 2009 Recreational Bonds were special, limited obligations of the District’s Water and Wastewater Enterprise payable solely from and secured by an irrevocable and first lien, but not

necessarily an exclusive first lien, on the net revenue of the recreational facilities enterprise and certain other moneys.

Pledged revenue consists of moneys derived by the District from the following sources, after payment of any costs of collection: net revenue, water and wastewater fees and any other legally available moneys that the District determines to credit to the bond account.

The Series 2009 Water and Wastewater Bonds bore both a Base Interest and Supplemental Interest at rates which vary from time to time, totaling 8% per annum payable quarterly on March 1, June 1, September 1 and December 1, until maturity on June 1, 2029. The Base Interest Rate and Supplemental Interest Rate were determined based on the number of new finished homes in the district occurring after the issue date of the bonds as follows:

Aggregate New SFEs	Interest Rate Adjustment Date (First Interest Payment Date After Aggregate New SFEs Are Equal to Not Less Than the Following)	Base Interest Rate	Supplemental Interest Rate
0-99	—	3.5 %	4.5 %
100-199	100	4.0	4.0
200-399	200	4.5	3.5
300-399	300	5.0	3.0
400-499	400	5.5	2.5
500-599	500	6.0	2.0
600-699	600	6.5	1.5
700-799	700	7.0	1.0
800-899	800	7.5	0.5
900+	900	8.0	0.0

The Series 2009 Recreational Bonds were subject to mandatory sinking fund redemption prior to maturity, in part in integral multiples of \$1,000, by lot or in such other equitable manner as determined by the Trustee, commencing on June 1 of each year following the year in which the base interest rate is adjusted to 8% (the Principal Amortization Commencement Event). On or before the 25th day of each month, commencing with the month in which the Principal Amortization Commencement Event occurs, the District was required to deposit with the Trustee an amount equal to (1) \$2,890,000 divided by the number of months in the period commencing with the month in which the Principal Amortization Commencement Event occurs up to and including the month immediately preceding the maturity date, plus (2) any deficiency in the amount theretofore required to be deposited to the principal account pursuant to the bond agreement.

All, but not less than all, of the Series 2009 Recreation Bonds could be redeemed prior to maturity, at the option of the District, on June 1, 2015 and on any date thereafter upon payment of the following redemption price:

Optional Redemption Date	Redemption Price
June 1, 2015 through May 31, 2016	103 %
June 1, 2016 through May 31, 2017	102
June 1, 2017 through May 31, 2018	101
June 1, 2018 and thereafter	100

Capital Lease Obligations

Lease Purchase Agreement 2016 — On March 29, 2016 the District entered into a Lease Purchase Agreement (2016 Lease) with the Woodmen Hills Public Facilities Leasing Trust 2016 (the Trust) to replace, in its entirety, the 2009 lease and to construct additional waste water facilities (2016 Facilities) within the District. The lease term can be continued, solely at the option of the District, at annual renewal terms which terminate December 1, 2044. The 2016 Lease is a special, limited obligation of the District’s Water and Wastewater Enterprise payable solely from pledged revenue. Pledged revenue consists of money that the District has elected to appropriate for payment on the lease on an annual basis. The initial funding for the lease is \$19,215,000. Of this amount approximately \$6,400,000 is being used to repay the 2009 Lease, \$1,500,000 is being deposited in a debt service reserve fund, \$11,200,000 is for the Project Fund to construct the 2016 Facilities and \$500,000 will be used to pay the cost is for the new lease. The difference will be paid with current District cash funds. The lease allows up to three years for the completion of the construction of the 2016 Facilities.

The District may, from new tap fees and subject to the bond and lease agreement, partially prepay the lease on an annual basis up to \$1,000,000 on any interest payment date. The District is further limited to a combined, 2016 Bond and 2016 Lease, prepayment totaling \$1,000,000.

Base rental payments are payable monthly during each renewal term and consist of a principal component, and interest component. The initial interest rate is a fixed rate of 2.77% through December 1, 2025, which is the Tender Date of the 2016 Lease. All principal and interest is due on the Tender Date unless the District elects to waive the full payment of the bonds on that date. If the District waives the payment of the remaining principal and outstanding interest on the Tender Date then the 2016 Lease will accrue interest at a rate of 12% through the final maturity date of December 1, 2044.

The following schedule of base rental payments on the lease assumes the District will not pay the full principal at December 1, 2025.

	2016 Lease		
	Principal	Interest	Total
2017	\$ 470,000	\$ 528,378	\$ 998,378
2018	485,000	515,359	1,000,359
2019	495,000	501,924	996,924
2020	510,000	488,213	998,213
2021 – 2025	2,770,000	2,221,263	4,991,263
2026 – 2030	1,440,000	8,300,400	9,740,400
2031 – 2035	2,530,000	7,203,600	9,733,600
2036 – 2040	4,460,000	5,274,600	9,734,600
2041 – 2044	<u>5,915,000</u>	<u>1,874,400</u>	<u>7,789,400</u>
Total	<u>\$ 19,075,000</u>	<u>\$ 26,908,137</u>	<u>\$ 45,983,137</u>

Lease Purchase Agreement 2009 — The District entered into lease agreements, as lessee, with the Woodmen Hills Public Facility Authority (the Authority) in 2004 and 2005. The leases were for certain water rights and assets to be acquired, constructed and/or installed as part of a specific construction project. The leases were for one-year terms which were continued, solely at the option of the District, at annual renewal terms, through 2024. In August 2009, the District entered into the First Amended and Restated Lease Purchase Agreement (2009 Lease) with the Authority to replace in its entirety the 2004 and 2005 leases. The lease term could be continued, solely at the option of the District, at annual renewal terms which terminate June 1, 2029. The 2009 Lease is a special, limited obligation of the District’s Water and Wastewater Enterprise payable solely from pledged revenue.

Pledged revenue consists of moneys derived by the District from the following sources, after payment of any costs of collection: net revenue, water and wastewater fees and any other legally available moneys that the District determines to apply to the payment of the obligation. The obligation of the District under the 2009 Lease constituted an irrevocable lien upon the pledged revenue, which is on parity with the lien on the Series 2009 Water and Wastewater Bonds.

Base rental payments are payable monthly during each renewal term and consist of a principal component, base interest component and supplemental interest component. The base interest component and supplemental interest component vary from time to time and total 8% per annum.

The base interest rate and supplemental interest rate are determined based on the number of new connections to the water system and each new connection to the wastewater system occurring after the issue date of the bonds (New SFE) as follows:

Aggregate New SFEs	Interest Rate Adjustment Date (First Interest Payment Date After Aggregate New SFEs Are Equal to Not Less Than the Following)	Base Interest Rate	Supplemental Interest Rate
0-199	—	3.5 %	4.5 %
200-399	200	4.0	4.0
400-599	400	4.5	3.5
600-799	600	5.0	3.0
800-999	800	5.5	2.5
1,000-1,199	1,000	6.0	2.0
1,200-1,399	1,200	6.5	1.5
1,400-1,599	1,400	7.0	1.0
1,600-1,799	1,600	7.5	0.5
1,800+	1,800	8.0	0.0

The principal component of the base rental payment is \$0 until the base interest rate is adjusted to 8% (the Principal Amortization Commencement Event). Upon the Principal Amortization Commencement Event, the principal component of each base rental payment is the initial lease balance divided by the number of months remaining under the 2009 Lease.

Administrative Office Lease — The District entered into a lease-purchase option agreement with a financial institution in 2007 for land and a building that serves as the District’s administrative offices. The initial lease term expired on December 31, 2009. The lease term is continued, solely at the option of the District, at the annual renewal terms until terminated, through 2017. The District has the option to purchase the leased property for \$1 at the expiration of all renewal terms of the lease or upon payment of all principal and interest required to date, plus a termination value of remaining principal payments as if the lease was structured as a 10-year lease, rather than annually renewable. The District made the final lease payment in November of 2016 and exercised their option to purchase the property at that time.

The capital lease obligations do not constitute a general obligation or other indebtedness of the District within the meaning of any constitutional, statutory or charter debt limitation. The District’s obligation to make payments relating to the leases is contingent each year upon the District’s appropriating the requisite funds. In the event of non-appropriation, the leases terminate, and the leases are payable solely from proceeds, if any, received from the Trustee upon exercise of remedies.

The assets acquired through the capital leases are summarized as follows for the years ended December 31:

	2016	2015
Depreciable	\$ 5,420,396	\$ 5,413,972
Non-depreciable	<u>849,000</u>	<u>849,000</u>
	6,269,396	6,262,972
Less accumulated depreciation	<u>1,459,867</u>	<u>1,324,357</u>
Total	<u>\$ 4,809,529</u>	<u>\$ 4,938,615</u>

Depreciation expense on assets acquired through capital leases for the years ended December 31, 2016 and 2015 was \$135,510 and \$135,375, respectively, and is included in depreciation and amortization.

Current Refunding — The District had accrued unpaid supplemental interest on the Series 2009 Water and Wastewater Bonds and the Series 2009 Recreational bonds (combined, the Series 2009 Bonds) and the 2009 Lease of approximately \$6,000,000 as of the date of the refinancing. The Series 2009 Bonds were also subject to a 103% call premium. Due to the forecasted financial condition of the District and the unlikelihood of being able to pay the supplemental interest, the bond holder for the Series 2009 Bonds agreed to a reduced full settlement of both the call premium and the outstanding supplemental interest. This resulted in a gain of \$4,201,171 on the refunding of the Series 2009 Bonds, which is recorded as gain on refunding of long-term obligations in the Statement of Revenues, Expense and Change in Net Position.

The current refunding of the Series 2009 Bonds decreased total debt service payments over the next 28 years by approximately \$2,200,000. The current refunding also results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$2,900,000.

5. CDPHE OBLIGATION

During 2014, the District was assessed a penalty by the Colorado Department of Public Health and Environment (CDPHE) for non-compliance with the Colorado Water Quality Control Act. The District is required to pay \$170,000 in four annual payments of \$42,500 from 2015 through 2018. (See Note 10)

6. 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 and natural disasters. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years.

The District carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. There were no claims resulting from these risks that exceeded commercial insurance coverage during recent years.

7. RESTRICTED NET POSITION

Restricted net position consists of assets restricted for the following purposes at December 31:

	2016	2015
Construction of wastewater facilities	\$ 11,175,511	
Parks and recreation	<u>154,052</u>	<u>\$ 116,184</u>
Total	<u>\$ 11,326,563</u>	<u>\$ 116,184</u>

8. AMENDMENT TO COLORADO CONSTITUTION

In November 1992, the voters of Colorado approved Amendment I, commonly known as the Taxpayer Bill of Rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax spending, revenue and debt limitation that apply to the State of Colorado and all local governments. The District's financial activity for 1992 provides the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth.

TABOR excludes enterprise governments from its provisions. Enterprise governments, defined as governmental-owned businesses that are authorized to issue revenue bonds and receive less than 10% of their annual revenue in grants from all state and local governments combined are excluded from the provisions of TABOR. The District is of the opinion that the enterprise operations qualify for the parks and recreation and water and wastewater system exclusion. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations in the amendment's language to determine its compliance.

9. EMPLOYEE BENEFIT PLAN

The District offers a Section 457 deferred compensation plan for which employees are eligible after a year of employment. The District contributes 3% of the employee's salary for the calendar year, and makes matching contributions up to an additional 1.5% of the employee's salary reduction contributions. All contributions made under the plan are fully vested and nonrefundable. The Company contributed \$51,245 and \$24,876 to the plan for the years ended December 31, 2016 and 2015, respectively.

10. COMMITMENTS, CONTINGENCIES AND RISKS

The District has been operating under a cease and desist order from CDPHE because the current wastewater treatment system has been determined to be insufficient to provide treatment during the spring season. The District is cooperating fully with all of the CDPHE inquiries and is seeking a long-term solution to the wastewater needs, possibly in cooperation with neighboring water and wastewater districts. On March 10, 2015, CDPHE order a Compliance Order on Consent to the District (Compliance Order). Among other requirements under the Compliance Order, the District is required to maintain compliance with the Water Quality Control Act (the Act), implement and continually optimize a BioShell pilot study, provide various updates and progress reports to CDPHE, and obtain funding for and complete construction of facilities or other appropriate action to comply with the Act by October 31, 2018. Additionally, a \$170,000 penalty was assessed against the District, requiring payments of \$42,500 annually from 2015, with the same payment expected each year through 2018. (See Note 4)

During the year ended December 31, 2015 the District entered into an agreement with another district (Adjoining District) to expand the District's facilities and to provide wastewater treatment to a maximum of 500 single family equivalents to the Adjoining District. The District has committed to expand their facilities to support the added development. Construction costs of the additional facilities are estimated to be approximately \$7,000,000, which includes additional capacity beyond the 500 single family equivalents. Of the \$7,000,000 projected costs, \$1,500,000 is estimated to be paid by the Adjoining District. The Adjoining District has made an initial payment of \$213,000, which is recorded as unearned revenue in the Statement of Net Position as of December 31, 2016 and 2015. Construction of the new plant was awarded on May 25, 2017 and ground breaking is expected to occur on June 30, 2017 with final completion slated to be accomplished by October 31, 2018.

WOODMEN HILLS METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULE

WOODMEN HILLS METROPOLITAN DISTRICT

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION — BUDGET (NON - GAAP) AND ACTUAL FOR THE YEAR ENDED DECEMBER 31, 2015

	Original and Final Budgeted Amounts	Actual	Variance Final Budget (Unfavorable)
REVENUE			
Water and wastewater use fees	\$ 4,970,804	\$ 4,825,668	\$ (145,136)
Parks and recreation use fees	1,766,194	1,600,698	(165,496)
Other fees	237,109	989,209	752,100
Tap fees	213,600	1,064,126	850,526
Interest income		28,726	28,726
Other income		<u>3,000</u>	<u>3,000</u>
Total revenue	<u>7,187,707</u>	<u>8,511,427</u>	<u>1,323,720</u>
EXPENDITURES			
Debt service	1,761,925	567,290	1,194,635
Wages and employee expenses	2,063,301	1,775,933	287,368
Operations	837,896	1,085,653	(247,757)
Utilities	959,407	456,173	503,234
Repairs and maintenance	840,550	377,286	463,264
General and administrative	<u>572,972</u>	<u>602,378</u>	<u>(29,406)</u>
Total expenditures	<u>7,036,051</u>	<u>4,864,713</u>	<u>2,171,338</u>
EXCESS OF REVENUE OVER EXPENDITURES	151,656	3,646,714	3,495,058
FUNDS AVAILABLE, Beginning of year	<u>32,582,943</u>	<u>32,582,943</u>	
FUNDS AVAILABLE, End of year	<u>\$ 32,734,599</u>	36,229,657	<u>\$ 3,495,058</u>
RECONCILIATION OF REVENUE AND EXPENSES - GAAP BASIS TO BUDGETARY BASIS			
Gain on refunding of long-term obligations		4,201,171	
Debt service		567,290	
Interest expense		(1,229,893)	
Debt issuance costs		(935,967)	
Depreciation and amortization		<u>(1,924,995)</u>	
NET POSITION – GAAP BASIS		<u>\$ 36,907,263</u>	