

ARABIAN ACRES METROPOLITAN DISTRICT

BASIC FINANCIAL STATEMENTS

December 31, 2017

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Office of the State Auditor

August 1, 2018

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	
Management's Discussion and Analysis	i - vi
Basic Financial Statements	
Statement of Net Position – Proprietary Fund	1
Statement of Revenues, Expenses and Changes In Net Position – Proprietary Fund	2
Statement of Cash Flows – Proprietary Fund	3
Notes to the Financial Statements	4 – 14
Individual Fund Financial Statement	
Proprietary Fund – Budgetary Comparison Schedule	15



JOHN CUTLER & ASSOCIATES

Board of Directors
Arabian Acres Metropolitan District
Teller County, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the business activities and each major fund of the Arabian Acres Metropolitan District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business activities and each major fund of the Arabian Acres Metropolitan District as of and for the year ended, as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Arabian Acres Metropolitan District' basic financial statements. The individual fund financial statement listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statement is fairly stated in all material respects in relation to the financial statements as a whole.

John Luttrell & Associates, LLC

August 1, 2018

ARABIAN ACRES METROPOLITAN DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Arabian Acres Metropolitan District's (the District) annual financial report presents our analysis of the District's financial performance during the fiscal year ended December 31, 2017. Please read it in conjunction with the financial statements.

1. Financial Highlights

The District's net position increased by \$226,721 due to continued efforts in decreasing expenses, consistently making payments on liabilities, and increasing current assets through the reserve fund.

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

In 2017 the District continued compliance with the 2007 Bond Agreement requirement of 125% of the bond payment in reserves and contributed \$199k into Capital Reserves.

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

Cash & Cash Equivalents increased by 169% from 2016 bringing the total cash to \$332,994; of which approximately \$146,000 is restricted for bond reserves.

Net Ordinary Income exceeded budget in 2017 by \$61,092.

2. Overview of the Financial Statements

The annual report consists of three parts:

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

3. Required Financial Statements

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

Statement of Net Position

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

Statement of Revenues, Expenses and Changes in Net Position

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

Statement of Cash Flows

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

4. Financial Analysis of the District

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

5. Net Position

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

Condensed Statement of Net Position

	2017	2016	2017 - 2016 Change	
			\$	%
Current & Other Assets	\$512,752	\$355,413	\$157,339	44.3
Capital Assets	1,128,619	1,159,852	(31,233)	-2.7
Total Assets	1,641,371	1,515,265	126,106	8.3
Current Liabilities	\$96,648	\$125,346	(\$28,698)	-22.9
Noncurrent Liabilities	1,236,172	1,304,394	(68,222)	-5.2
Total Liabilities	1,332,820	1,429,740	(96,920)	-6.7
Deferred Inflows of Resources	\$92,619	\$96,314	(\$3,695)	-3.8
Net Position:				
Invested in capital assets net of related debt	(\$248,684)	(\$313,565)	\$64,881	-20.7
Restricted	81,000	215,000	-134,000	-62.3
Unrestricted	383,616	87,776	295,840	437.0
Total Net Position	\$215,932	(\$10,789)	\$226,721	2001
Total Liabilities, Deferred Inflows And Net Position	\$1,641,371	\$1,515,265	\$126,106	108.3

Arabian Acres Metropolitan District (AAMD) showed an increase in Current Assets of \$157,339 due to continued monitoring of expenses and investing with ColoTrust, which provided higher rates of return. This increase allowed for funding the bond reserve required by the Bond Agreement for the second year in a row while still contributing to Capital Reserves for 2018-2019 Capital Improvement Plans.

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

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2017- 2016 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$348,118	\$344,482	\$3,636	1.1
Non-Operating Revenues	150,236	135,800	14,436	10.6
Total Revenues	498,354	480,282	18,072	3.8
Expenses				
Other Operating Expense	\$75,850	\$75,789	\$61	0.0
G & A Expenses	79,923	70,198	9,725	13.8
Non-Operating Expenses	83,525	80,880	2,645	3.3
Depreciation	32,336	32,336	-	-
Total Expenses	271,634	259,123	12,508	4.8
Change in Net Position	226,721	221,159	5,562	2.5
Beginning Net Position	(\$10,789)	(\$231,948)	\$221,159	
Ending Net Position	\$215,932	(\$10,789)	\$226,721	

Total Operating expenses were \$47,292 less than budgeted due to minimal repairs and maintenance expenses and less than average utility costs.

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

With the slight increase in Operating Revenue and Property Revenue and the decrease in Operating Expenses, even the slight increase in Non-Operating Expenses and G&A Expenses did not dampen the increasing Net Position trend. The continued effects of paying off smaller debt amounts in 2015 and 2016 allowed funds to be freed up for reserves in 2017.

5. Budgetary Highlights

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

6. Capital Assets and Debt Administration

Capital Assets

The District did not accumulate any substantial new capital assets in 2017. AAMD made great leaps in building reserves for Capital Improvements in 2017 by contributing \$199k into a reserve fund and building interest revenue from there. In 2017, an initial Capital Improvement Plan was introduced per the Engineer's recommendations and in 2018 the plan is being fine tuned and parts will be executed in 2018 and 2019. See Note 4 for more information.

7. Long-Term Debt

The District had total long term debt of \$1,305,130 at year end. This consists of only two long term debts: the 2007 Bond debt of \$1,230,000 and National Rural Water Association debt of \$75,130. See Note 5 for more information.

The District's taxpayers also had a balance of \$12,173 for a Judgment of 10 mills for payment of the previous management firm (SDMS) and previous legal firm (Collins, Cockrel and Cole). This Judgment has been paid off as of July 2018.

8. Economic Factors And New Year's Budget Rates

The District's Board of Directors and management consider many factors when setting the 2018 budget, including user fees and charges. The following table presents the changes in the District's budget from 2017 to 2018.

Arabian Acres Metropolitan District
Management's Discussion and Analysis

2018 vs. 2017 Budget

	<u>2018</u>	<u>2017</u>	<u>2018 - 2017 Change</u>	
			<u>\$</u>	<u>%</u>
Revenues				
Operating Revenues	\$317,620	\$316,666	\$954	0.0
Non-Operating Revenues	106,739	103,614	3,125	3.0
Total Revenues	424,359	420,280	4,079	0.0
Expenses				
Operating Expense	106,826	120,075	(13,249)	-11.0
G & A Expenses	92,850	78,284	14,566	18.6
Non-Operating Expense	144,277	133,551	10,726	8.0
Bond & Capital Reserve	-	0	-	-
Total Expenses	343,953	331,910	12,043	3.6
Net Income	80,406	88,370	(7,964)	-9.0

The Budget for 2018 Operating Revenue included tap fees expected to be received. Non-Operating Revenues increased due to having higher balances in investment accounts earning more interest income. Operating expenses in 2018 are estimated to be lower due to budgeting less for water purchases, as the District now has funds to make repairs and maintenance.

The bond and capital reserves for 2017 of \$63,156 should be compared with the Net income of \$88,370 for 2017. No reserves were funded for 2018 and instead Net income will be moved to reserve funds.

BASIC FINANCIAL STATEMENTS

ARABIAN ACRES METROPOLITAN DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUND

Year Ended December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and Cash Equivalents	\$ 332,994	\$ 196,901
Restricted Cash	60,000	55,000
Property Taxes Receivable	92,619	96,314
Accounts Receivable, less allowance for doubtful accounts	19,979	1,139
Prepaid Expense	7,160	6,059
Total Current Assets	<u>512,752</u>	<u>355,413</u>
Noncurrent Assets		
Capital Assets, Net of Accumulated Depreciation	<u>1,128,619</u>	<u>1,159,852</u>
TOTAL ASSETS	<u>\$ 1,641,371</u>	<u>\$ 1,515,265</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 10,538	\$ 6,151
Accrued Interest	4,979	5,172
Loans Payable, Current Portion	81,131	114,023
Total Current Liabilities	<u>96,648</u>	<u>125,346</u>
Noncurrent Liabilities		
Loans Payable, net of current position	<u>1,236,172</u>	<u>1,304,394</u>
Total Current Liabilities	<u>1,236,172</u>	<u>1,304,394</u>
TOTAL LIABILITIES	<u>1,332,820</u>	<u>1,429,740</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax Revenue	<u>92,619</u>	<u>96,314</u>
NET POSITION		
Net Investment in Capital Assets	(248,684)	(313,565)
Debt Service	60,000	215,000
Emergencies	21,000	15,000
Unrestricted	<u>383,616</u>	<u>72,776</u>
TOTAL NET POSITION	<u>215,932</u>	<u>(10,789)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 1,641,371</u>	<u>\$ 1,515,265</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
Year Ended December 31, 2017

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Water Sales	\$ 315,717	\$ 344,088
Miscellaneous Income	<u>32,401</u>	<u>394</u>
TOTAL OPERATING REVENUE	<u>348,118</u>	<u>344,482</u>
OPERATING EXPENSES		
General and Administrative	79,922	70,198
Operating	75,850	75,789
Depreciation	<u>32,336</u>	<u>32,336</u>
TOTAL OPERATING EXPENSES	<u>188,108</u>	<u>178,323</u>
OPERATING INCOME	<u>160,010</u>	<u>166,159</u>
NON-OPERATING REVENUES (EXPENSES)		
Property Taxes	134,423	126,816
Specific Ownership Taxes	11,888	8,058
Trustee Fees Payment	(250)	(250)
Other	(9,764)	(4,328)
Interest Income	3,925	927
Interest Expense	<u>(73,511)</u>	<u>(76,224)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>66,711</u>	<u>54,999</u>
NET INCOME	226,721	221,159
NET POSITION, Beginning	<u>(10,789)</u>	<u>(231,948)</u>
NET POSITION, Ending	<u>\$ 215,932</u>	<u>\$ (10,789)</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND

Year Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from User Fees and Surcharges	\$ 348,118	\$ 344,482
Cash Paid for Goods and Services	<u>(171,519)</u>	<u>(133,548)</u>
Net Cash Provided by Operating Activities	<u>176,599</u>	<u>210,934</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	134,423	126,816
Specific Ownership Taxes	<u>11,888</u>	<u>8,058</u>
Net Cash Provided by Capital and Related Financing Activities	<u>146,311</u>	<u>134,874</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Loan Payments	(101,114)	(89,735)
Transfer Fee Payment	(250)	(250)
Capital Expenditures	(1,103)	(1,190)
Interest Income	3,925	927
Interest Payments	(73,511)	(76,224)
Other	<u>(9,764)</u>	<u>(4,328)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(181,817)</u>	<u>(170,800)</u>
Net Increase in Cash and Cash Equivalents	141,093	175,008
CASH AND CASH EQUIVALENTS, Beginning	<u>251,901</u>	<u>76,893</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 392,994</u>	<u>\$ 251,901</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 160,010	\$ 166,159
Net Cash Provided by Operating Activities		
Depreciation and Amortization	32,336	32,336
Changes in Assets and Liabilities		
Accounts Receivable	(18,840)	7,175
Prepaid Expenses	(1,101)	(6,059)
Accrued Interest	(193)	5,172
Accounts Payable	<u>4,387</u>	<u>6,151</u>
Total Adjustments	<u>16,589</u>	<u>44,775</u>
Net Cash Provided by Operating Activities	<u>\$ 176,599</u>	<u>\$ 210,934</u>

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

In December of 2013, the District's board of directors approved a supplemental operations fee of \$100 per month per 3/4" residential tap and \$220 to \$550 per month for commercial taps. The District enacted this fee to ensure inflows of cash are adequate to pay ongoing operation and maintenance costs and to generate sufficient reserves to maintain and replace the District's facilities as and when needed.

Assets, Liabilities and Fund Balance/Net Position

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

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to volunteers; and natural disasters. The District is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials liability, boiler and machinery and workers compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property, public officials liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Town's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

NOTE 3: DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of December 31, 2017 follows:

Cash Deposits	\$ 24,769
Investments	<u>368,225</u>
Total	<u>\$ 392,994</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The District has no policy regarding custodial credit risk for deposits. At December 31, 2017, the District had deposits with financial institutions with a carrying amount of \$24,769. The bank balances with the financial institutions were \$23,550. At December 31, 2017, all of the District's cash and cash equivalents were insured by FDIC.

Investments

Interest Rate Risk

The District has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado local governments.

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Local Government Investment Pools

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The District had invested \$368,225 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAM by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned 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 the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables.

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

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

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

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 3: DEPOSITS AND INVESTMENTS (Continued)

Restricted Cash

The amount shown as restricted cash and cash equivalents has been restricted by the District's debt indenture to be used for future debt service, which is in the form of bank deposits. The District has restricted assets of \$60,000 as of December 31, 2017.

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended December 31, 2017, is summarized below.

	<u>Balances</u> <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/17</u>
Business-Type Activities				
Capital Assets, not depreciated,				
Land	\$ 101,000	\$ -	\$ -	\$ 101,000
Water Rights	<u>172,588</u>	<u>-</u>	<u>-</u>	<u>172,588</u>
Total Capital Assets, not depreciated	<u>273,588</u>	<u>-</u>	<u>-</u>	<u>273,588</u>
Capital Assets, depreciated,				
Water Distribution System and Equipment	<u>1,264,828</u>	<u>1,103</u>	<u>-</u>	<u>1,265,931</u>
Less: Accumulated Depreciation				
Water Distribution System and Equipment	<u>378,564</u>	<u>32,336</u>	<u>-</u>	<u>410,900</u>
Capital Assets, depreciated, net Of Accumulated Depreciation	<u>886,264</u>	<u>(32,336)</u>	<u>-</u>	<u>855,031</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 1,159,852</u>	<u>\$ (31,233)</u>	<u>\$ -</u>	<u>\$ 1,128,619</u>

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended December 31, 2017.

	Balance <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/17</u>	Due In <u>One Year</u>
2007 Series Bonds	\$ 1,285,000	\$ -	\$ 55,000	\$ 1,230,000	\$ 60,000
Judgement Payable	50,308	-	38,135	12,173	12,173
Notes Payable	<u>83,109</u>	<u>-</u>	<u>7,979</u>	<u>75,130</u>	<u>8,958</u>
Total	<u>\$ 1,418,417</u>	<u>\$ -</u>	<u>\$ 101,114</u>	<u>\$ 1,317,303</u>	<u>\$ 81,131</u>

2007 Series Bonds

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

Future Debt Service Requirements

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

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 60,000	\$ 59,753	\$ 119,753
2019	65,000	57,202	122,202
2020	65,000	54,408	119,408
2021	70,000	51,580	121,580
2022	75,000	48,500	123,500
2023 – 2027	435,000	182,000	617,000
2028 – 2030	<u>460,000</u>	<u>53,750</u>	<u>513,750</u>
Total Debt Service Requirements	<u>\$ 1,230,000</u>	<u>\$ 507,193</u>	<u>\$ 1,737,193</u>

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017

NOTE 5: LONG-TERM DEBT (Continued)

Judgment Payable

On August 20, 2014, the District entered into a joint settlement agreement that was accepted and approved by the District Court on September 12, 2014, with two vendors related to nonpayment of outstanding invoices in the amount of \$113,542. The liability which accrues interest at 8.00% per annum is being repaid using a special assessment on the property holders of the District. As of December 31, 2017, the remaining balances totaled \$12,173 including accrued interest of \$3,260.

Notes Payable

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

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

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

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 8,958	\$ 2,130	\$ 11,088
2019	9,230	1,858	11,088
2020	9,511	1,577	11,088
2021	9,801	1,287	11,088
2022	10,098	990	11,088
2023 – 2025	<u>27,532</u>	<u>1,110</u>	<u>28,642</u>
Total Debt Service Requirements	<u>\$ 75,130</u>	<u>\$ 8,952</u>	<u>\$ 84,082</u>

ARABIAN ACRES METROPOLITAN DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2017

NOTE 6: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The District has set aside \$21,000 as of December 31, 2017, for emergencies as defined by the Amendment.

INDIVIDUAL FUND FINANCIAL STATEMENT

ARABIAN ACRES METROPOLITAN DISTRICT

BUDGETARY COMPARISON SCHEDULE
 PROPRIETARY FUND TYPE
 Year Ended December 31, 2017 and 2016

	2017			2016 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	
REVENUES				
User Fees and Surcharges	\$ 170,166	\$ 168,055	\$ (2,111)	165,890
Late Fees	3,500	4,050	550	3,536
Water Supplemental Operations Fee	135,000	135,612	612	159,462
Water Tap Fees	8,000	8,000	-	15,200
Property Taxes	96,314	134,423	38,109	126,816
Specific Ownership Taxes	6,200	11,888	5,688	8,058
Liens and Interest from Users	700	3,925	3,225	927
Transfers In	100,348	202,200	101,852	-
Miscellaneous Income	400	32,401	32,001	394
TOTAL REVENUES	<u>520,628</u>	<u>700,554</u>	<u>179,926</u>	<u>480,283</u>
EXPENDITURES				
Water Fees	78,525	54,686	23,839	52,000
Management Fees	42,684	48,207	(5,523)	41,935
Director Fees	3,600	4,626	(1,026)	3,100
Contingency	2,000	-	2,000	-
Treasurer Fees	3,150	2,779	371	3,053
Trustee Fees	250	250	-	250
Accounting and Audit Fees	6,000	5,000	1,000	5,000
Repairs and Maintenance	35,000	21,164	13,836	17,365
Legal Fees	8,500	2,000	6,500	4,282
Office Supplies and Expenses	3,250	3,384	(134)	3,504
Utilities	6,300	5,581	719	6,423
Capital Outlay	-	1,103	(1,103)	1,190
Bank and Credit Card Fees	2,250	2,286	(36)	2,246
Insurance	7,750	6,059	1,691	7,078
Miscellaneous	4,500	9,764	(5,264)	4,328
Transfers Out	100,348	202,200	(101,852)	-
Debt Service				
Principal	63,693	101,114	(37,421)	89,735
Interest	64,458	73,511	(9,053)	76,224
TOTAL EXPENDITURES	<u>432,258</u>	<u>543,714</u>	<u>(111,456)</u>	<u>317,713</u>
NET INCOME, Budget Basis	<u>\$ 88,370</u>	156,840	<u>\$ 68,470</u>	<u>\$ 162,570</u>
GAAP BASIS ADJUSTMENTS				
Depreciation		(32,336)		
Capital Outlay		1,103		
Principal Paid on Long-term Debt		<u>101,114</u>		
NET GAIN GAAP Basis		226,721		
NET POSITION, Beginning		<u>(10,789)</u>		
NET POSITION, Ending		<u>\$ 215,932</u>		

See the accompanying independent auditors' report.