

**CASCADE METROPOLITAN
DISTRICT NO. 1**

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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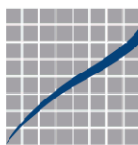
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Office of the State Auditor

July 30, 2018

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BiggsKofford
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Cascade Metropolitan District No. 1
Cascade, Colorado

Report on the Financial Statements

We have audited the accompanying basic financial statements of Cascade Metropolitan District No. 1 ("District") as of and for the years ended December 31, 2017 and 2016, and the notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits 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 respective financial position of Cascade Metropolitan District No. 1 as of December 31, 2017 and 2016, respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BiggsKofford, P.C.

Colorado Springs, Colorado
July 24, 2018

CASCADE METROPOLITAN DISTRICT NO. 1
STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current assets:		
Cash and investments	\$ 175,301	\$ 176,316
Cash and investments - restricted	2,769,446	3,296,871
Accounts receivable, less allowance for doubtful accounts	65,113	67,700
<u>Total current assets</u>	<u>3,009,860</u>	<u>3,540,887</u>
Non-current assets:		
Capital assets, net	1,936,020	1,423,123
<u>Total non-current assets</u>	<u>1,936,020</u>	<u>1,423,123</u>
<u>Total assets</u>	<u>\$ 4,945,880</u>	<u>\$ 4,964,010</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued liabilities	99,347	57,380
Accrued interest payable	23,517	23,517
Prepaid charges	3,552	2,616
Current maturities of bonds payable	45,000	45,000
<u>Total current liabilities</u>	<u>171,416</u>	<u>128,513</u>
Non-current liabilities:		
Bonds payable, net of current portion	4,875,767	4,918,604
<u>Total liabilities</u>	<u>5,047,183</u>	<u>5,047,117</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	(427,411)	(395,751)
Restricted for emergency reserves	22,796	24,711
Unrestricted	303,312	287,933
<u>Total net position</u>	<u>(101,303)</u>	<u>(83,107)</u>
<u>Total liabilities and net position</u>	<u>\$ 4,945,880</u>	<u>\$ 4,964,010</u>

The accompanying notes and independent auditor's report
should be read with this financial statement.

CASCADE METROPOLITAN DISTRICT NO. 1
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>OPERATING REVENUES</u>		
Water sales	\$ 759,855	\$ 823,700
Total operating revenues	<u>759,855</u>	<u>823,700</u>
<u>OPERATING EXPENSES</u>		
Purchased water	322,794	190,829
Labor	54,100	64,278
Administration	60,375	60,000
Professional fees	36,224	51,224
Depreciation	31,660	31,660
Insurance	6,959	10,168
Bank charges	9,139	8,507
Repairs and maintenance	14,204	5,798
Office supplies and other expenses	4,300	4,719
Vehicle expense	1,063	3,146
Chemicals and supplies	1,847	2,232
Utilities and telephone	2,121	2,194
Water quality testing	1,762	1,766
Dues and subscriptions	1,619	337
Bad debt expense (recovery)	-	(10,529)
Total operating expenses	<u>548,167</u>	<u>426,329</u>
Net operating income	<u>211,688</u>	<u>397,371</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
Other revenues	5,919	787
Interest income	33,561	21,894
Interest expense	(284,364)	(284,364)
Net non-operating expenses	<u>(244,884)</u>	<u>(261,683)</u>
Income before contributions	<u>(33,196)</u>	135,688
Capital contributions (tap fees)	<u>15,000</u>	<u>15,000</u>
Change in net position	<u>(18,196)</u>	150,688
Total net position, beginning of year	<u>(83,107)</u>	<u>(233,795)</u>
Total net position, end of year	<u>\$ (101,303)</u>	<u>\$ (83,107)</u>

The accompanying notes and independent auditor's report
should be read with this financial statement.

CASCADE METROPOLITAN DISTRICT NO. 1
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from customers	\$ 759,855	\$ 823,700
Cash payments to vendors	(461,878)	(581,686)
Cash payments to employees for services	(9,139)	(8,507)
Net cash provided by operating activities	<u>288,838</u>	<u>233,507</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Other revenues	<u>5,919</u>	<u>787</u>
Net cash provided by non-capital financing activities	<u>5,919</u>	<u>787</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Principal paid on bonds payable	(45,000)	-
Interest expense and penalties	(279,699)	(279,699)
Acquisition and construction of capital assets	(544,557)	(120,884)
Tap fees received	<u>15,000</u>	<u>15,000</u>
Net cash used in capital and related financing activities	<u>(854,256)</u>	<u>(385,583)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest income	<u>31,059</u>	<u>19,393</u>
Net cash provided by investing activities	<u>31,059</u>	<u>19,393</u>
Net decrease in cash and investments	(528,440)	(131,896)
Cash and investments, beginning of year	<u>3,473,187</u>	<u>3,605,083</u>
Cash and investments, end of year	<u>\$ 2,944,747</u>	<u>\$ 3,473,187</u>

The accompanying notes and independent auditor's report should be read with this financial statement.

CASCADE METROPOLITAN DISTRICT NO. 1
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net operating income	\$ 211,688	\$ 397,371
Adjustments to reconcile net operating income to net cash provided by (used in) operating activities:		
Depreciation	31,660	31,660
Bad debt recovery	-	(10,529)
Decrease (increase) in operating assets:		
Accounts receivable	2,587	(28,275)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	41,967	(159,336)
Prepaid charges	936	2,616
Net cash provided by operating activities	<u>\$ 288,838</u>	<u>\$ 233,507</u>

The accompanying notes and independent auditor's report
should be read with this financial statement.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

1. DEFINITION OF REPORTING ENTITY

Cascade Metropolitan District No. 1 ("District"), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized on November 16, 2004 to provide residential and commercial water services in the unincorporated Town of Cascade, Colorado. The District is governed pursuant to provisions of the Colorado Special District Act. It is governed by an elected five-member board of directors, which is the policy-making body of the District.

The District follows the Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform to accounting principles generally accepted in the United States of America ("US GAAP") as applicable to governmental units accounted for as a proprietary enterprise fund. The enterprise fund is used since the District is similar to a private utility system where net income and capital maintenance are appropriate determinations of accountability.

The more significant accounting policies of the District are described as follows:

Basis of accounting

The District's records are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when liabilities are incurred. Depreciation is computed and recorded as an operating expense. Expenditures for capital assets are shown as increases in assets.

The District distinguishes between operating revenues and expenses and non-operating items in the statements of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's purpose of providing water services to its customers. Operating revenues consist of charges to customers for services provided.

Use of estimates

The preparation of financial statements in accordance with US GAAP requires the District to use estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates.

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and equivalents

For purposes of the statements of cash flows, the District considers cash and all highly liquid debt instruments with initial maturities of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable of the District consist of water usage fees and service fees receivable. Accounts receivable are stated at the amount the District expects to collect. The District maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If the financial condition of the District's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Accounts receivable as of December 31, 2017 and 2016 have been recorded net of an allowance for doubtful accounts of \$5,000 each year.

Capital assets

Capital assets purchased or acquired with original costs of \$5,000 or greater are recorded at historical cost. Contributed capital assets are recorded at their estimated 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). Construction in progress is not depreciated until the asset is placed in service.

Revenues and expenses

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 or capital contributions.

Net position

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

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and budgetary accounting

In accordance with the Local Government Budget Law of Colorado, the District's board of directors holds public hearings in the fall each year to adopt the budget and appropriate the funds for the ensuing year. The District's board of directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The appropriation is at the total fund expenditures level and lapses at year end.

Reclassifications

Certain prior period balances and amounts have been reclassified to conform with the current period financial statement presentation. These reclassifications have no effect on previously reported change in net position.

3. CASH AND INVESTMENTS

Cash and equivalents and investments are reflected for the December 31, 2017 and 2016 statements of net position and statements of cash flows as follows:

	2017	2016
Cash	\$ 175,301	\$ 176,316
Cash and investments - restricted	2,769,446	3,296,871
	\$ 2,944,747	\$ 3,473,187

The carrying amounts of cash and investments for the District, which equals fair value, as of December 31, 2017 and 2016 are as follows:

	2017	2016
Deposits with financial institutions	\$ 175,301	\$ 176,316
Investments	2,769,446	3,296,871
	\$ 2,944,747	\$ 3,473,187

Deposits with financial institutions

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits.

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. CASH AND INVESTMENTS (CONTINUED)

Deposits with financial institutions (continued))

The state 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.

At December 31, 2017, the District had cash deposits and money market funds with a bank balance of \$2,957,549 and a carrying balance of \$2,944,747. At December 31, 2016, the District had cash deposits and money market funds with a bank balance of \$3,470,350 and a carrying balance of \$3,473,187.

Investments

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those with an asterisk below which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless otherwise formally approved by the board of directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- Obligations of the United States and certain United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- * Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Fair value measurement and application

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; and Level 3 inputs are significant unobservable inputs.

The District invests in certain money market funds which are recorded at fair value and measured using Level 2 inputs.

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

3. CASH AND INVESTMENTS (CONTINUED)

Fair value measurement and application (continued)

As of December 31, 2017, the District had the following investments:

Investments	Maturity	Fair Value
Certain money market funds	Less than 1 year	<u>\$ 2,769,446</u>

4. CAPITAL ASSETS

District capital asset activity for the year ended December 31, 2017 and 2016 is as follows:

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/17</u>
Non-depreciable assets				
Construction in progress	\$ 315,030	544,557	\$ -	\$ 859,587
Capital assets, being depreciated:				
Water distribution system and equipment	1,503,844	-	-	1,503,844
Total being depreciated	1,503,844	-	-	1,503,844
Less accumulated depreciation:				
Water distribution system and equipment	(395,751)	(31,660)	-	(427,411)
Capital assets, net	<u>\$ 1,423,123</u>	<u>\$ 512,897</u>	<u>\$ -</u>	<u>\$ 1,936,020</u>
	<u>Balance 01/01/16</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 12/31/16</u>
Non-depreciable assets				
Construction in progress	\$ 194,146	120,884	\$ -	\$ 315,030
Capital assets, being depreciated:				
Water distribution system and equipment	1,503,844	-	-	1,503,844
Total being depreciated	1,503,844	-	-	1,503,844
Less accumulated depreciation:				
Water distribution system and equipment	(364,091)	(31,660)	-	(395,751)
Capital assets, net	<u>\$ 1,333,899</u>	<u>\$ 89,224</u>	<u>\$ -</u>	<u>\$ 1,423,123</u>

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

4. CAPITAL ASSETS (CONTINUED)

Depreciation expense for the years ended December 31, 2017 and 2016 totaled \$31,660 each year.

5. BONDS AND NOTES PAYABLE

Bonds and notes payable consisted of the following as of December 31, 2017:

	2017	2016
Series 2015A Bonds bearing interest at rates between 4.75% and 6.00% per annum until maturity on December 1, 2036. Interest rates vary based on graduated maturity dates. The interest and principal payments are payable semi-annually on each June 1 and December 1, beginning December 1, 2015.	3,470,000	3,500,000
Series 2015B Bonds bearing interest at a rate of 5.50% per annum until maturity on December 1, 2035. The interest and principal payments are payable semi-annually on each June 1 and December 1, beginning December 1, 2015.	1,485,000	1,500,000
Total	\$ 4,955,000	\$ 5,000,000
Less current portion	(45,000)	(45,000)
	\$ 4,910,000	\$ 4,955,000

The following is a analysis of the changes in the District's long-term debt for the year ended December 31, 2017 and 2016:

	Balance 01/01/17	Additions	Amortization / (Accretion) / (Repayments)	Balance 12/31/17	Due within one year
Series 2015A Bonds	\$ 3,500,000	\$ -	\$ (30,000)	\$ 3,470,000	\$ 35,000
Series 2015A Bond Premium	42,961	-	(2,502)	40,459	-
Series 2015A Underwriter Discount	(48,341)	-	2,814	(45,527)	-
Series 2015B Bonds	1,500,000	-	(15,000)	1,485,000	10,000
Series 2015B Bond Discount	(31,016)	-	1,851	(29,165)	-
	\$ 4,963,604	\$ -	\$ (42,837)	\$ 4,920,767	\$ 45,000

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

5. BONDS AND NOTES PAYABLE (CONTINUED)

	Balance 01/01/16	Additions	Repayments	Balance 12/31/16	Due within one year
Series 2015A Bonds	\$ 3,500,000	\$ -	\$ -	\$ 3,500,000	\$ 30,000
Series 2015A Bond Premium	45,462	-	(2,501)	42,961	-
Series 2015A Underwriter Discount	(51,155)	-	2,814	(48,341)	-
Series 2015B Bonds	1,500,000	-	-	1,500,000	15,000
Series 2015B Bond Discount	(32,867)	-	1,851	(31,016)	-
	<u>\$ 4,961,440</u>	<u>\$ -</u>	<u>\$ 2,164</u>	<u>\$ 4,963,604</u>	<u>\$ 45,000</u>

Future commitments on long-term debt as of December 31 , 2017 are as follows:

Year ending December 31,	Principal	Interest	Total
2018	\$ 45,000	\$ 279,950	\$ 324,950
2019	50,000	277,738	327,738
2020	55,000	275,250	330,250
2021	65,000	272,525	337,525
2022	65,000	269,325	334,325
2023 - 2027	445,000	1,290,800	1,735,800
2028 - 2032	675,000	1,148,150	1,823,150
2033 - 2036	3,555,000	717,200	4,272,200
	<u>\$ 4,955,000</u>	<u>\$ 4,530,938</u>	<u>\$ 9,485,938</u>

The 2015 Series Bonds require the maintenance of a debt service reserve account. The District was in compliance with this requirement as of December 31, 2017 and 2016, respectively.

6. NET POSITION

The District has net position consisting of three components - invested in capital assets, net of related debt; restricted; and unrestricted.

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

6. NET POSITION (CONTINUED)

Invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, plus unspent debt proceeds, and reduced by outstanding balances of bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017 and 2016, the District had an investment in capital assets, net of related debt calculated as follows:

	2017	2016
Capital assets, net of accumulated depreciation	\$ 1,076,433	\$ 1,108,093
Bonds payable	(1,503,844)	(1,503,844)
	\$ (427,411)	\$ (395,751)

Restricted net position include amounts that are restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District had a restricted net position as of December 31, 2017 and 2016 as follows:

	2017	2016
Restricted for emergency reserves (see Note 8)	\$ 22,796	\$ 24,711

Unrestricted net position consists of amounts that do not meet the definition of invested in capital, net of related debt or restricted net position.

7. RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, as amended, the District may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to volunteers or contractors; and natural disasters. The District carries commercial insurance for some of these risks of loss. The remaining risks of loss are retained by the District. There were no significant changes in coverage during the years ended December 31, 2017 or 2016.

8. TAX, SPENDING AND DEBT LIMITATIONS

Article X, Section 20 of the Colorado Constitution, commonly known as the Taxpayer's Bill of Rights ("TABOR"), contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments within the State of Colorado.

Spending and revenue limits are determined based on the prior fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

8. TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

TABOR requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. For the years ended December 31, 2017 and 2016, management used 3% of revenues to calculate the reserve amount.

In 2004, the District's voters authorized the District to collect, spend and retain all revenues without regard to the limitations contained within TABOR.

The Districts' management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate fiscal year spending limits, will likely require judicial interpretation.

9. ENERGY & MINERAL IMPACT ASSISTANCE GRANT

On August 5, 2015 the District received a grant from the Colorado Department of Local Affairs ("DOLA"). The grant is intended to improve the efficiency of the water system and implement improvements required by CSU for an eventual takeover of the water distribution system. The District is eligible to request reimbursement once costs are incurred in collection with the approved project. During the year ended December 31, 2017, the District received an addition to the grant of \$200,000 and the project completion date was extended to December 31, 2018. The total grant award is \$1,707,914, the total anticipated cost of the project is \$4,807,877 and the District has agreed to fund the shortfall using proceeds from the Series 2015 Bonds. Any cost savings are split pro-rata between DOLA and the District.

10. COMMITMENTS

On December 11, 2017, the District executed a Construction Contract with RMS Utilities for the construction of the District's water system improvements project, which contract is in the total amount of \$3,670,008. The project is anticipated to be complete in October 2018 at which time the District will pursue conversion of the water system with Colorado Springs Utilities.

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See independent auditor's report.

SUPPLEMENTARY INFORMATION

CASCADE METROPOLITAN DISTRICT NO. 1
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET COMPARED TO ACTUAL
CASH BASIS
YEAR ENDED DECEMBER 31, 2017

	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance
<u>OPERATING REVENUES</u>				
Water sales	\$ 226,440	\$ 221,854	\$ 221,854	\$ -
Bulk water sales	13,000	22,445	22,445	-
Meter fee	79,794	98,840	98,840	-
Pipeline surcharge	66,812	72,730	72,730	-
Late fees	2,000	3,496	3,496	-
Debt service water fee	346,875	344,471	344,471	-
Total operating revenues	734,921	763,836	763,836	-
<u>OPERATING EXPENDITURES</u>				
Purchased water	266,000	312,739	283,111	29,628
Labor	54,000	51,497	57,100	(5,603)
Administration	60,000	60,000	60,375	(375)
Professional fees	65,300	36,599	36,224	375
Insurance	8,500	6,959	6,959	-
Bank charges	7,220	9,173	9,139	34
Repairs and maintenance	16,000	14,204	14,204	-
Office supplies and other expenses	12,014	4,397	4,300	97
Vehicle expense	1,000	1,063	1,063	-
Chemicals and supplies	2,000	1,847	1,847	-
Utilities and telephone	2,000	2,121	2,121	-
Water quality testing	2,500	1,762	1,762	-
Dues and subscriptions	350	1,619	1,619	-
Capital outlay	2,783,476	553,797	544,558	9,239
Grand project	1,707,914	-	-	-
Contingency	68,806	-	-	-
Total operating expenditures	5,057,080	1,057,777	1,024,382	33,395
<u>NON-OPERATING REVENUES (EXPENSES)</u>				
Interest and principal payments	(282,200)	(282,200)	(327,200)	(45,000)
Tap fees	15,000	15,000	15,000	-
Interest income	6,020	33,561	33,561	-
Other revenues	6,000	6,019	5,919	(100)
Total non-operating revenues and expenditures	(255,180)	(227,620)	(272,720)	(45,100)
Excess (deficit) of revenue over expenditures - budgetary basis	\$ (4,577,339)	\$ (521,561)	\$ (533,266)	\$ (11,705)

See independent auditor's report.

CASCADE METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF AMOUNTS FROM GAAP BASIS TO CASH BASIS
YEAR ENDED DECEMBER 31, 2017

The accompanying supplementary Schedule of Revenues and Expenditures - Budget Compared to Actual on page 17 presents comparisons of the legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with US GAAP, a reconciliation of differences in revenues and expenditures is presented below.

Total revenues per financial statements	\$ 814,335
<hr/>	
Add:	
Revenue accruals and non-cash adjustments at December 31, 2016	26,274
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Less:	
Revenue accruals and non-cash adjustments at December 31, 2017	(22,293)
<hr/>	
Total actual revenues and receipts per the budget	<u>\$ 818,316</u>
<hr/>	
Total expenses and capital expenditures per financial statements	\$ 832,531
<hr/>	
Add:	
Principal payment on bonds	45,000
Expense and capital expenditure accruals and non-cash adjustments at at December 31, 2016	39,852
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Expense and capital expenditure accruals and non-cash adjustments at at December 31, 2017	465,859
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Less:	
Depreciation expense	(31,660)
<hr/>	
Total actual expenses and capital expenditures per the budget	<u>\$ 1,351,582</u>

See independent auditor's report.