

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Financial Statements

Year Ended December 31, 2017

with

Independent Auditors' Report

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Board of Directors
Eagle Shadow Metropolitan District No. 1
Adams County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Eagle Shadow Metropolitan District No. 1 (the "District") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general 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 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 the governmental activities and each major fund of Eagle Shadow Metropolitan District No. 1 as of December 31, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The supplemental information as listed in the table of contents is presented for the purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplemental 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Stratagem PC
Certified Public Accountants
Lakewood, Colorado

May 29, 2018

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

BALANCE SHEET/STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 274,782	\$ -	\$ -	\$ 274,782	-	274,782
Cash and investments - restricted	4,433	384,123	-	388,556	-	388,556
Receivable County Treasurer	-	5,138	-	5,138	-	5,138
Property taxes receivable	77,693	691,470	-	769,163	-	769,163
Accounts receivable	42,423	-	28,131	70,554	-	70,554
Prepaid expense	3,964	-	-	3,964	-	3,964
Capital assets, net of depreciation	-	-	-	-	10,007,345	10,007,345
Total Assets	<u>403,295</u>	<u>1,080,731</u>	<u>28,131</u>	<u>1,512,157</u>	<u>10,007,345</u>	<u>11,519,502</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred loss on refunding	-	-	-	-	1,046,485	1,046,485
Total Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,046,485</u>	<u>1,046,485</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 403,295</u>	<u>\$ 1,080,731</u>	<u>\$ 28,131</u>	<u>\$ 1,512,157</u>		
LIABILITIES						
Accounts payable	\$ 3,626	\$ -	\$ -	\$ 3,626	-	3,626
Accrued interest on bonds	-	-	-	-	50,494	50,494
Long-term liabilities						
Due within one year	-	-	-	-	360,000	360,000
Due in more than one year	-	-	-	-	8,978,356	8,978,356
Total Liabilities	<u>3,626</u>	<u>-</u>	<u>-</u>	<u>3,626</u>	<u>9,388,850</u>	<u>9,392,476</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	77,693	691,470	-	769,163	-	769,163
Total Deferred Inflows of Resources	<u>77,693</u>	<u>691,470</u>	<u>-</u>	<u>769,163</u>	<u>-</u>	<u>769,163</u>
FUND BALANCES/NET POSITION						
Fund Balances:						
Nonspendable:						
Prepays	3,964	-	-	3,964	(3,964)	-
Restricted						
Emergencies	4,433	-	-	4,433	(4,433)	-
Debt Service	-	389,261	-	389,261	(389,261)	-
Capital projects	-	-	28,131	28,131	(28,131)	-
Assigned						
Subsequent year's expenditures	55,604	-	-	55,604	(55,604)	-
Unassigned	257,975	-	-	257,975	(257,975)	-
Total Fund Balances	<u>321,976</u>	<u>389,261</u>	<u>28,131</u>	<u>739,368</u>	<u>(739,368)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 403,295</u>	<u>\$ 1,080,731</u>	<u>\$ 28,131</u>	<u>\$ 1,512,157</u>		
Net Position:						
Net Investment in Capital Assets					668,989	668,989
Restricted for:						
Emergencies					4,433	4,433
Debt service					338,767	338,767
Capital projects					28,131	28,131
Unrestricted					1,364,028	1,364,028
Total Net Position					<u>2,404,348</u>	<u>2,404,348</u>

The notes to the financial statements are an integral part of these statements.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS

For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting	\$ 12,363	\$ -	\$ -	\$ 12,363	\$ -	\$ 12,363
Audit	3,465	-	-	3,465	-	3,465
Directors fees ant payroll taxes	5,921	-	-	5,921	-	5,921
Insurance	4,611	-	-	4,611	-	4,611
Legal	38,544	-	-	38,544	-	38,544
General engineering	28,236	-	-	28,236	-	28,236
Miscellaneous expenses	163	-	-	163	-	163
Treasurer's fees	992	8,823	-	9,815	-	9,815
Bond principal	-	340,000	-	340,000	(340,000)	-
Bond interest expense	-	414,150	-	414,150	47,789	461,939
Paying agent fees	-	300	-	300	-	300
Capital construction	-	-	585,861	585,861	(585,861)	-
Total Expenditures	<u>94,295</u>	<u>763,273</u>	<u>585,861</u>	<u>1,443,429</u>	<u>(878,072)</u>	<u>565,357</u>
GENERAL REVENUES						
Property taxes	65,999	587,487	-	653,486	-	653,486
Specific ownership taxes	-	63,099	-	63,099	-	63,099
Development fees	-	-	141,392	141,392	-	141,392
Interest and other income	<u>91</u>	<u>12,497</u>	<u>705</u>	<u>13,293</u>	<u>-</u>	<u>13,293</u>
Total General Revenues	<u>66,090</u>	<u>663,083</u>	<u>142,097</u>	<u>871,270</u>	<u>-</u>	<u>871,270</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(28,205)	(100,190)	(443,764)	(572,159)	878,072	305,913
OTHER FINANCING SOURCES (USES)						
Transfer to/(from) other funds	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES						
	(128,205)	(100,190)	(343,764)	(572,159)	572,159	
CHANGE IN NET POSITION						
					305,913	305,913
FUND BALANCE/NET ASSETS						
BEGINNING OF YEAR	<u>450,181</u>	<u>489,451</u>	<u>371,895</u>	<u>1,311,527</u>	<u>786,908</u>	<u>2,098,435</u>
END OF YEAR	<u>\$ 321,976</u>	<u>\$ 389,261</u>	<u>\$ 28,131</u>	<u>\$ 739,368</u>	<u>\$ 1,664,980</u>	<u>\$ 2,404,348</u>

The notes to the financial statements are an integral part of these statements.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2017

	Original and Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 66,126	\$ 65,999	\$ (127)
Development fees	18,800	-	(18,800)
Interest income	<u>70</u>	<u>91</u>	<u>21</u>
Total Revenues	<u>84,996</u>	<u>66,090</u>	<u>(18,906)</u>
EXPENDITURES			
Accounting	20,000	12,363	7,637
Audit	4,000	3,465	535
Directors fees ant payroll taxes	6,600	5,921	679
Insurance	5,000	4,611	389
Legal	60,000	38,544	21,456
General engineering	-	28,236	(28,236)
Miscellaneous expenses	16,000	163	15,837
Treasurers fees	992	992	-
Contingency	389,323	-	389,323
Emergency reserve	<u>3,378</u>	<u>-</u>	<u>3,378</u>
Total Expenditures	<u>505,293</u>	<u>94,295</u>	<u>410,998</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(420,297)	(28,205)	392,092
OTHER FINANCING SOURCES (USES)			
Transfer to/(from) other funds	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(100,000)</u>	<u>(100,000)</u>
NET CHANGES IN FUND BALANCES	(420,297)	(128,205)	292,092
FUND BALANCE - BEGINNING OF YEAR	<u>420,297</u>	<u>450,181</u>	<u>29,884</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ 321,976</u>	<u>\$ 321,976</u>

The notes to the financial statements are an integral part of these statements.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Eagle Shadow Metropolitan District No. 1 (“the District”), located in Adams County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on January 3, 2000, as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established for the primary purpose of providing for the acquisition, construction, installation and completion of certain improvements, including streets, park and recreations, safety protection, transportation, mosquito control, and water and sanitation improvements for the inhabitants of the District. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets 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 pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

The District has no employees and all operations and administrative functions are contracted.

Basis of Presentation

The accompanying financial statements are presented per GASB Statement No. 34 – Special Purpose Governments:

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financials and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity as been removed from these statements.

The statement of net position reports all financial and capital resources of the District. The difference between the assets and liabilities of the District is reported as net position.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

Budgetary Accounting

In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve 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 budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a minimum number of bank accounts. Cash in excess of immediate operating requirements is pooled for deposit and investment flexibility. Investment earnings are allocated periodically to the participating funds based upon each fund's average equity balance in the total cash.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred loss on refunding reported in the government-wide statement of net position. A deferred loss on 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 or 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 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 one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Original Issue Premium and Deferred loss on Refunding

Original issue premium and deferred loss on refunding from the Series 2013 Bonds are being amortized over the respective terms of the bonds using the interest or straight-line method. Accumulated amortization of original issue premium and deferred loss on refunding amounted to \$40,924 and \$257,237 at December 31, 2017, respectively.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the life of the asset are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. The District intends to transfer all infrastructure to the County for maintenance, therefore no depreciation has been provided.

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$4,433 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Debt Service Fund in the amount of \$389,261 is restricted for the payment of the debt service costs related to the General Obligation Refunding Bonds Series 2013 A and Series 2013 B (see Note 4).

The restricted fund balance in the Capital Projects Fund in the amount of \$28,131 is restricted for capital improvements within the District.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

The assigned fund balance in the General Fund represents the amount appropriated for use in the budget for the year ending December 31, 2018.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2017

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

As of December 31, 2017, cash and investments are classified in the accompanying financial statements as follows:

Statement of net positions:	
Cash and investments	\$ 274,782
Cash and investments – restricted	<u>388,556</u>
	\$ <u>663,338</u>

Cash and investments as of December 31, 2017, consist of the following:

Deposits with financial institutions	\$ 41,821
Investments – COLOTRUST	<u>621,517</u>
	\$ <u>663,338</u>

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (“PDPA”) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. 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 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% the aggregate uninsured deposits. 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.

The District does not have a formal policy for deposits. None of the District’s deposits were exposed to custodial credit risk.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Investments

Investment Valuation

Certain investments are measured at fair value 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 unobservable inputs. The District's investment, is not required to be categorized within the fair value hierarchy. This investment's value is calculated using the net asset value (NAV) per share.

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

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust ("COLOTRUST") is rated AAAM by Standard & Poor's and the maturity is weighted average under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. COLOTRUST determines the NAV of the shares of each portfolio as of the close of business of each day. The NAV per share of each portfolio is computed by dividing the total value of the securities and other assets of the portfolios, less any liabilities, by the total outstanding shares of the portfolios. Liabilities, which include all expenses and fees of COLOTRUST, are accrued daily. The NAV is calculated at fair value using various inputs in determine value in accordance with FASB guidance. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies. Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians' internal records identify the investments owned by COLOTRUST. At December 31, 2017, the District had \$621,517 invested in COLOTRUST.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2017

Note 3: Capital Assets

An analysis of the changes in capital assets for the year ended December 31, 2017 follows:

	<u>Balance</u> <u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2017</u>
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Construction in progress	\$9,421,484	\$ 585,861	\$ -	\$10,007,345
Total capital assets not being depreciated:	<u>9,421,484</u>	<u>585,861</u>	<u>-</u>	<u>10,007,345</u>
Government type assets, net	<u>\$9,421,484</u>	<u>\$ 585,861</u>	<u>\$ -</u>	<u>\$10,007,345</u>

Upon completion and acceptance, all fixed assets will be conveyed by the District to other local governments therefore no depreciation has been recorded.

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2017, is as follows:

General Obligation Refunding Bonds Tax-Exempt Series 2013 A and General Obligation Refunding Bonds Taxable Series 2013 B

On July 30, 2013, the District issued \$9,845,000 of General Obligation Refunding Bonds Tax-exempt Series 2013A (“Series 2013A Bonds”) and \$1,120,000 of General Obligation Refunding Bonds Taxable Series 2013B (“Series 2013B Bonds”) to refund all of the outstanding general obligation bonds of the District to provide for savings, and paying the cost of issuance for the Series 2013 A Bonds and Series 2013B Bonds. The Series 2013A Bonds are term bonds and will mature on November 15, 2035. The Series 2013A Bonds bear interest at the rates ranging from 3% to 5%, interest is payable semiannually on each May 15 and November 15, commencing on November 15, 2013 and are subject to a mandatory sinking fund redemption commencing on November 15, 2013.

The 2013A Bonds are subject to an early redemption at the option of the District, commencing November 15, 2022, and on any date thereafter, upon payment of principal plus accrued interest without any premium. The Series 2013 B Bonds are term bonds and will mature on November 15, 2017. The Series 2013B Bonds bear interest at the rates ranging from 1.5% to 3%, interest is payable semiannually on each May 15 and November 15, commencing on November 15, 2013 and are subject to a mandatory sinking fund redemption commencing on November 15, 2013. The 2013B Bonds are not subject to early redemption.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2017

The 2013 Bonds are payable solely from pledged revenue which consists of an unlimited mill levy and any other legally available monies.

Advance refunding of debt

The 2013 Bonds were issued to provide resources to purchase securities to be placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the Series 2005A Bonds and the Series 2006 Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$1,303,722. This amount is recorded as a deferred inflow and is being amortized over the remaining life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the remaining life of the old debt at the time of the refunding by \$4,006,337 and resulted in an economic gain of \$1,783,949.

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

	Balance <u>1/1/2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2017</u>	Current <u>Portion</u>
General Obligation Refunding Bonds					
Series 2013A	\$ 9,365,000	\$ -	\$ 130,000	\$ 9,235,000	\$ 360,000
Series 2013B	210,000	-	210,000	-	-
Premium on Series 2013A Bonds	112,755	-	9,399	103,356	-
	<u>\$ 9,687,755</u>	<u>\$ -</u>	<u>\$ 349,399</u>	<u>\$ 9,338,356</u>	<u>\$ 360,000</u>

The following is a summary of the annual long-term debt principal and interest requirements.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 360,000	\$ 403,950	\$ 763,950
2019	360,000	392,250	752,250
2020	385,000	379,650	764,650
2021	400,000	365,213	765,213
2022	415,000	349,213	764,213
2023-2027	2,330,000	1,477,438	3,807,438
2028-2032	2,895,000	920,627	3,815,627
2033-2035	2,090,000	196,332	2,286,332
	<u>\$ 9,235,000</u>	<u>4,484,673</u>	<u>\$ 13,719,673</u>

As of December 31, 2017, the District had remaining voted debt authorization of approximately \$18,595,000. The District did not budget to issue any new debt in 2018.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements December 31, 2017

Note 5: District Agreements

Regional Facilities Agreement

The District has entered into a Regional Facilities Agreement with Todd Creek Farms Metropolitan District No. 1. Todd Creek Metropolitan District No. 1 has agreed to construct the major regional water facilities necessary to serve property within the District and has agreed to provide water service to the District. The District has agreed that Todd Creek Metropolitan District No. 1 may assess such fees and charges on property of its customers within the District, as it deems appropriate to recoup capital costs of construction of facilities and the costs of providing water service.

Note 6: Tax, Spending and Debt Limitations

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

Spending and revenue limits are determined based on the prior year's 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.

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.

The District's 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 require judicial interpretation.

Note 7: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The Colorado Special Districts Property and Liability Pool ("the Pool") is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

Notes to Financial Statements
December 31, 2017

The District pays annual premiums to the Pool for auto, public official's liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other 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.

Note 8: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Position includes an adjustments column. The adjustments have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds;
- 2) deferred loss on refunding used in government activities are not financial resources and, therefore are not reported in the funds; and,
- 3) long-term liabilities such as bonds payable, accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 3) governmental funds report principal payments on debt as expenses: however, they are recorded as a reduction in debt on the Statement of Activities.

SUPPLEMENTAL INFORMATION

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2017

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Property taxes	\$ 588,519	\$ 587,487	\$ (1,032)
Specific ownership taxes	49,098	63,099	14,001
Interest and other income	<u>1,200</u>	<u>12,497</u>	<u>11,297</u>
Total Revenues	<u>638,817</u>	<u>663,083</u>	<u>24,266</u>
EXPENDITURES			
Bond interest	414,150	414,150	-
Bond principal	340,000	340,000	-
Paying agent fees	9,981	300	9,681
Treasurer's fees	<u>8,827</u>	<u>8,823</u>	<u>4</u>
Total Expenditures	<u>772,958</u>	<u>763,273</u>	<u>9,685</u>
CHANGE IN FUND BALANCE	(134,141)	(100,190)	33,951
FUND BALANCE - BEGINNING OF YEAR	<u>475,052</u>	<u>489,451</u>	<u>14,399</u>
FUND BALANCE - END OF YEAR	<u>\$ 340,911</u>	<u>\$ 389,261</u>	<u>\$ 48,350</u>

The notes to the financial statements are an integral part of these statements.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

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

For the Year Ended December 31, 2017

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Development fees	\$ 60,000	\$ 141,392	\$ 81,392
Interest and other income	<u>-</u>	<u>705</u>	<u>705</u>
 Total Revenues	 <u>60,000</u>	 <u>142,097</u>	 <u>82,097</u>
 EXPENDITURES			
Capital construction	<u>586,099</u>	<u>585,861</u>	<u>238</u>
 Total Expenditures	 <u>586,099</u>	 <u>585,861</u>	 <u>238</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(526,099)	(443,764)	82,335
 OTHER FINANCING SOURCES (USES)			
Transfer from other funds	<u>-</u>	<u>100,000</u>	<u>100,000</u>
 Total Other Financing Sources (Uses)	 <u>-</u>	 <u>100,000</u>	 <u>100,000</u>
 NET CHANGES IN FUND BALANCES			
	(526,099)	(343,764)	182,335
 FUND BALANCE - BEGINNING OF YEAR			
	<u>526,099</u>	<u>371,895</u>	<u>(154,204)</u>
 FUND BALANCE - END OF YEAR			
	<u>\$ -</u>	<u>\$ 28,131</u>	<u>\$ 28,131</u>

The notes to the financial statements are an integral part of these statements.

EAGLE SHADOW METROPOLITAN DISTRICT NO. 1

SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED

December 31, 2017

<u>Year Ended</u> <u>December 31,</u>	<u>Prior</u> <u>Year Assessed</u> <u>Valuation</u> <u>for Current</u> <u>Year Property</u> <u>Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Tax</u>		<u>Percent</u> <u>Collected</u> <u>to Levied</u>
		<u>General Fund</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2005	\$ 10,069,280	5.000	38.000	\$ 432,979	\$ 429,878	99.28%
2006	12,746,480	5.000	38.000	548,098	547,037	99.81%
2007	16,187,230	5.000	38.000	696,051	683,156	98.15%
2008	21,129,580	5.000	38.000	908,572	906,704	99.79%
2009	23,260,130	5.000	35.000	930,406	928,376	99.78%
2010	24,353,380	5.000	32.000	901,075	900,747	99.96%
2011	22,253,330	5.000	32.000	835,756	821,452	98.29%
2012	21,381,930	3.500	34.240	806,954	806,555	99.95%
2013	22,145,080	3.500	34.240	835,755	833,339	99.71%
2014	21,596,550	2.500	25.000	593,905	602,048	101.37%
2015	22,064,060	2.500	25.000	606,762	603,931	99.53%
2016	26,021,690	2.500	22.250	644,037	643,767	99.96%
2017	26,450,290	2.500	22.250	654,645	653,486	99.82%
Estimated for year ending December 31, 2018	31,077,290	2.500	22.250	769,163		

NOTE

Property taxes collected in any one year include collection of delinquent property taxes levied and/or abatements or valuations in prior years. Information received from the County Treasurer does not permit identification of specific year assessment.