

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
Arapahoe County, Colorado

FINANCIAL STATEMENTS
December 31, 2017

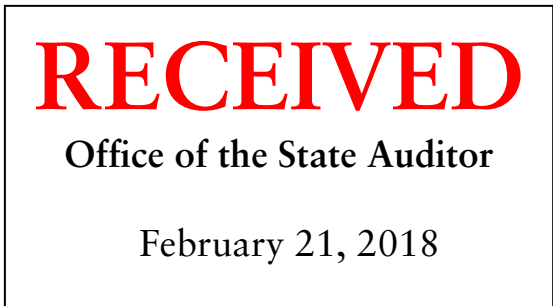


TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
General Fund - Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	18
Debt Service Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	19
Capital Projects Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	20
Conservation Trust Fund - Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	21
Schedule of Debt Service Requirements to Maturity	22
Schedule of Assessed Valuation, Mill Levy and Property Taxes Collected	23

Independent Auditor's Report

Board of Directors
East Smoky Hill Metropolitan District No. 1
Arapahoe County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of East Smoky Hill Metropolitan District No. 1 as of and for the year ended December 31, 2017, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District.

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 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 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 the East Smoky Hill 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 conformity 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 generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are 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 supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary 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.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
February 5, 2018

BASIC FINANCIAL STATEMENTS

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 582,797
Cash and investments - Restricted	126,334
Receivable from County Treasurer	2,686
Property taxes receivable	414,355
Prepaid expenses	238
Capital assets, net of accumulated depreciation	111,144
Total assets	<u>1,237,554</u>
LIABILITIES	
Accounts payable	29,057
Accrued interest payable	8,917
Noncurrent liabilities	
Due within one year	134,331
Due in more than one year	3,409,401
Total liabilities	<u>3,581,706</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	414,355
Total deferred inflows of resources	<u>414,355</u>
NET POSITION	
Net investment in capital assets	111,144
Restricted for:	
Emergency reserves	5,800
Debt service	102,704
Conservation Trust	8,913
Unrestricted	(2,987,068)
Total net position	<u><u>\$ (2,758,507)</u></u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 187,862	\$ -	\$ -	\$ 4,893	\$ (182,969)
Interest and related costs on long-term debt	94,498	-	-	-	(94,498)
	<u>\$ 282,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,893</u>	<u>(277,467)</u>
General revenues:					
Property taxes					395,940
Specific ownership taxes					33,904
Net investment income					7,526
Total general revenues					<u>437,370</u>
Change in net position					159,903
Net position - Beginning					<u>(2,918,410)</u>
Net position - Ending					<u>\$ (2,758,507)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Conservation Trust Fund</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments	\$ 582,797	\$ -	\$ -	\$ -	\$ 582,797
Cash and investments - Restricted	5,800	111,621	-	8,913	126,334
Receivable from County Treasurer	2,686	-	-	-	2,686
Prepaid expenses	238	-	-	-	238
Property taxes receivable	168,551	245,804	-	-	414,355
Total assets	<u>\$ 760,072</u>	<u>\$ 357,425</u>	<u>\$ -</u>	<u>\$ 8,913</u>	<u>\$ 1,126,410</u>
LIABILITIES					
Accounts payable	\$ 29,057	\$ -	\$ -	\$ -	\$ 29,057
Total liabilities	<u>29,057</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,057</u>
INFLOWS OF RESOURCES					
Property tax revenue	168,551	245,804	-	-	414,355
Total inflows of resources	<u>168,551</u>	<u>245,804</u>	<u>-</u>	<u>-</u>	<u>414,355</u>
FUND BALANCES					
Nonspendable:					
Prepaid expenses	238	-	-	-	238
Restricted for:					
Emergencies (TABOR)	5,800	-	-	-	5,800
Series 2016 Bonds	-	111,621	-	-	111,621
Conservation Trust	-	-	-	8,913	8,913
Assigned to:					
Subsequent year's expenditures	13,985	-	-	-	13,985
Unassigned:	542,441	-	-	-	542,441
Total fund balances	<u>562,464</u>	<u>111,621</u>	<u>-</u>	<u>8,913</u>	<u>682,998</u>
TOTAL LIABILITIES, INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 760,072</u>	<u>\$ 357,425</u>	<u>\$ -</u>	<u>\$ 8,913</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

111,144

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	(3,315,000)
Bond premium	(228,732)
Accrued interest on bonds payable	(8,917)
Net position of governmental activities	<u>\$ (2,758,507)</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Conservation Trust Fund</u>	<u>Total Governmental Funds</u>
REVENUE					
Property taxes	\$ 153,267	\$ 242,673	\$ -	\$ -	\$ 395,940
Specific ownership tax	33,904	-	-	-	33,904
Net investment income	5,103	2,227	-	196	7,526
Conservation Trust Fund proceeds	-	-	-	4,893	4,893
Total revenue	<u>192,274</u>	<u>244,900</u>	<u>-</u>	<u>5,089</u>	<u>442,263</u>
EXPENDITURES					
Accounting	22,464	-	-	-	22,464
Audit	3,960	-	-	-	3,960
County Treasurer's fee	2,300	3,641	-	-	5,941
Directors' fees	1,900	-	-	-	1,900
Conservation trust fund projects	18,883	-	-	-	18,883
Dues and licenses	452	-	-	-	452
Electricity	5,514	-	-	-	5,514
Insurance and bonds	4,153	-	-	-	4,153
Irrigation	22,985	-	-	-	22,985
Landscaping repairs and maintenance	88,303	-	-	-	88,303
Legal	9,836	-	-	-	9,836
Payroll taxes	153	-	-	-	153
Snow removal	2,685	-	-	-	2,685
Debt service					
Bond interest - 2016	-	110,150	-	-	110,150
Bond principal - 2016	-	105,000	-	-	105,000
Paying agent fees	-	300	-	-	300
Total expenditures	<u>183,588</u>	<u>219,091</u>	<u>-</u>	<u>-</u>	<u>402,679</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>8,686</u>	<u>25,809</u>	<u>-</u>	<u>5,089</u>	<u>39,584</u>
OTHER FINANCING SOURCES (USES)					
Transfers from (to) other funds	<u>18,883</u>	<u>-</u>	<u>-</u>	<u>(18,883)</u>	<u>-</u>
Total other financing sources (uses)	<u>18,883</u>	<u>-</u>	<u>-</u>	<u>(18,883)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>27,569</u>	<u>25,809</u>	<u>-</u>	<u>(13,794)</u>	<u>39,584</u>
FUND BALANCES - BEGINNING OF YEAR					
	<u>534,895</u>	<u>85,812</u>	<u>-</u>	<u>22,707</u>	<u>643,414</u>
FUND BALANCES - END OF YEAR	<u>\$ 562,464</u>	<u>\$ 111,621</u>	<u>\$ -</u>	<u>\$ 8,913</u>	<u>\$ 682,998</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2017**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - Total governmental funds	\$	39,584
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Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period, are as follows:

Depreciation expense		(4,274)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The net effect of these differences in the treatment of long-term debt is as follows:

Current year bond principal payment		105,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued interest on bonds - Change in liability		262
Amortization of bond premium		19,331

Change in net position of governmental activities	\$	<u>159,903</u>
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These financial statements should be read only in connection with the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
Property taxes	\$ 153,267	\$ 153,267	\$ -
Specific ownership tax	31,700	33,904	2,204
Net investment income	2,600	5,103	2,503
Total revenue	<u>187,567</u>	<u>192,274</u>	<u>4,707</u>
EXPENDITURES			
Accounting	24,000	22,464	1,536
Audit	3,600	3,960	(360)
Conservation Trust Fund projects	28,854	18,883	9,971
County Treasurer's fee	2,300	2,300	-
Directors' fees	3,000	1,900	1,100
District communication	1,000	-	1,000
Dues and licenses	500	452	48
Electricity	5,000	5,514	(514)
Insurance and bonds	4,000	4,153	(153)
Irrigation	30,000	22,985	7,015
Legal	24,000	9,836	14,164
Landscaping repairs and maintenance	60,000	88,303	(28,303)
Payroll taxes	230	153	77
SDA conference	2,000	-	2,000
Snow removal	20,000	2,685	17,315
Miscellaneous	500	-	500
Contingency	3,016	-	3,016
Total expenditures	<u>212,000</u>	<u>183,588</u>	<u>28,412</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES	<u>(24,433)</u>	<u>8,686</u>	<u>33,119</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	28,854	18,883	(9,971)
Transfers (to) other funds	<u>(30,000)</u>	<u>-</u>	<u>30,000</u>
Total other financing sources (uses)	<u>(1,146)</u>	<u>18,883</u>	<u>20,029</u>
EXCESS OF REVENUE OVER (UNDER)			
EXPENDITURES AND OTHER			
FINANCING SOURCES (USES)	(25,579)	27,569	53,148
FUND BALANCES - BEGINNING OF YEAR	518,483	534,895	16,412
FUND BALANCES - END OF YEAR	<u>\$ 492,904</u>	<u>\$ 562,464</u>	<u>\$ 69,560</u>

These financial statements should be read only in connection with
the accompanying notes to financial statements.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - DEFINITION OF REPORTING ENTITY

East Smoky Hill Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for Arapahoe County on November 22, 1994, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in Arapahoe County, Colorado (the County). A portion of the District's boundaries lies within the City of Centennial. The District was established to provide financing for the construction and installation of sanitary sewer, water, streets, safety protection, and park and recreation improvements. The District has dedicated these improvements to the County and to East Cherry Creek Valley Water and Sanitation District (ECCV) for the use and benefit of the District taxpayers. The District currently exists to retire its outstanding debt obligation and to assist with the maintenance of the landscaped areas within 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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These financial statements include all of the activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

The statement of activities demonstrates the degree to which the direct 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

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Separate financial statements are provided for governmental funds. 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 related cash flows.

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 received within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of capital equipment and facilities.

The Conservation Trust Fund (a Capital Projects Fund) is used to account for the lottery proceeds received from the State. This revenue is restricted for parks and recreational purposes under State statutes.

Budgets

In accordance with the State Budget Law, the District's Board of Directors holds public hearings in the fall each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Pooled Cash and Investments

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 single bank account. 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.

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 taxpayer's election, in February and June. Delinquent taxpayers are notified in August and generally sales of the tax liens on delinquent properties are 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 inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Capital assets which are anticipated to be conveyed to other governmental entities are recorded as construction in progress, and are not included in the calculation of the net investment in capital assets component of the District's net position.

The costs of normal maintenance and repairs that do not add to the value of the asset 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.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation expense has been computed using the straight-line method over the following economic useful lives:

Fencing	30 years
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Deferred Inflow of Resources

In addition to liabilities, the statement of net position reports 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 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. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Equity

Net Position

For government-wide presentation purposes when both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based on the extent to which the government is bound to honor constraints on the specific purposes for which spending can occur. Governmental funds report up to five classifications of fund balance: nonspendable, restricted, committed, assigned, and unassigned. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by 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.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Assigned fund balance* – The portion of fund balance that is constrained by the government’s intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is the District’s practice to use the most restrictive classification first.

NOTE 3 - CASH AND INVESTMENTS

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

Statement of net position:

Cash and investments	\$ 582,797
Cash and investments - Restricted	<u>126,334</u>
	<u>\$ 709,131</u>

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

Deposits with financial institutions	\$ 9,091
Investments	<u>700,040</u>
	<u>\$ 709,131</u>

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 102% of 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.

At December 31, 2017, the District's cash deposits had a bank balance of \$9,091 and a carrying balance of \$9,091.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 noted 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 or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless 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, certain U.S. government agency securities, and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- * Local government investment pools

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

Investment	Maturity	Amount
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	<u>\$ 700,040</u>

CSAFE

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

NOTE 4 - CAPITAL ASSETS

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

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>Balance at December 31, 2017</u>
Capital assets, being depreciated				
Fencing	\$ 123,968	-	-	\$ 123,968
Total capital assets, being depreciated	<u>123,968</u>	<u>-</u>	<u>-</u>	<u>123,968</u>
Less accumulated depreciation for:				
Fencing	<u>(8,550)</u>	<u>(4,274)</u>	-	<u>(12,824)</u>
Total accumulated depreciation	<u>(8,550)</u>	<u>(4,274)</u>	<u>-</u>	<u>(12,824)</u>
Total capital assets, being depreciated, net	<u>115,418</u>	<u>(4,274)</u>	<u>-</u>	<u>111,144</u>
Governmental activities -				
Capital assets, net	<u>\$ 115,418</u>	<u>\$ (4,274)</u>	<u>\$ -</u>	<u>\$ 111,144</u>

Depreciation expense for 2017 was \$4,274.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS

The following is an analysis of the changes in long-term obligations for the year ended December 31, 2017:

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2017</u>	<u>Due Within One Year</u>
General Obligation Bonds					
Series 2016	\$ 3,420,000	\$ -	\$ 105,000	\$ 3,315,000	\$ 115,000
Bond premium	248,063	-	19,331	228,732	19,331
	<u>\$ 3,668,063</u>	<u>\$ -</u>	<u>\$ 124,331</u>	<u>\$ 3,543,732</u>	<u>\$ 134,331</u>

On April 29, 2016, the District issued \$3,470,000 of General Obligation Refunding Bonds (2016 Bonds). The 2016 Bonds bear interest of between 2.00% and 4.00% per annum payable on June 1 and December 1, commencing on December 1, 2016. Mandatory principal payments are due on December 1, commencing on December 1, 2016, with final payment due on December 1, 2036. The 2016 Bonds cannot be prepaid prior to December 1, 2026.

The Series 2016 Bonds have an average yield of 2.452%.

The Series 2016 Bonds are general obligations of the District, secured by a pledge of the full faith and credit of the District and payable from general ad valorem taxes which may be levied without limitation of rate and in an amount necessary to pay the bonds when due against all taxable property within the District.

The District's long-term bonded general obligation debt matures as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 115,000	\$ 107,000	\$ 222,000
2019	120,000	103,550	223,550
2020	130,000	99,950	229,950
2021	130,000	97,350	227,350
2022	140,000	94,750	234,750
2023-2027	775,000	415,350	1,190,350
2028-2032	960,000	288,600	1,248,600
2033-2036	945,000	96,800	1,041,800
	<u>\$ 3,315,000</u>	<u>\$ 1,303,350</u>	<u>\$ 4,618,350</u>

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

On November 8, 1994, the District's electors authorized the incurrence of general obligation debt totaling \$12,000,000 in principal at a rate not to exceed 18%. At December 31, 2017, the District has authorized but unissued indebtedness for the following purposes:

	Authorized November 8, 1994 Election	Authorization Used				Remaining at December 31, 2017
		Series 1996	Series 2001A	Series 2001B	Series 2006	
Sanitary sewer	\$ 1,920,000	\$ 36,400	\$ 9,810	\$ 1,415,945	\$ 236,637	\$ 221,208
Water supply	1,680,000	-	-	804,048	134,375	741,577
Street improvements	7,320,000	151,600	123,120	1,430,007	367,231	5,248,042
Traffic and safety	120,000	-	-	-	-	120,000
Parks and recreation	960,000	-	-	-	-	960,000
	<u>\$ 12,000,000</u>	<u>\$ 188,000</u>	<u>\$ 132,930</u>	<u>\$ 3,650,000</u>	<u>\$ 738,243</u>	<u>\$ 7,290,827</u>

The issuance of the Series 2016 Bonds refunded the Series 2006 Bonds and did not use any debt authorization.

NOTE 6 - NET POSITION

The District has net position consisting of three components – net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. As of December 31, 2017, the District has net investment capital assets of \$111,144.

The restricted component of net position includes assets that are restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other government or imposed by law through constitutional provisions or enabling legislation. The District had restricted net position as of December 31, 2017, as follows:

Restricted net position:	
Emergency reserves	\$ 5,800
Debt service	102,704
Conservation Trust	<u>8,913</u>
Total restricted net position	<u>\$ 117,417</u>

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the restricted component of net position.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - NET POSITION (CONTINUED)

The District has a deficit in unrestricted net position. This deficit amount is the result of the District being responsible for the repayment of bonds issued for public improvements which were conveyed to other governmental entities and which costs were removed from the District's financial records.

NOTE 7 - AGREEMENTS

Real Estate Lease

The District desires to improve the common fences within the District, which are currently owned by the Stanford Hills and Highland Pointe homeowners associations within the District. During 2009, the District entered into 99-year real estate leases with the homeowners associations for the property upon which the fences are located at a rent of \$10 per year for each of the leases. The District entered into a new lease agreement with the Stanford Hills Master and Paired HOAs for a 99-year term effective March 16, 2013, and cancelled the prior lease. The new leases eliminate the unilateral provision for the homeowners associations to cancel the leases. The District anticipates the purchase of the property from the homeowners associations in the future.

Maintenance Improvements

During 2009, the District entered into maintenance improvements agreements with the homeowners associations within the District whereby, beginning in 2010, the District will reimburse each association an annual amount for common property maintenance, to be paid in quarterly installments. The total amount of annual contractual reimbursements paid by the District is currently capped at \$103,551, with the ability to increase the amount upon consent by the District's Board of Directors. The actual amount paid in 2017 was \$143,755, which included \$18,883 of special projects approved by the Board and paid with conservation trust fund monies.

NOTE 8 - RISK MANAGEMENT

Except as provided in the Colorado Governmental Immunity Act, the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool). 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.

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 - RISK MANAGEMENT (CONTINUED)

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.

NOTE 9 - 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.

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.

On November 8, 1994, a majority of the District's electors authorized an annual \$300,000 increase in property tax collections for operations and maintenance and the collection annually of \$200,000 of systems development fees without regard to TABOR or other State statutes. The District believes it has taken such steps as are appropriate in light of current interpretations of TABOR to comply with its terms. However, TABOR is complex and subject to multiple interpretations. Many of the provisions, including but not limited to the interpretation of how to calculate Fiscal Year Spending and other limits, will require judicial interpretation.

This information is an integral part of the accompanying financial statements.

SUPPLEMENTARY INFORMATION

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017**

	Original and Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUE			
Property taxes	\$ 242,673	\$ 242,673	\$ -
Net investment income	460	2,227	1,767
Total revenue	<u>243,133</u>	<u>244,900</u>	<u>1,767</u>
EXPENDITURES			
County Treasurer's fee	3,640	3,641	(1)
Bond interest - 2016	110,150	110,150	-
Bond principal - 2016	105,000	105,000	-
Paying agent fees	150	300	(150)
Contingency	3,060	-	3,060
Total expenditures	<u>222,000</u>	<u>219,091</u>	<u>2,909</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	21,133	25,809	4,676
FUND BALANCES - BEGINNING OF YEAR	<u>82,142</u>	<u>85,812</u>	<u>3,670</u>
FUND BALANCES - END OF YEAR	<u><u>\$ 103,275</u></u>	<u><u>\$ 111,621</u></u>	<u><u>\$ 8,346</u></u>

EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
Year Ended December 31, 2017

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
Net investment income	\$ -	\$ -	\$ -
Total revenue	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Crosswalk	30,000	-	30,000
Total expenditures	<u>30,000</u>	<u>-</u>	<u>30,000</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(30,000)</u>	<u>-</u>	<u>30,000</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	30,000	-	(30,000)
Total other financing sources (uses)	<u>30,000</u>	<u>-</u>	<u>(30,000)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	-	-
FUND BALANCES - BEGINNING OF YEAR	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
 CONSERVATION TRUST FUND
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 Year Ended December 31, 2017**

	<u>Original and Final Budget Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE			
Conservation Trust Fund proceeds	\$ 6,000	\$ 4,893	\$ (1,107)
Net investment income	120	196	76
Total revenue	<u>6,120</u>	<u>5,089</u>	<u>(1,031)</u>
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>6,120</u>	<u>5,089</u>	<u>(1,031)</u>
OTHER FINANCING SOURCES (USES)			
Transfers from (to) other funds	<u>(28,854)</u>	<u>(18,883)</u>	<u>9,971</u>
Total other financing sources (uses)	<u>(28,854)</u>	<u>(18,883)</u>	<u>9,971</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(22,734)	(13,794)	8,940
FUND BALANCES - BEGINNING OF YEAR	<u>22,734</u>	<u>22,707</u>	<u>(27)</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 8,913</u>	<u>\$ 8,913</u>

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY
December 31, 2017**

**\$3,470,000
General Obligation Refunding Bonds
Series 2016
Dated April 29, 2016
Interest Rate from 2.00% to 4.00%
Payable June 1 and December 1
Principal Due December 1**

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2018	\$ 115,000	\$ 107,000	\$ 222,000
2019	120,000	103,550	223,550
2020	130,000	99,950	229,950
2021	130,000	97,350	227,350
2022	140,000	94,750	234,750
2023	140,000	91,950	231,950
2024	150,000	87,750	237,750
2025	155,000	83,250	238,250
2026	160,000	78,600	238,600
2027	170,000	73,800	243,800
2028	175,000	68,700	243,700
2029	180,000	63,450	243,450
2030	195,000	58,050	253,050
2031	200,000	52,200	252,200
2032	210,000	46,200	256,200
2033	220,000	37,800	257,800
2034	230,000	29,000	259,000
2035	240,000	19,800	259,800
2036	255,000	10,200	265,200
	<u>\$ 3,315,000</u>	<u>\$ 1,303,350</u>	<u>\$ 4,618,350</u>

**EAST SMOKY HILL METROPOLITAN DISTRICT NO. 1
SCHEDULE OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>General Operations</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2013	\$ 9,938,310	25.000	27.000	\$ 516,700	\$ 516,792	100.02%
2014	\$ 9,561,830	25.000	27.000	\$ 497,215	\$ 497,304	100.02%
2015	\$ 9,563,001	20.000	27.000	\$ 449,461	\$ 449,461	100.00%
2016	\$ 12,771,442	15.000	20.500	\$ 453,387	\$ 453,356	99.99%
2017	\$ 12,772,271	12.000	19.000	\$ 395,940	\$ 395,940	100.00%
Estimated for year ending December 31, 2018	\$ 14,045,950	12.000	17.5000	\$ 414,355		

Note:

Property taxes collected in any one year include collection of delinquent property taxes levied in prior years.