

Eastern Hills Metropolitan District No. 6

Financial Statements

Year Ended December 31, 2017

with

Independent Auditor's Report

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September 28, 2018

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Hiratsuka & Associates, L.L.P.
Certified Public Accountants & Business Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Eastern Hills Metropolitan District No. 6
City of Aurora, Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Eastern Hills Metropolitan District No. 6 (the District), City of Aurora, Arapahoe County, Colorado, 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.

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 (U.S. GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Eastern Hills Metropolitan District No. 6, City of Aurora, Arapahoe County, Colorado, as of December 31, 2017, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in conformity with U.S. GAAP.

Other Matters

Required Supplementary Information

Management has not presented Management's Discussion and Analysis. Such missing information, although not a part of the basic financial statements, is required by GASB, 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 the missing information.

Hiratsuka & Associates, LLP

September 28, 2018
Wheat Ridge, Colorado

Eastern Hills Metropolitan District No. 6

BALANCE SHEET/STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS

December 31, 2017

	<u>General</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS				
Cash and investments	\$ 922,516	\$ 922,516	\$ -	\$ 922,516
Cash and investments - restricted	9,656	9,656	-	9,656
Receivable - County Treasurer	5,570	5,570	-	5,570
Property taxes receivable	300,813	300,813	-	300,813
Prepaid expenses	<u>2,731</u>	<u>2,731</u>	<u>-</u>	<u>2,731</u>
Total Assets	<u>\$ 1,241,286</u>	<u>\$ 1,241,286</u>	<u>-</u>	<u>1,241,286</u>
LIABILITIES				
Accounts payable	<u>\$ 1,194</u>	<u>\$ 1,194</u>	<u>-</u>	<u>1,194</u>
Total Liabilities	<u>1,194</u>	<u>1,194</u>	<u>-</u>	<u>1,194</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred property taxes	<u>300,813</u>	<u>300,813</u>	<u>-</u>	<u>300,813</u>
Total Deferred Inflows of Resources	<u>300,813</u>	<u>300,813</u>	<u>-</u>	<u>300,813</u>
FUND BALANCES/NET POSITION				
Fund Balances:				
Nonspendable:				
Prepays	2,731	2,731	(2,731)	-
Restricted:				
Emergencies	9,656	9,656	(9,656)	-
Unassigned	<u>926,892</u>	<u>926,892</u>	<u>(926,892)</u>	<u>-</u>
Total Fund Balances	<u>939,279</u>	<u>939,279</u>	<u>(939,279)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,241,286</u>	<u>\$ 1,241,286</u>		
Net Position:				
Restricted for:				
Emergencies			9,656	9,656
Unrestricted			<u>929,623</u>	<u>929,623</u>
Total Net Position			<u>\$ 939,279</u>	<u>\$ 939,279</u>

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

Eastern Hills Metropolitan District No. 6

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

For the Year Ended December 31, 2017

	<u>General</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES				
Accounting and audit	\$ 4,692	\$ 4,692	\$ -	\$ 4,692
Insurance	3,074	3,074	-	3,074
Legal	5,425	5,425	-	5,425
Miscellaneous expenses	39	39	-	39
Treasurer's fees	12,315	12,315	-	12,315
Repayment of verified costs	<u>225,650</u>	<u>225,650</u>	<u>-</u>	<u>225,650</u>
Total Expenditures	<u>251,195</u>	<u>251,195</u>	<u>-</u>	<u>251,195</u>
GENERAL REVENUES				
Property taxes	820,992	820,992	-	820,992
Specific ownership taxes	70,301	70,301	-	70,301
Interest income	6,780	6,780	-	6,780
Miscellaneous income	<u>257</u>	<u>257</u>	<u>-</u>	<u>257</u>
Total General Revenues	<u>898,330</u>	<u>898,330</u>	<u>-</u>	<u>898,330</u>
NET CHANGES IN FUND BALANCES	647,135	647,135	(647,135)	
CHANGE IN NET POSITION			647,135	647,135
FUND BALANCES/NET POSITION:				
BEGINNING OF YEAR	<u>292,144</u>	<u>292,144</u>	<u>-</u>	<u>292,144</u>
END OF YEAR	<u>\$ 939,279</u>	<u>\$ 939,279</u>	<u>\$ -</u>	<u>\$ 939,279</u>

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

Eastern Hills Metropolitan District No. 6

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

For the Year Ended December 31, 2017

	Original & Final		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES			
Property taxes	\$ 820,992	\$ 820,992	\$ -
Specific ownership taxes	57,469	70,301	12,832
Interest income	-	6,780	6,780
Miscellaneous income	-	257	257
Total Revenues	878,461	898,330	19,869
EXPENDITURES			
Accounting and audit	7,000	4,692	2,308
Insurance	4,000	3,074	926
Legal	38,000	5,425	32,575
Miscellaneous expenses	1,000	39	961
Treasurer's fees	12,315	12,315	-
Repayment of verified costs	-	225,650	(225,650)
Repay developer advances - interest	931,737	-	931,737
Emergency reserve	26,354	-	26,354
Total Expenditures	1,020,406	251,195	769,211
NET CHANGE IN FUND BALANCE	(141,945)	647,135	789,080
FUND BALANCE:			
BEGINNING OF YEAR	141,945	292,144	150,199
END OF YEAR	\$ -	\$ 939,279	\$ 939,279

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

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Eastern Hills Metropolitan District No. 6 (“District”), located in the City of Aurora, Arapahoe County, Colorado, and 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 December 3, 2002 as a quasi-municipal organization established under the State of Colorado Special District Act. The District was established to finance and construct certain public infrastructure improvements that benefit the citizens 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, Statement No. 61, *The Financial Reporting Entity: Omnibus, which amended* GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which provides 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.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

Basis of Presentation

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

The government-wide financial statements (i.e. the governmental funds balance sheet/statement of net position and the governmental funds statement of 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 financial 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 has been removed from these statements.

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.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

The District reports the following major governmental fund:

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.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. 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, Deferred Outflows/Inflows of Resources 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.

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.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

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 does not have any items that qualify for reporting under this category.

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.

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.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

The nonspendable fund balance in the General Fund in the amount of \$2,731 represents prepaid insurance.

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.

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 \$9,656 of the General Fund balance has been restricted in compliance with this requirement.

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.

Unassigned Fund Balance

Unassigned fund balance includes amounts that are available for any purpose. Positive amounts are reported only in the General Fund, all other funds can report negative amounts.

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 can report 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.

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.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

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 Position:	
Cash and investments	\$ 992,516
Cash and investments - Restricted	<u>9,656</u>
Total	<u>\$ 932,172</u>

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

Deposits with financial institutions	\$ 51,776
Investments - COLOTRUST	<u>880,396</u>
	<u>\$ 932,172</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% 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.

The District follows state statutes for deposits. None of the District’s deposits were exposed to custodial credit risk.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

Investments

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 with a weighted average maturity of 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 records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. 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 \$880,396 invested in COLOTRUST.

Note 3: Resolutions and Agreement

Resolution Authorizing Payment of Advanced Funds

The District approved a Resolution Authorizing Payment of Advanced Funds, whereby the District agreed that there were \$128,684 of costs verified by the District’s accountant and authorized the repayment of those costs together with interest at a rate of 8% per annum. The District repaid these costs along with interest in the amount of \$96,966.

Aurora Regional Improvement Authority No. 2 Establishment Agreement

On August 24, 2006, the District entered into an Aurora Regional Improvement Authority No. 2 Establishment Agreement (“Agreement”) between the District, the City of Aurora and other metropolitan districts to form Aurora Regional Improvement Authority No. 2. Pursuant to the service plan, the District is required to impose the Aurora Regional Improvement (“ARI”) Mill Levy on property within the District’s boundaries. This mill levy is 1.000 mill for the first twenty years of the District, which for this purpose begins the first year that the District certifies a debt service mill levy. The levy increases to 5.000 mills for year twenty-one through forty other date of repayment of the debt incurred for public improvement other than regional improvements, whichever occurs first. For the ten years subsequent to the period where the 5.000 mills is imposed, the ARI mill levy is the average of the debt service mill levy for the previous 10 years. On July 24, 2008, the Agreement was amended adding additional members.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

Note 4: Debt Authorization

As of December 31, 2017, the District had remaining voted debt authorization of approximately \$29,313,000,000. The District has not budgeted to issue any new debt during 2018. Per the District's Service Plan, the District can not issue debt in excess of \$250,000,000.

Note 5: Related Party

All of the Board of Directors are employees, owners or are otherwise associated with the East Side Sunset LLC, a Colorado limited liability company and may have conflicts of interest in dealing with the District. Management believes that all potential conflicts, if any, have been disclosed to the Board.

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.

A majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Eastern Hills Metropolitan District No. 6

Notes to Financial Statements
December 31, 2017

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 District has elected to participate in the Colorado Special Districts Property and Liability Pool (“Pool”) which 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.

The District pays annual premiums to the Pool for auto, public officials’ 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 9: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

At December 31, 2017, the District has no reconciling items between the Government-Wide Financial Statements and the Fund Financial Statement.