

**FOREST LAKES METROPOLITAN  
DISTRICT**

FINANCIAL STATEMENTS  
With Independent Auditors' Report

Years Ended December 31, 2017 and 2016



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Office of the State Auditor

July 3, 2018

**FOREST LAKES METROPOLITAN DISTRICT  
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DECEMBER 31, 2017 AND 2016**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Forest Lakes Metropolitan District

We have audited the accompanying financial statements of Forest Lakes Metropolitan District which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

### ***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.

### ***Auditors' Responsibility***

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forest Lakes Metropolitan District, as of December 31, 2017 and 2016, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Economic Dependency***

The District has not yet established a revenue base sufficient to meet its debt service and operational expenses. As discussed in Note 9, the District is dependent upon future growth in the District and restructuring and refinancing of the District's long-term obligations to provide funds for such expenses. Our opinion is not modified with respect to this matter.

### ***Other-Matters***

#### *Required Supplementary Information*

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

#### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise Forest Lakes Metropolitan District's financial statements as a whole. The supplemental information is presented for purposes of 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.

*Hoelting & Company, Inc.*

Colorado Springs, Colorado  
June 28, 2018

## **FOREST LAKES METROPOLITAN DISTRICT Management's Discussion and Analysis**

This discussion and analysis (MD&A) of the Forest Lakes Metropolitan District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2017 and 2016. The MD&A should be read in conjunction with the District's financial statements.

### **FINANCIAL HIGHLIGHTS**

- By year-end 2017, the development entity for Forest Lakes (Forest Lakes Residential Development LLC) had made significant progress on Forest Lakes Filings #2 and #4 and was beginning initial planning work on the Phase 2 development in the western portion of the Forest Lakes property. As required by the Facilities Financing and Acquisition Agreement between Forest Lakes Metropolitan District (FLMD) and the Developer, an independent engineer evaluated the costs incurred by the Developer for the various components of the Filings #1 and #3 public infrastructure and certified that those costs were reasonable. The Developer then conveyed all such developer constructed public infrastructure to FLMD in return for the District's agreement to reimburse the Developer for those reasonable costs, when funds become available to do so. At year-end 2017, FLMD was conveyed \$7.788 million of water distribution and wastewater collection infrastructure as well as the public roads, parks, trails, landscaping and stormwater collection; in return, FLMD recognized a like amount of obligations to the developer. FLMD then dedicated the completed public road system to El Paso County. An identical process will be followed for the developer constructed utility and public road infrastructure for Filings #2 and #4; conveyance of that public infrastructure to the District should occur in late 2018 or early 2019.
- Lot sales in Filings #1, #2 and #3 during 2017 resulted in the collection of water and wastewater development fees on 73 lots by year-end. During the first 5 1/2 months of 2018, development fees on another 39 lots were collected by FLMD. The District anticipates home building activity to continue at a similar pace for the remainder of 2018.
- District operation of the water and wastewater systems is being provided by Donala Water and Sanitation District under contract. Donala personnel continue to identify system refinements to increase the efficiency of operations including the installation of SCADA (supervisory control and data acquisition) systems for the various components of the systems.
- Starting mid-year 2017, FLMD and its primary engineer, Wright Water Engineers, conducted a public bid process for the construction of its 1.5 mgd Surface Water Treatment Plant on the shore of Bristlecone Reservoir. Velocity Constructors was awarded the \$7.7 million contract and was given notice to proceed in mid-November. Construction is proceeding on the Plant with an expected completion date of late December 2018. The addition of a surface water supply to the District's water portfolio will greatly enhance the water supply reliability.
- During 2017, the District provided delivery of augmentation water to twelve customers on the Rampart Range, Hay Creek and Monument Creek from April through November.
- In March 2017, the Colorado Department of Public Health and Environment classified FLMD as a "community water system". This classification results in a mandated schedule for water testing and other water system activities and will trigger FLMD's need to do an annual report to its customers on drinking water quality outcomes. The first such Water Quality Report was completed in June 2018 and is posted to the District website – [forestlakesmetrodistrict.com](http://forestlakesmetrodistrict.com).

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Required statements for proprietary funds are: 1) Statement of Net Position, 2) Statement of Revenues, Expenses and Changes in Net Position, and 3) Statement of Cash Flows. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position are prepared using the economic resource measurement focus and the accrual basis of accounting.

The *Statements of Net Position* present information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present information which reflects how the District's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statements of Cash Flows* report the District's cash flows from operating, noncapital financing, and capital and related financing activities.

## FINANCIAL SUMMARY AND ANALYSIS

### NET POSITION

District assets increased by approximately \$ 3.320 million during 2017 while District liabilities increased by approximately \$ 9.004 million. Thus, the total net position deficit increased by approximately \$ 5.684 million.

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current and other assets	\$ 1,211,131	\$ 1,029,587
Capital assets	<u>26,207,158</u>	<u>23,068,883</u>
Total assets	<u>27,418,289</u>	<u>24,098,470</u>
<b>LIABILITIES</b>		
Long term liabilities outstanding	39,091,445	30,320,406
Other liabilities	<u>502,550</u>	<u>269,609</u>
Total liabilities	<u>39,593,995</u>	<u>30,590,015</u>
<b>NET POSITION</b>		
Net investment in capital assets	9,314,455	9,242,852
Unrestricted	<u>(21,490,161)</u>	<u>(15,734,397)</u>
Total net position	<u>\$ ( 12,175,706)</u>	<u>\$ (6,491,545)</u>

The District's assets consist largely of capital assets, which include the dams and reservoir sites acquired during 2004, utility tracts in Forest Lakes Filing #1, significant water rights, the District's ownership interest in a jointly owned wastewater treatment plant and the recently completed expansion of that plant, public roads, Dillon well, stormwater drainage systems, water transmission, distribution and treatment systems, wastewater collection systems and a still sizeable amount of construction work in progress. Starting in 2016, as the District began collecting water and wastewater development fees, its bank account balance increased materially. Its year-end 2017 bank balance was little changed from year-end 2016. The \$3.320 million increase in total assets is attributable to two impacts: (1) the conveyance to FLMD of developer constructed public infrastructure associated with Filings #1 and #3 net of the dedication of the public roads to the County; and (2) significant expenditures on the engineering, design and initial construction of the surface water treatment plant. The District's long-term liabilities continued to increase to reflect accrued interest on the Water Acquisition Agreement and on developer advances to the District and, most importantly due to the \$7.788 million liability booked to the developer for the conveyance of the Filing #1 and #3 public infrastructure.

The District's net position is comprised of a significant positive level of capital assets, less related debt used to acquire those assets. Net investment in capital assets changed little from 2016, even though significant assets were added to the books during 2017, because most of those assets were debt funded. Unrestricted net position has shown a large negative balance due to the significant amount of accumulated interest on the outstanding 1987B BANs and on the various obligations to the developer that were incurred in the early years of the District before the initial developer went into bankruptcy and the lending financial institutions failed. The significant increase in the negative unrestricted net position is a combined impact of the increase in accrued interest owed to the developer and the subsequent dedication to the County of \$5.34 million in public roads. The combined effect on total net position of the District was a very significant increase in the net position deficit of just over \$ 5.684 million in 2017.

## CHANGES IN NET POSITION

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUE</b>		
Contract services	\$ 283,451	\$ 155,337
Miscellaneous income	<u>          -</u>	<u>          400</u>
Total operating revenue	<u>283,451</u>	<u>155,737</u>
 <b>OPERATING EXPENSES</b>		
Operating	661,620	494,709
General and administrative	<u>152,598</u>	<u>156,031</u>
Total operating and general and administrative	<u>814,218</u>	<u>650,740</u>
Operating income(loss)	<u>(530,767)</u>	<u>(495,003)</u>
 <b>NONOPERATING REVENUE (EXPENSES)</b>		
Interest expense	(1,074,706)	(1,253,749)
Contribution to other govern.	<u>(5,336,382)</u>	<u>                  -</u>
Total non-oper revenue (exp)	<u>(6,411,088)</u>	<u>(1,253,749)</u>
 <b>(LOSS) BEFORE CONTRIBUTIONS</b>	(6,941,855)	(1,748,752)
Developer contributions	(28,688)	2,114,288
Contributions from other govern.	-	6,692,861
Development fees	<u>1,286,382</u>	<u>1,237,854</u>
Total capital contributions	<u>1,257,694</u>	<u>10,045,003</u>
 <b>CHANGE IN NET POSITION</b>	(5,684,161)	8,296,251
<b>NET POSITION (DEFICIT) - BEGINNING OF YEAR</b>	<u>(6,941,545)</u>	<u>(14,787,796)</u>
<b>NET POSITION (DEFICIT) - END OF YEAR</b>	<u>\$ (12,175,706)</u>	<u>\$ (6,941,545)</u>

### 2016

With the commencement of lots sales, home building activity and with new residents moving into the newly completed homes, the operating revenue activity for the District has changed materially. While Forest Lakes Metropolitan District continued to collect modest amounts of operating revenue (water contract services) (\$12,492) during 2016 as a result of the water augmentation services that it provides to twelve lake owners, new sources of revenue from contract services for 2016 include monthly billing to connected homes for both water and wastewater services and revenues collected at the time development fees are paid for the “new tap kit/inspections” fee. Fees from the “new tap kit/inspections” added over \$95,000 to contract service revenue in 2016. Forest Lakes Metropolitan District also levies an administrative charge against the three Pinon Pines Districts for a portion of the costs of the administrative and management services provided by Forest Lakes Metropolitan District to the taxing districts. As the property tax revenue generated by the Pinon Pines Districts increases, the level of this charge will increase until it is fully compensating Forest Lakes Metropolitan District for the services provided on behalf of the Pinon Districts.

Operating expenses during 2016 increased significantly over 2015 levels as FLMD began to actually operate its water and wastewater systems to provide services to the growing number of residents. Expenses were also incurred for irrigation and maintenance of the parks and roadway landscaping in Filings #1 and #3. Administrative and General expenses also increased significantly because of increases in engineering, legal and District Manager costs. The District Engineer oversaw the completion of much of the new public infrastructure and was engaged in evaluating some of the older systems that had been put in place in 2005-07 but not fully put into operation until early 2016. Legal expenses also reflect the significant efforts surrounding the 2016 bond issuance and defeasance of the 1987B BANs. Interest expense in 2016 was slightly less than in 2015 due to the BAN defeasance in early October. Interest expense on the developer advances has stabilized given the lack of need for additional advances from the Developer during 2016. When the recently constructed Developer funded infrastructure for Filings #1 and #3 is conveyed to the District, interest on developer advances will start to increase once again. A significant amount of the accrued interest on these advances was capitalized in prior years into the various Capital accounts. The level of capitalized interest has basically stabilized because of the absence of any significant District activity with regard to capital infrastructure. The amounts of interest capitalized for 2015 and 2016 are \$142,564 and \$149,141 respectively. There continues to be a loss before contributions because of the District's operating loss and the significant level of interest expense. That loss in 2016 was comparable to that in 2015.

During 2016, the District recorded cash contributions from development fee payments of \$1,237,854. That level of development fees is reflective of the significant building activity during 2016; as lots sales and building activity continues in 2017, those payments will likely stay at approximately that level. Due to the 2016 bond issuance by Pinon Pines Metropolitan District No. 1 (PPMD #1) and the use of the net proceeds to defease the 1987B BANs, \$6.693 million was recorded as a contribution from PPMD #1. An additional \$2.114 million was recorded as a Developer contribution to reflect the Developer's forgiveness of the remaining BAN obligations. Due to the combined effect of the annual operating and non-operating losses and the \$10.045 million in capital contributions, the deficit in net position has decreased from a deficit of \$14.79 million at the end of 2015 to a deficit of \$6.49 million by year end 2016.

## **2017**

With the continuing lot sales and housing construction throughout 2017 – houses being served increased from 22 at year-end 2016 to 107 at year-end 2017 - operating revenue activity for the District has continued to increase (by \$128,114 for the year). The dollar amounts Forest Lakes Metropolitan District continues to collect for water augmentation services it provides to twelve lake owners on the Rampart Range increased very modestly during 2017. The main sources of revenue from contract services for 2017 include monthly billing to connected homes for both water and wastewater services and revenues collected at the time development fees are paid for the “new tap kit/inspections” fee. Fees from the “new tap kit/inspections” added about \$116,000 to contract service revenue in 2017. Forest Lakes Metropolitan District also levies an administrative charge against the three Pinon Pines Districts for a portion of the costs of the administrative and management services provided by Forest Lakes Metropolitan District to the taxing districts. As the property tax revenue generated by the Pinon Pines Districts increases, the level of this charge will increase until it is fully compensating Forest Lakes Metropolitan District for the services provided on behalf of the Pinon Districts.

Operating expenses during 2017 increased significantly over 2016 levels – by \$166,911 - as FLMD provided water and wastewater services to a growing number of households. Expenses were also incurred for irrigation and maintenance of the parks and roadway landscaping in Filings #1 and #3. There were significant expense increases for water and wastewater operations and maintenance and for maintenance of the park and road landscaping. Administrative and General expenses were basically flat. Interest expense on the developer advances has stabilized given the lack of need for additional advances from the Developer during 2017. With the year-end conveyance to the District of the Developer constructed infrastructure for Filings #1 and #3, interest on developer advances will start to increase once again. A significant amount of the accrued interest on these advances was capitalized in prior years into the various Capital accounts. The level of capitalized interest for 2017 increased moderately over 2016 due to substantial expenditures during 2017 on the surface water treatment plant. Since construction in progress expenditures booked for the Arapahoe Well, landscaping, parks and trails were put into service at year-end, capitalized interest will only be computed for the expenditures on the surface water treatment plant in 2018, unless the plant is put into service before year-end. The amounts of interest capitalized for 2016 and 2017 are \$149,141 and \$164,450 respectively. The loss before capital contributions increased significantly for 2017 because of the dedication of the public roads to El Paso County. That dedication produced a \$5.336 million “contribution to other government” entry.

During 2017, the District recorded cash contributions from development fee payments of \$1,257,694. That level of development fees is very similar to that booked for 2016. As lots sales and building activity continues in 2018, those payments will likely stay at approximately that level. Due to the combined effect of the annual operating and non-operating losses and the \$1.258 million in capital contributions, the deficit in net position has increased from a deficit of \$6.49 million at the end of 2016 to a deficit of \$12.18 million by year end 2017.

## **BUDGETARY HIGHLIGHTS**

The 2017 Budget was amended to provide for the year-end conveyance of the developer constructed public infrastructure to the District, for the dedication of the public roads to El Paso County and for the experienced level of activity on engineering and design of the surface water treatment plant. The District did also make a payment to the Developer in 2017 of \$256,615 as required by the Reconciliation Agreement with the Developer to reduce its Developer Prepaid Tap Liability. Most other budget line items show that actual activity for the year was in line with the amended budget amounts for 2017 .

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's investment in capital assets at December 31, 2017 and 2016 amounted to \$26,207,158 and \$23,068,883 (net of accumulated depreciation), respectively. This investment in capital assets includes both the original and expanded wastewater plant, dams, the water flow measuring device, water rights, land, stormwater drainage systems, Dillon and Arapahoe wells, water transmission, distribution and treatment systems, wastewater collection systems, parks & trails, roadway landscaping, water meters and construction in progress. Analysis of changes in capital assets is as follows:

	<u>2017</u>	<u>2016</u>
Wastewater plant	\$ 4,554,395	\$ 4,591,415
Parks & Trails	1,913,019	-
Landscaping	565,230	-
Water meters	99,081	-
Wastewater collection system	2,726,864	2,102,523
Dams	2,451,380	2,451,380
Stormwater drainage systems	2,161,322	945,497
Wells	888,344	459,161
Water flow measuring device	9,037	9,037
Water tank	898,287	898,287
Well-head treatment plant	841,430	789,480
Water transmission & distribution lines	3,323,004	2,840,588
Irrigation system	57,559	-
Water rights	7,422,598	7,422,598
Land	383,280	383,280
Construction in progress	1,323,622	3,273,717
Accumulated depreciation	<u>(3,411,294)</u>	<u>(3,098,080)</u>
Total capital assets	<u>\$ 26,207,158</u>	<u>\$ 23,068,883</u>

Additional information on the District's capital assets can be found in the notes to financial statements on pages 9 and 10.

During 2017, the major capital outlays by the District were related to the review and refinement of the original design for the surface water treatment plant and the start of construction of that plant. In addition, the developer constructed public infrastructure serving Filing #1 and #3 were conveyed to the District while the completed public roads (still shown as construction in progress) were dedicated to El Paso County. In addition, construction work in progress for the Arapahoe Well and the parks and trails were put into plant in service at year-end 2017.

## Outstanding Debt

At December 31, 2017 and 2016, the District had \$39,091,445 and \$30,320,406 respectively, in debt outstanding. The detail of outstanding debt is as follows:

	<u>2017</u>	<u>2016</u>
Funding agreements	\$ 18,173,533	\$ 10,385,036
Water rights liability	5,155,250	5,155,250
Pre-paid tap fee liability	1,786,575	2,043,190
Accrued interest	<u>13,976,087</u>	<u>12,736,930</u>
Total outstanding debt	<u>\$ 39,091,445</u>	<u>\$ 30,320,406</u>

Additional information on the District's long-term debt can be found in the notes to financial statements on pages 11 through 12.

In 2008, the First Amendment to the Water Acquisition Agreement of 2006 reduced the District's obligation under that agreement by \$1.785 million as a result of the transfer of 713.9 acre feet of District owned groundwater rights to the developer. The 1987B Bond Anticipation Note (BAN) principal and accumulated interest were both eliminated during 2016 through use of the net proceeds of the 2016 bond issue by PPMD #1 and the simultaneous forgiveness by the Developer of the remaining Developer held BAN obligations. Through 2016, the District continued to accrue interest annually on the outstanding Developer Advance obligation. In both 2016 and 2017, the level of the prepaid tap fee liability was reduced based on a payment to Forest Lakes LLC pursuant to its Reconciliation Agreement with Forest Lakes LLC. .

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For 2018, the District has budgeted for the completion of the surface water treatment plant which will mostly be funded by developer advances. If conveyance to FLMD of the public infrastructure constructed by the developer for Filings #2 and #4 were to occur, the 2018 will be appropriately amended. The 2018 Budget assumes that 141 houses, on average, will be taking water/wastewater and landscaping services during 2018 and that 70 building permits will be pulled during the year.

## REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the District's finances. Questions regarding any information contained in this report or request for additional financial information should be addressed to: Ann Nichols, District Manager, 2 North Cascade Avenue, Suite 1280, Colorado Springs, CO 80903.

## **BASIC FINANCIAL STATEMENTS**

**FOREST LAKES METROPOLITAN DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,109,751	\$ 996,876
Receivables	8,416	6,455
Inventory	81,054	14,902
Prepaid expense	<u>11,910</u>	<u>11,354</u>
Total current assets	<u>1,211,131</u>	<u>1,029,587</u>
Capital assets		
Capital assets not being depreciated	9,129,500	11,079,595
Capital assets being depreciated, net	<u>17,077,658</u>	<u>11,989,288</u>
Total capital assets	<u>26,207,158</u>	<u>23,068,883</u>
Total assets	<u>27,418,289</u>	<u>24,098,470</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	<u>502,550</u>	<u>269,609</u>
Total current liabilities	<u>502,550</u>	<u>269,609</u>
Long-term liabilities		
Accrued interest	13,976,087	12,736,930
Funding agreements	18,173,533	10,385,036
Water rights liability	5,155,250	5,155,250
Prepaid tap fee liability	<u>1,786,575</u>	<u>2,043,190</u>
Total long-term liabilities	<u>39,091,445</u>	<u>30,320,406</u>
Total liabilities	<u>39,593,995</u>	<u>30,590,015</u>
<b>NET POSITION</b>		
Net investment in capital assets	9,314,455	9,242,852
Unrestricted	<u>(21,490,161)</u>	<u>(15,734,397)</u>
Total net position	<u><u>\$ (12,175,706)</u></u>	<u><u>\$ (6,491,545)</u></u>

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

**FOREST LAKES METROPOLITAN DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Water contract services	\$ 185,157	\$ 136,763
Other contract services	98,294	18,574
Miscellaneous income	-	400
	<u>283,451</u>	<u>155,737</u>
Operating expenses:		
Facility maintenance & operations	348,406	193,389
Depreciation	313,214	301,320
District management	65,443	54,401
Insurance	11,354	9,071
Legal	57,669	74,720
Accounting	13,550	13,100
Consulting	2,120	2,082
Other	2,462	2,657
	<u>814,218</u>	<u>650,740</u>
Total operating expenses	<u>814,218</u>	<u>650,740</u>
Operating income (loss)	<u>(530,767)</u>	<u>(495,003)</u>
Nonoperating revenues (expenses):		
Interest expense	(1,074,706)	(1,253,749)
Contribution to other government	(5,336,382)	-
	<u>(6,411,088)</u>	<u>(1,253,749)</u>
Total non-operating revenue (expenses)	<u>(6,411,088)</u>	<u>(1,253,749)</u>
Income before capital contributions	(6,941,855)	(1,748,752)
Capital contributions		
Developer contributions	(28,688)	2,114,288
Contributions from other government	-	6,692,861
Development fees	1,286,382	1,237,854
	<u>1,257,694</u>	<u>10,045,003</u>
Total capital contributions	<u>1,257,694</u>	<u>10,045,003</u>
Change in net position	(5,684,161)	8,296,251
Net position (deficit) - beginning	<u>(6,491,545)</u>	<u>(14,787,796)</u>
Net position (deficit) - ending	<u>\$ (12,175,706)</u>	<u>\$ (6,491,545)</u>

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

**FOREST LAKES METROPOLITAN DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Proceeds from water service contracts	\$ 183,197	\$ 132,135
Proceeds from other contracts	98,294	18,574
Miscellaneous receipts	-	400
Cash paid to vendors	(444,955)	(170,668)
Net cash used by operating activities	(163,464)	(19,559)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from funding agreement	4,611,643	-
Net cash provided by non-capital financing activities	4,611,643	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from development fees	1,286,381	1,237,854
Proceeds from funding agreement	3,176,854	-
Proceeds from intergovernmental agreement	-	6,692,861
Proceeds to developer	(28,688)	2,114,288
Payment to bond escrow agent	-	(8,807,148)
Payment of prepaid tap liability	(256,615)	(211,330)
Payment to other government	(5,336,382)	-
Acquisition and construction of capital assets	(3,176,854)	(122,161)
Net cash provided (used) by capital and related financing activities	(4,335,304)	904,364
Increase (decrease) in cash and cash equivalents	112,875	884,805
Cash and cash equivalents, beginning of year	996,876	112,071
Cash and cash equivalents, end of year	\$ 1,109,751	\$ 996,876

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

**FOREST LAKES METROPOLITAN DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>		
Operating loss	\$ (530,767)	\$ (495,003)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	313,214	301,320
Change in assets and liabilities:		
(Increase) decrease in assets:		
Other receivables	(1,960)	(4,628)
Inventory	(66,152)	(14,902)
Prepaid expense	(556)	(11,354)
Increase (decrease) in liabilities:		
Accounts payable related to operations	<u>122,757</u>	<u>205,008</u>
Total adjustments	<u>367,303</u>	<u>475,444</u>
Net Cash Used by Operating Activities	<u><u>\$ (163,464)</u></u>	<u><u>\$ (19,559)</u></u>
<b>Schedule of non-cash investing, capital and financing activities:</b>		
Capitalized interest	\$ 164,449	\$ 149,141

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

## **NOTES TO FINANCIAL STATEMENTS**

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles as applied to local governments and promulgated by the Governmental Accounting Standards Board (GASB). A summary of the significant accounting policies used in the preparation of these financial statements follows.

*A. REPORTING ENTITY*

Forest Lakes Metropolitan District (the District) is a quasi-municipal corporation, governed pursuant to the provisions of the Colorado Special District Act. The District's service area is located in El Paso County, Colorado. A portion of the District has been annexed into the Town of Monument. The District was established to provide water and sanitary sewer service, park and recreational facilities, safety protection, street improvements, transportation, and mosquito control services to the properties with the District boundaries.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The District has no component units for which either discrete or blended presentation is required.

*B. BASIS OF PRESENTATION—FINANCIAL STATEMENTS*

The basic financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in net position) report information on all of the non-fiduciary activities of the District.

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The District accounts for all of its activities in a single proprietary – enterprise fund for its activities which are similar to those found in the private sector, where the determination of changes in net position is necessary or useful to sound financial administration. The business type activities of the District rely significantly upon service charges.

*C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING*

The District's 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.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*D. ASSETS, LIABILITIES, AND NET POSITION*

*Cash and cash equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

*Inventories*

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method.

*Prepaid expenses*

Payments made to vendors for services that will benefit periods beyond December 31, 2017 and 2016, are recorded as prepaid items.

*Capital assets*

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation of the wastewater plant, dams, equipment, and wells is computed using the straight-line method over the estimated useful lives as follows:

Wastewater plant	40 years
Dams	30 - 100 years
Water flow measuring device	33 1/3 years
Storm-water drainage system	50 years
Wells	50 years
Water flow measuring device	33 1/3 years
Wastewater collection system	25 – 100 years
Water distribution system	100 years
Water tank	33 1/3 years
Well-head treatment plant	25 years

When depreciable property is acquired, depreciation is included in expense for the year of acquisition for the number of months during the year the asset was in service. When depreciable property is retired or otherwise disposed of, depreciation is included in expense for the number of months in service during the year of retirement and the related costs and accumulated depreciation are removed from the accounts with any gain or loss reflected in the statement of revenue, expenses and changes in fund net position.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*D. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)*

*Capital assets (continued)*

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

*Capitalized interest*

Interest incurred during construction is reflected in the capitalized value of the asset constructed, net of investment earnings on invested bond proceeds during the same period. Capitalized interest for the years ended December 31, 2017 and 2016 was \$164,449 and \$149,141, respectively.

*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.

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.

*Net position flow assumption*

The District may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

*E. REVENUES AND EXPENSES*

*Operating and non-operating revenues and expenses*

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the fund are water and other contract services. Operating expenses include all expenses incurred to provide contract services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*F. ESTIMATES*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*BUDGETARY INFORMATION*

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 level and lapses at year end. The District’s Board of Directors can modify the budget by line item within the total appropriation with notification. The appropriation can only be modified upon completion of notification and publication requirements.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

*DEPOSITS*

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

As of December 31, 2017 and 2016, the carrying amounts of the District’s deposits were \$1,109,751 and \$996,876, respectively and the bank balances were \$1,131,658 and \$997,421, respectively. In 2017, \$250,000 of bank balances was covered by FDIC insurance and the remaining balance of \$881,658 fell under the provisions of the Colorado Public Deposit Protection Acts which are collateralized in single institution pools. In 2016, \$250,000 of bank balances was covered by FDIC insurance and the remaining balance of \$747,421 fell under the provisions of the Colorado Public Deposit Protection Acts.

*INVESTMENTS*

The District is authorized by Colorado Statutes to invest in the following:

- Bonds and other interest-bearing obligations of the United States government.
- Bonds and other interest-bearing obligations which are guaranteed by the United States government.
- Bonds which are a direct obligation of the State of Colorado, or of any city, county or school district therein.
- Notes or bonds issued to the “National Housing Act”.
- Repurchase agreements.
- Local government investment pools.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 7,422,598	\$ -	\$ -	\$ 7,422,598
Land	383,280	-	-	383,280
Construction in progress	<u>3,273,717</u>	<u>6,293,719</u>	<u>(8,243,814)</u>	<u>1,323,622</u>
Total capital assets, not being depreciated	<u>11,079,595</u>	<u>6,293,719</u>	<u>(8,243,814)</u>	<u>9,129,500</u>
Capital assets, being depreciated:				
Wastewater plant	4,591,415	-	(37,020)	4,554,395
Parks & Trails	-	1,913,019	-	1,913,019
Landscaping	-	565,230	-	565,230
Service water meters	-	99,081	-	99,081
Dams	2,451,380	-	-	2,451,380
Stormwater drainage system	945,497	1,215,825	-	2,161,322
Wells	459,161	429,183	-	888,344
Water flow measuring device	9,037	-	-	9,037
Wastewater collection system	2,102,523	624,341	-	2,726,864
Water distribution system	2,840,588	482,416	-	3,323,004
Water tank	898,287	-	-	898,287
Well-head treatment plant	789,480	51,950	-	841,430
Irrigation System	<u>-</u>	<u>57,559</u>	<u>-</u>	<u>57,559</u>
Total capital assets, being depreciated	15,087,368	5,438,604	(37,020)	20,488,952
Less accumulated depreciation	<u>(3,098,080)</u>	<u>(313,214)</u>	<u>-</u>	<u>(3,411,294)</u>
Total capital assets, being depreciated, net	<u>11,989,288</u>	<u>5,125,390</u>	<u>(37,020)</u>	<u>17,077,658</u>
Total capital assets, net	<u>\$ 23,068,883</u>	<u>\$ 11,419,109</u>	<u>\$ (8,280,834)</u>	<u>\$ 26,207,158</u>

During the year, \$5,336,382 in capital assets related to the public roads were completed and transferred to El Paso County as required when the filings were platted.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Water rights	\$ 7,422,598	\$ -	\$ -	\$ 7,422,598
Land	383,280	-	-	383,280
Construction in progress	<u>3,054,188</u>	<u>219,529</u>	<u>-</u>	<u>3,273,717</u>
Total capital assets, not being depreciated	<u>10,860,066</u>	<u>219,529</u>	<u>-</u>	<u>11,079,595</u>
Capital assets, being depreciated:				
Wastewater plant	4,554,395	37,020	-	4,591,415
Dams	2,451,380	-	-	2,451,380
Stormwater drainage system	945,497	-	-	945,497
Wells	459,161	-	-	459,161
Water flow measuring device	9,037	-	-	9,037
Wastewater collection system	2,048,460	54,063	-	2,102,523
Water distribution system	2,840,588	-	-	2,840,588
Water tank	898,287	-	-	898,287
Well-head treatment plant	<u>789,480</u>	<u>-</u>	<u>-</u>	<u>789,480</u>
Total capital assets, being depreciated	14,996,285	91,083	-	15,087,368
Less accumulated depreciation	<u>(2,796,760)</u>	<u>(301,320)</u>	<u>-</u>	<u>(3,098,080)</u>
Total capital assets, being depreciated, net	<u>12,199,525</u>	<u>(210,237)</u>	<u>-</u>	<u>11,989,288</u>
Total capital assets, net	<u>\$ 23,059,591</u>	<u>\$ 9,292</u>	<u>\$ -</u>	<u>\$ 23,068,883</u>

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5 – LONG TERM OBLIGATIONS**

*Funding agreements*

The District has entered into Funding Agreements with the Developer (see Note 8) to advance funds to the District for capital and operations and maintenance expenses to enable the District to provide services. The District will repay the Developer to the extent that the funds are available or, at the discretion of the District, from available bond proceeds. Simple interest accrues from the date each developer advance is received at 8% per annum.

*Prepaid taps*

In the Funding Reconciliation Agreement dated September 4, 2003 and effective December 31, 2002, the District confirmed an obligation to entitle the Developer (see Note 8) to ownership of 216 combined water and sewer taps worth \$2,816,640 based on the District's then current rate of \$13,040 per combined water and sewer tap fee. By acceptance of the tap fee obligation, the Developer has agreed that the prepaid taps will be the only obligations carried over from the previous funding agreements (as more fully described in the Fund Reconciliation Agreement dated September 4, 2003) and that the Developer shall not seek any reimbursement or credit from the District with respect to the funding agreements other than for prepaid tap fees. The prepaid tap fee liability represents the accumulated developer advances and the acquisition of water rights at the actual or estimated values as of the date of the transactions. During 2017 building activity allowed for the liquidation of \$256,615 in tap fee liability. 19 taps were liquidated leaving a remaining balance of 183 taps.

*Water rights*

Under an Assignment and Assumption Agreement dated October 28, 2003, the Developer assigned certain water rights to the District. Subsequently, it was determined that it was in the best interest of the District to reimburse the Developer for that portion of the water rights already assigned to the District by the Developer. Accordingly, on August 1, 2006, the District entered into a Water Acquisition Agreement with the Developer totaling \$6,940,000 for reimbursement of these water rights and for the transfer of water rights not previously assigned to the District. Simple interest accrues from the date of the agreement at 8% per annum

Under the First Amendment to Water Acquisition Agreement dated December 31, 2008, the District transferred certain water rights originally acquired by the District in the 1980's, back to the Developer. The water rights transferred reduced the amount owed for the reimbursement of the original agreement by \$1,784,750, based on the appraised value of the water rights at the time of transfer. Simple interest will continue to accrue on the new principal balance of \$5,155,250 at 8% per annum.

*Unissued debt*

On November 4, 2003, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$51,000,000 at an interest rate not to exceed 18% per annum. The full \$51,000,000 remains unauthorized and unissued as of December 31, 2017.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5 – LONG TERM OBLIGATIONS (CONTINUED)**

*Changes in Long-term Debt*

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Funding agreements	\$ 10,385,036	\$ 7,788,497	\$ -	\$ 18,173,533	\$ -
Prepaid tap fee liability	2,043,190	-	256,615	1,786,575	-
Water rights liability	5,155,250	-	-	5,155,250	-
Accrued interest	<u>12,736,930</u>	<u>1,239,157</u>	<u>-</u>	<u>13,976,087</u>	<u>-</u>
Total loans and accrued interest payable	<u>\$ 30,320,406</u>	<u>\$ 9,027,654</u>	<u>\$ 256,615</u>	<u>\$ 39,091,445</u>	<u>\$ -</u>

**NOTE 6 – NET POSITION**

Net position is reported in three separate categories—net investment in capital assets, net position-restricted, and net position-unrestricted.

Net investment in capital assets consists of capital assets net of accumulated depreciation and capital-related deferred outflows of resources; reduced by borrowings and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets. As of December 31, 2017 and 2016, net investment in capital assets was as follows:

	<u>2017</u>	<u>2016</u>
Net Investment in Capital Assets:		
Capital assets, net of accumulated depreciation	\$ 26,207,158	\$ 23,068,885
Estimated principal portion of long-term obligations	<u>(16,892,703)</u>	<u>(13,826,033)</u>
Total Net Investment in Capital Assets	<u>\$ 9,314,455</u>	<u>\$ 9,242,852</u>

Net position-restricted is the difference between non-capital assets whose use is restricted for use either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation, and related liabilities and deferred inflows of resources (excluding capital-related borrowings).

Any portion of net position not already classified as either net investment in capital assets or net position-restricted, is automatically classified as net position-unrestricted.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 7 – RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District is a member of the Colorado Special Districts Property and Liability Pool (Pool) as of December 31, 2017. The Pool is an organization created by intergovernmental agreement to provide property, liability, public officials' liability, boiler and machinery and worker's compensation coverage to its members. Settled claims have not exceeded this coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for liability, property and public officials' liability 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 8 - RELATED PARTIES**

In 2015, the developer entities (Developers) associated with the District were modified to add an additional entity called Forest Lakes Residential Development LLC. All current board members are employees of one of the partners of that LLC.

Under Funding Agreements the District had received advances from the Developers as of December 31, 2017 and 2016 totaling \$18,173,533 and \$10,385,036, respectively. Accrued interest on the Funding Agreements as of December 31, 2017 and 2016 totaled \$8,936,707 and \$8,109,970, respectively (see Note 5).

In the Funding Reconciliation Agreement dated September 4, 2003 and effective December 31, 2002, the District confirmed an obligation to entitle the Developers to ownership of 202 combined water and sewer taps (see Note 5).

Under the August 1, 2006 Water Acquisition Agreement, the District agreed to reimburse the Developers for water rights valued at \$6,940,000. The reimbursement was reduced by \$1,784,750 under an amendment to the original agreement. Accrued interest on this obligation as of December 31, 2017 and 2016 totaled \$5,039,380 and \$4,626,960, respectively (See Note 5).

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

*Construction Commitments*

As of December 31, 2017 and 2016, the District had unexpended construction related contract commitments of approximately \$7,606,093 and \$192,074, respectively.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

*Economic Dependency*

The District has not yet established a revenue base sufficient to meet its operational expenses and is dependent upon future growth in the District and advances from the Developer.

Active development of the various properties within the District began in 2015 and continued throughout 2017. The District's ability to generate cash from tap fees and service fees improved in 2017.

Management is developing plans to increase revenues and lower debt service requirements. The District continues to be dependent on the Developer for funding operational and capital expenses.

**NOTE 10 – INTERGOVERNMENTAL AGREEMENTS**

*Intergovernmental agreement with Triview Metropolitan District*

On March 28, 2002, the District entered into an agreement with Triview Metropolitan District (Triview) to jointly design, construct, operate and own the Monument Creek Interceptor (Interceptor). The costs of design and construction of the project are paid equally by Triview and the District. In accordance with the agreements, the District has 37% ownership and Triview has 63% ownership in the Interceptor. Initially, Triview will operate and manage the Interceptor via a management contract with Donala Water & Sanitation District (Donala). The costs of such management and operation of the interceptor will be paid on a quarterly basis in direct proportion to the use of the wastewater or re-use lines, based on actual flows.

*Intergovernmental agreement with Triview Metropolitan District and Donala Water and Sanitation District*

The District entered into an agreement dated November 11, 1999, subsequently amended on October 25, 2001, with Triview and Donala to define ownership rights in the wastewater treatment plant. Prior to these agreements, the District owned approximately 60% and Triview owned approximately 40% of the treatment facility under an agreement dated August 19, 1986. Under the amended agreement the District and Triview transferred part ownership to Donala.

In 2009 the Districts completed an expansion of the plant to 1.75 MGD. Under the terms of the above agreements, the three Districts reallocated ownership. The current ownership is 44.0% owned by Triview, 17.1% by Forest Lakes, and 38.9% by Donala. The plant is currently being operated by Donala and all parties are responsible for their respective share of operations and maintenance costs, based on the relative share of actual flows.

In addition, in accordance with the November 11, 1999 agreement, an ownership interest in a 24" interceptor was transferred to the District. As a result of the transfer, the interceptor is owned 25% by the District, 50% by Triview, and 25% by Donala.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 10 – INTERGOVERNMENTAL AGREEMENTS (CONTINUED)**

*Town of Monument Intergovernmental Agreements*

On January 9, 1989, the District and the Town of Monument agreed to certain responsibilities regarding the ownership and operations of facilities the District is empowered to construct and operate within the Town of Monument and the allocation of certain sales tax revenues to the District. On July 18, 2005, the District and the Town of Monument amended the original agreement to allow for the formation of a Public Improvement Corporation and the assessment of a Public Improvement Fee, which will replace the sales tax revenues allocated to the District.

On August 15, 2007, the District and the Town entered into an easement agreement, for the construction and use of a water tank storage unit. This agreement allows for the construction of a 1.5MG water tank, with 1MG capacity funded by the District and .5MG capacity funded by the Town. The Town's share of the construction costs are in exchange for use of the additional capacity, and the District retains ownership of the entire water tank. In accordance with the agreement, the Town shall pay its share of the construction costs to the District periodically as the District receives invoices for costs associated with the water tank.

*Intergovernmental Agreement with Pinon Pines Metropolitan District Nos. 1, 2 and 3*

In order to fulfill the requirements of the service plan, the District entered into a Facilities Funding, Construction, and Operations Agreements with the Pinon Pines Metropolitan District Nos. 1, 2, and 3 (the Pinon District), effective July 19, 2004. This agreement shall remain in full force and effect until all of the terms and conditions of the agreement have been performed in their entirety and as long as any bonds or other obligations are outstanding. On October 6, 2016 the District entered into an intergovernmental agreement with the Pinon District pertaining to the issuance of Series 2016 Bonds by Pinon Pines Metropolitan District No. 1.

The District will own, operate, maintain, finance, and construct facilities benefiting all of the districts, and the Pinon Districts will contribute to the costs of construction, operation, and maintenance of such facilities.

The District will have little or no assessed valuation within its boundaries from which general obligations could be paid, and therefore may issue revenue bonds. The Pinon Districts will either issue general obligation bonds at various points in time and use such proceeds to pay their obligations to the District, refinance previously issued revenue bonds of the District, or pledge their ad valorem tax revenues to the repayment of revenue bonds issued by the District.

The service plans approve and voters within the Pinon Districts have authorized \$354,900,000 of debt. \$8,330,000 in General Obligation Limited Tax Bonds were issued in October 2016. The bonds were used to repay 1987B Bond Anticipation Notes.

**FOREST LAKES METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 10 – INTERGOVERNMENTAL AGREEMENTS (CONTINUED)**

*Intergovernmental agreement with Donala Water and Sanitation District*

On March 7, 2016, the District entered into an agreement with Donala Water and Sanitation District to receive water and wastewater operating services, as well as related administration services.

**NOTE 11 - AMENDMENT TO COLORADO CONSTITUTION**

Colorado voters passed an amendment to the *State Constitution*, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments.

Fiscal year spending and revenue limits are determined based on the prior year's spending adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

On November 4, 2003, a majority of the District's electors authorized the District to collect, retain, and spend all fees, grants and other revenues, other than ad valorem taxes, without any limitations imposed under TABOR.

The Amendment is complex and subject to judicial interpretation. The entity believes it is in compliance with the requirements of the amendment. However, the entity has made certain interpretations of the amendment's language in order to determine its compliance.

## **SUPPLEMENTAL INFORMATION**

**FOREST LAKES METROPOLITAN DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Actual	Budget	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Beginning fund balance	\$ 759,978	\$ 759,978	\$ -
Advances from funding agreements	7,788,497	8,475,223	(686,726)
Contract services for O&M	283,451	167,150	116,301
Interest income	-	25	(25)
Capital contributions	1,257,694	2,682,616	(1,424,922)
<b>TOTAL REVENUES</b>	<b>10,089,620</b>	<b>12,084,992</b>	<b>(1,995,372)</b>
<b>EXPENDITURES</b>			
District management	65,443	74,560	9,117
Facility maintenance & operations	348,406	381,000	32,594
Insurance	11,354	11,400	46
Legal	57,669	55,000	(2,669)
Accounting and auditing	13,550	15,000	1,450
Consulting	2,120	2,300	180
Other	2,462	2,500	38
Capital outlay	3,287,038	3,792,069	505,031
Contribution to other government	5,336,382	5,253,104	(83,278)
Payment of prepaid tap liability	256,615	286,805	30,190
Interest expense	-	1,241,422	1,241,422
Reserves	-	8,869	8,869
<b>TOTAL EXPENDITURES</b>	<b>9,381,039</b>	<b>11,124,029</b>	<b>1,742,990</b>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	708,581	<b>\$ 960,963</b>	<b>\$ (252,382)</b>
Less:			
Advances from funding agreements	(7,788,497)		
Depreciation	(313,214)		
Accrued interest	(1,074,706)		
Beginning fund balance	(759,978)		
Add:			
Capital outlay	3,287,038		
Payment of prepaid tap liability	256,615		
<b>CHANGE IN NET POSITION</b>	<b>\$ (5,684,161)</b>		

See the accompanying independent auditors' report.

**FOREST LAKES METROPOLITAN DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Ending fund balance is calculated as follows:

Current assets	\$ 1,211,131
Current liabilities	<u>(502,550)</u>
	<u><u>\$ 708,581</u></u>

See the accompanying independent auditors' report.