

FOREST LAKES METROPOLITAN DISTRICT
FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2017

E

RECEIVED

Office of the State Auditor

June 28, 2018

C O N T E N T S

	Page
INDEPENDENT AUDITOR’S REPORT	1
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	4
STATEMENT OF ACTIVITIES	5
BALANCE SHEET - ALL GOVERNMENTAL FUNDS	6
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND - GENERAL FUND	8
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES	9
STATEMENT OF NET POSITION - ALL PROPRIETARY FUND TYPES.....	10
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION ALL PROPRIETARY FUND TYPES.....	11
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES	12
STATEMENT OF FIDUCIARY NET POSITION BOND ESCROW AGENCY FUND	13
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND	37
SCHEDULE OF THE DISTRICT’S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - LOCAL GOVERNMENT DIVISION TRUST PENSION PLAN	38

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS - LOCAL GOVERNMENT
DIVISION TRUST PENSION PLAN39

SUPPLEMENTARY INFORMATION REQUIRED BY OVERSIGHT AGENCY

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL - PROPRIETARY FUNDS.....40

INDEPENDENT AUDITOR'S REPORT

March 2, 2018

Board of Directors
Forest Lakes Metropolitan District
La Plata County, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Forest Lakes Metropolitan District, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

March 2, 2018
Board of Directors
Forest Lakes Metropolitan District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Forest Lakes Metropolitan District as of December 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, the Schedule of the District’s Proportionate Share of the Net Pension Liability – Local Government Division Trust Pension Plan, and the Schedule of the District’s Contributions – Local Government Division Trust Pension Plan 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.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Forest Lake Metropolitan District’s basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual – Proprietary Funds is presented for

March 2, 2018
Board of Directors
Forest Lakes Metropolitan District

purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Revenues, Expenditures, and Changes in Net Position– Budget and Actual – Proprietary Funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Revenues, Expenditures, and Changes in Net Position – Budget and Actual – Proprietary Funds is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Beckstead & Co., LLC

Forest Lakes Metropolitan District

STATEMENT OF NET POSITION

December 31, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 907,267	\$ 61,110	\$ 968,377
Due from treasurer	1,368	1,674	3,042
Property taxes receivable	306,859	313,778	620,637
Customer accounts receivable (net of allowance)	21,025	38,796	59,821
Prepaid expenses	17,415	19,689	37,104
Inventory	114,303	14,296	128,599
Capital assets (net of accumulated depreciation)			
Land	785,048	777,342	1,562,390
Water reservoir	-	247,100	247,100
Water rights	-	86,266	86,266
Buildings, net	56,654	22,318	78,972
Recreation facilities, net	40,623	-	40,623
Equipment, net	245,226	114,127	359,353
Infrastructure, net	97,666	-	97,666
Plant and transmission lines, net	-	4,523,700	4,523,700
Total Assets	<u>2,593,454</u>	<u>6,220,196</u>	<u>8,813,650</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amortization related to pension plan	120,209	182,343	302,552
LIABILITIES			
Accounts payable	25,463	-	25,463
Accrued liabilities	25,953	39,842	65,795
Long-term obligations, current	12,425	12,425	24,850
Long-term obligations, noncurrent	12,803	12,803	25,606
Net pension liability	447,836	682,918	1,130,754
Total Liabilities	<u>524,480</u>	<u>747,988</u>	<u>1,272,468</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	306,859	313,778	620,637
Deferred amortization related to pension plan	1,632	1,633	3,265
Total Deferred Inflows of Resources	<u>308,491</u>	<u>315,411</u>	<u>623,902</u>
NET POSITION			
Net investment in capital assets	1,199,989	5,745,625	6,945,614
Restricted for emergencies	17,300	-	17,300
Unrestricted	663,403	(406,485)	256,918
Total Net Position	<u>\$ 1,880,692</u>	<u>\$ 5,339,140</u>	<u>\$ 7,219,832</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Function/Programs	Expenses	Program Revenues		Net (expense) revenue and change in net position		
		Charges for Services	Capital Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 355,467	\$ 238,954	\$ -	\$ (116,513)		\$ (116,513)
Roads	258,587	4,118	-	(254,469)		(254,469)
Recreation	39,952	1,843	-	(38,109)		(38,109)
Total governmental activities	<u>654,006</u>	<u>244,915</u>	<u>-</u>	<u>(409,091)</u>		<u>(409,091)</u>
Business-type activities:						
Water	518,954	342,738	-		\$ (176,216)	(176,216)
Sewer	405,725	193,116	-		(212,609)	(212,609)
Total business-type activities	<u>924,679</u>	<u>535,854</u>	<u>-</u>		<u>(388,825)</u>	<u>(388,825)</u>
Total	<u>\$ 1,578,685</u>	<u>\$ 780,769</u>	<u>\$ -</u>	<u>(409,091)</u>	<u>(388,825)</u>	<u>(797,916)</u>
General revenues:						
Taxes:						
Property taxes				277,929	297,992	575,921
Specific ownership				62,642	-	62,642
Penalties and interest				507	528	1,035
Highway users tax				58,830	-	58,830
Intergovernmental				10,016	-	10,016
Interest income				3,785	6,999	10,784
Miscellaneous income				13,450	1,175	14,625
Total general revenues				<u>427,159</u>	<u>306,694</u>	<u>733,853</u>
Change in net position				18,068	(82,131)	(64,063)
Net position - beginning of year				1,862,624	5,421,271	7,283,895
Net position - end of year				<u>\$ 1,880,692</u>	<u>\$ 5,339,140</u>	<u>\$ 7,219,832</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

BALANCE SHEET - GOVERNMENTAL FUND

December 31, 2017

	General Fund
ASSETS	
Cash and investments	\$ 907,267
Due from other funds	-
Due from county treasurer	1,368
Property taxes receivable	306,859
Customer accounts receivable (net of allowance)	21,025
Prepaid expenses	17,415
Inventories at cost	114,303
Total assets	\$ 1,368,237
LIABILITIES	
Accounts payable	\$ 25,463
Accrued liabilities	8,461
Total liabilities	33,924
DEFERRED INFLOWS OF RESOURCES	
Deferred property tax revenue	306,859
FUND EQUITY	
Nonspendable	131,718
Restricted for emergencies	17,300
Unassigned	878,436
Total fund equity	1,027,454
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,368,237

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION

December 31, 2017

Amount reported in the governmental activities on the Statement of Net Position
are different because:

Total fund balance - governmental funds	\$ 1,027,454
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	1,225,217
Deferred outflows and inflows as well as the net pension liability related to pensions are not financial resources or due and payable in the current period and, therefore, are not reported in the funds.	
Deferred outflows: deferred amortization related to the pension plan	120,209
Net pension liability	(447,836)
Deferred inflows: deferred amortization related to the pension plan	(1,632)
Accrued compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(17,492)
Capital lease obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(25,228)
Total net position - governmental activities	<u>\$ 1,880,692</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

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

For the Year Ended December 31, 2017

Revenues	
Taxes	\$ 408,269
Intergovernmental	
Lottery proceeds	10,016
Charges for services	238,954
Impact fees	4,118
Culture - recreation	90
Interest income	3,785
Special assessment fees	1,753
Other	13,450
Total revenues	680,435
Expenditures	
Current	
Roads	253,259
Recreation	37,039
General and administrative	248,745
Capital outlay	15,227
Debt service	
Principal payments	12,058
Interest payments	986
Treasurer and paying agent fees	8,361
Total expenditures	575,675
Net change in fund balance	104,760
Fund balance, beginning of year	922,694
Fund balance, end of year	\$ 1,027,454

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

Amount reported in the governmental activities on the Statement of Activities are
different because:

Net change in fund balance - total governmental funds	\$ 104,760
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlay reduced by depreciation expense in the current period (\$15,434-\$50,224).	(34,790)
Governmental funds report principal payments on capital leases as expenditures. However, in the Statement of Activities principal payments are not shown as an expense because they reduce the principal balance outstanding presented in the Statement of Net Position.	12,058
Governmental funds do not record the change in accrued compensated absences during the year as an expenditure. However, in the Statement of Activities, this change is shown as additional expense. This is the amount of change in compensated absences in the current year.	(695)
Governmental funds do not record the changes in deferred outflows and inflows related to pensions and the change in net pension liability for the year as an expenditure. However, in the Statement of Activities, this change is shown as additional expense. This is the amount of change in these accounts for the current year.	(63,265)
Change in net position of governmental activities	<u>\$ 18,068</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF NET POSITION - ALL PROPRIETARY FUND TYPES

December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Cash and investments	\$ 61,110	\$ -	\$ 61,110
Due from county treasurer	973	701	1,674
Property taxes receivable	136,081	177,697	313,778
Customer accounts receivable, net	24,533	14,263	38,796
Due from other funds	350,248	-	350,248
Prepaid expenses	13,056	6,633	19,689
Inventory	14,069	227	14,296
Capital assets, net of accumulated depreciation			
Land	529,309	248,033	777,342
Water reservoir	247,100	-	247,100
Water rights	86,266	-	86,266
Plant and transmission lines, net	2,740,128	1,783,572	4,523,700
Equipment, net	68,067	46,060	114,127
Buildings, net	11,159	11,159	22,318
Total assets	<u>4,282,099</u>	<u>2,288,345</u>	<u>6,570,444</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred amortization related to pension plan	<u>107,277</u>	<u>75,066</u>	<u>182,343</u>
LIABILITIES			
Accrued salaries and wages	23,129	16,713	39,842
Due to other funds	-	350,248	350,248
Long-term obligations, current	8,698	3,727	12,425
Long-term obligations, noncurrent	8,961	3,842	12,803
Net pension liability	<u>405,035</u>	<u>277,883</u>	<u>682,918</u>
Total liabilities	<u>445,823</u>	<u>652,413</u>	<u>1,098,236</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	136,081	177,697	313,778
Deferred amortization related to pension plan	1,117	516	1,633
Total deferred inflows of resources	<u>137,198</u>	<u>178,213</u>	<u>315,411</u>
NET POSITION			
Net investment in capital assets	3,664,370	2,081,255	5,745,625
Unrestricted	<u>141,985</u>	<u>(548,470)</u>	<u>(406,485)</u>
Total net position	<u>\$ 3,806,355</u>	<u>\$ 1,532,785</u>	<u>\$ 5,339,140</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ALL PROPRIETARY FUND TYPES

For the Year Ended December 31, 2017

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 321,764	\$ 179,187	\$ 500,951
Operating Expenses			
Source of supply	58,274	-	58,274
Treatment	8,914	127,513	136,427
Transmission	134,899	57,957	192,856
Administration	205,687	140,365	346,052
Depreciation	106,736	74,146	180,882
	<u>514,510</u>	<u>399,981</u>	<u>914,491</u>
Total operating expenses			
Operating income (loss)	(192,746)	(220,794)	(413,540)
Non-operating revenues (expenses)			
General property taxes	128,538	169,454	297,992
Special assessment	1,550	1,550	3,100
Penalty and interest	228	300	528
Tap fees	12,000	-	12,000
Impact fees	5,882	4,706	10,588
Late fees and tap interest	1,542	7,673	9,215
Interest income	3,552	3,447	6,999
Miscellaneous income	1,175	-	1,175
Interest expense	(690)	(796)	(1,486)
Treasurer and paying agent fees	(3,754)	(4,948)	(8,702)
	<u>150,023</u>	<u>181,386</u>	<u>331,409</u>
Total non-operating revenues (expenses)			
Change in net position	(42,723)	(39,408)	(82,131)
Net position - beginning of year	3,849,078	1,572,193	5,421,271
Net position- end of year	<u>\$ 3,806,355</u>	<u>\$ 1,532,785</u>	<u>\$ 5,339,140</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District
STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES
For the Year Ended December 31, 2017

	Business-type Activites - Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 326,881	\$ 182,162	\$ 509,043
Cash paid to suppliers	(172,192)	(156,121)	(328,313)
Cash paid to employees	(175,053)	(126,486)	(301,539)
Other cash receipts	2,717	7,673	10,390
Net cash provided (used) by operating activities	<u>(17,647)</u>	<u>(92,772)</u>	<u>(110,419)</u>
Cash flows from non-capital financing activities			
Property taxes and rebates	130,316	171,304	301,620
Net cash provided (used) by non-capital financing activities	<u>130,316</u>	<u>171,304</u>	<u>301,620</u>
Cash flows from capital and related financing activities			
Debt principal payments	(8,441)	(13,618)	(22,059)
Debt service interest payments	(690)	(796)	(1,486)
Paying agent fees	(3,754)	(4,948)	(8,702)
Tap fees and excess impact fees	17,882	4,706	22,588
Advance from (repayment to) other funds for capital acquisition	-	(54,028)	(54,028)
Purchase of capital assets	(81,620)	(13,295)	(94,915)
Net cash provided (used) by capital and related financing activities	<u>(76,623)</u>	<u>(81,979)</u>	<u>(158,602)</u>
Cash flows from investing activities			
Repayment from (advance to) other funds	21,512	-	21,512
Interest income	3,552	3,447	6,999
Net cash provided (used) by investing activities	<u>25,064</u>	<u>3,447</u>	<u>28,511</u>
Net increase (decrease) in cash and cash equivalents	61,110	-	61,110
Equity in pooled cash and investments, beginning year	-	-	-
Equity in pooled cash and investments, end of year	<u>\$ 61,110</u>	<u>\$ -</u>	<u>\$ 61,110</u>
<u>Reconciliation of net operating income to net cash provided (used) by operating activities:</u>			
Net operating income	\$ (192,746)	\$ (220,794)	\$ (413,540)
Adjustments to reconcile net operating income to net cash provided (used) by operating activities:			
Depreciation	106,736	74,146	180,882
(Increase) Decrease in current assets	5,360	2,459	7,819
Increase (Decrease) in current liabilities	352	458	810
Change in pension accounts	59,934	43,286	103,220
Miscellaneous receipts	1,175	-	1,175
Late fees	1,542	7,673	9,215
Total adjustments	<u>175,099</u>	<u>128,022</u>	<u>303,121</u>
Net cash provided (used) by operating activities	<u>\$ (17,647)</u>	<u>\$ (92,772)</u>	<u>\$ (110,419)</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District

STATEMENT OF FIDUCIARY NET POSITION
BOND ESCROW AGENCY FUND

For the Year Ended December 31, 2017

ASSETS

Equity in pooled cash and investments	\$ 126,654
	<u>\$ 126,654</u>

LIABILITIES

Matured principal payable	\$ 95,000
Matured interest payable	<u>31,654</u>
	<u>\$ 126,654</u>

The accompanying notes are an integral part of this statement.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Forest Lakes Metropolitan District is a political subdivision of the State of Colorado. The District was organized and established pursuant to a court order on July 18, 1973. The District currently provides water and sanitation facilities, recreation services and road maintenance operations within the District boundaries.

2. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the District is not financially accountable for any other entity, nor is the District a component unit of any other government.

3. Government-wide and Fund Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. Currently, the District has both governmental and business-type activities.

Government-wide Financial Statements

In the government-wide Statement of Net Position, the governmental activities columns are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts: net position restricted for emergencies, invested in capital assets net of related debt, and unrestricted net position.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The fund focus is on current available resources and budget compliance.

4. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. At this time the District uses governmental funds and proprietary funds. The following fund descriptions are used by the District:

Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund equity.

The District reports the following major governmental fund:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of Colorado and the bylaws of the District.

Proprietary Funds:

Enterprise funds account for operations that are financed and operated in a manner where the intent of the District is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the District has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Operating revenues and expenses for enterprise funds are those that result from providing 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

The District reports the following major enterprise funds:

Water Fund and Sewer Fund – The Water and Sewer funds are separate funds used to account for District utility operations.

Trust and Agency Fund:

Agency Fund - The Bond Escrow fund is used to account for the payment of the principal and interest on the general obligation bonds refunded in 1989. Agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The District is acting as escrow agent on the refunded 1989 bonds.

5. Measurement Focus and Basis of Accounting

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements.

Long-Term Economic Focus and Accrual Basis

Governmental activities in the government-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Current Financial Focus and Modified Accrual Basis

The governmental fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized when the related liability is incurred. The exception to this general rule is that principal and interest on general long-term debt, if any, is recognized when due.

The accrual basis of accounting is utilized in the proprietary fund type. Revenue is recognized when earned and expenses are recognized when the liability is incurred. Depreciation is computed and recorded as an operating expense and expenditures for property and equipment are shown as increases in assets.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

6. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

7. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are property applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

9. Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

In the fall of each year, the District's Board of Directors formally adopts a budget with appropriations by fund for the ensuing year pursuant to the Colorado Local Budget Law. The budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles ("GAAP").

As required by the Colorado statutes, the District followed the following timetable in approving and enacting a budget for the ensuing years:

- (1) By October 15, the budget is submitted to the Board of Directors. A "Notice of Budget" is published when the budget is received and public hearings are conducted to obtain taxpayer comment.
- (2) By December 31, the District's Board of Directors must adopt the budget.
- (3) After adopting the budget, but before January 1, the Board must enact a resolution making appropriations for the ensuing fiscal year.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

- (4) Budgets for the general fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- (5) The Colorado State Statutes require the adoption of a budget for proprietary funds. The budget for the utility fund is prepared essentially on the modified accrual basis of accounting. This basis of accounting is at variance with generally accepted accounting principles for proprietary fund types.
- (6) Appropriations lapse at the end of each fiscal year.
- (7) The board of Directors may authorize supplemental appropriations during the year. During 2017, there were no supplemental appropriations.

The level of control in the budget at which expenditures exceed appropriations is at the fund level. All appropriations lapse at year-end.

10. Investments

Investments are stated at fair value. All investments held by the District are highly liquid (maturity in three months or less) and are considered cash equivalents for the purposes of the statement of cash flows.

11. Inventories

Inventories are stated at the lower of cost or market.

12. Capital Assets and Long-Term Debt

The accounting and reporting treatment applied to the capital asset and long-term debt associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Capital assets used in governmental fund type operations are not accounted for in the governmental funds. These capital assets are presented in the government-wide Statement of Net Position.

All Capital Assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated Capital Assets are valued at their estimated fair value on the date donated. As defined by GASB Statement No. 34, infrastructure assets include long-lived capital assets that are normally stationary

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

in nature and can be preserved for a significant greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels and lighting systems. The District's infrastructure assets (roads) acquired prior to 2004 (year of GASB 34 implementation) have been included in capital assets.

Long-Term Debt expected to be financed from governmental funds are not accounted for in the governmental funds. This debt is presented in the government-wide Statement of Net Position.

All Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Depreciation of all exhaustible Capital Assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Utility Plant	20-50 years
Machinery and Equipment	5-10 years

13. Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes levied on January 1 are due and payable on February 28 and July 31. In accordance with U.S. generally accepted accounting principles, the District has recorded as taxes receivable, current property taxes which have been levied and are due within one year but are not yet considered delinquent. Because revenue from taxes receivable will not be available for expenditure until next year, management has deferred recognition of this revenue until next year.

14. Allowance for Doubtful Accounts

Accounts receivable are recorded net of allowance for doubtful accounts. The allowance at December 31, 2017 was:

General Fund	\$ 6,190
Water Fund	8,317
Sewer Fund	<u>4,836</u>
	<u>\$ 19,343</u>

15. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

16. Compensated Absences

Vacation and sick leave with pay are provided to employees of the District. Vacation leave is accrued based on length of employment with two weeks per year for four or less years of service, three weeks with five to nine years of service and four weeks for ten or more years of service. Accrued vacation not taken is paid upon termination. Employees are not allowed to carryover more than two weeks of vacation to a succeeding year without board approval. Sick leave is accrued at a rate of eight hours per month and unused sick leave over 192 hours is paid annually to employees. Upon termination, unused sick leave is paid out based on employee length of service. Employees with 0-4 years of service are not paid for any accrued sick leave. Employees with 5-9 years of service are paid 50% of their accrued sick leave. Employees with 10+ years of service receive 100% of their accrued sick leave at termination.

17. Restricted Assets and Classification of Fund Balance

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by enabling legislation. It is the District's policy to use restricted assets first when an expense is incurred for which both restricted and unrestricted assets are available.

In the governmental fund financial statements fund balance is reported in five classifications.

Nonspendable: Inventories represent fund balance amounts that are not in spendable form.

Restricted: The Colorado Constitution as amended by TABOR (see separate tax, spending, and debt limitation footnote) requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. It is the District's policy to use restricted fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

Committed: Committed is that portion of fund balance that has been committed by the highest level of formal action of the District's Board of Directors and does not lapse at year-end. The District does not have any committed fund balance at year end. It is the District's policy to use committed fund balance first when an expense is incurred for which both restricted and unrestricted fund balance are available.

Assigned: Assignments of fund balance are designated by District management. The District does not have any assigned fund balance at year end.

Unassigned: Fund balance that has not been reported in any other classification is reported as unassigned.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

CASH AND INVESTMENTS

Deposits

At year-end, the carrying amount of the District's cash was \$49,027 and the bank balance was \$49,941. Of the bank's balance, \$49,941 was covered by federal depository insurance.

Colorado State Statutes require that any public depository which accepts and holds public funds maintain, as security for public deposits accepted and held by it, not insured by federal depository insurance, eligible collateral having a market value, at all times, equal to at least one hundred and two percent of the amount of public deposits. Banking institutions are monitored by the State of Colorado Banking Commission and must report monthly on all public deposits held. Pledged collateral must be held in joint custody of the bank and of the Public Deposit Protection Act in a safekeeping account held by a third party, usually the Federal Reserve Bank. The pledged collateral cannot be released unless approval is obtained by the Commission. Saving and loan institutions are monitored by the State of Colorado Commissioner of Savings and Loan Associations and must report quarterly on all public deposits held. Pledged collateral, usually in the form of mortgages, must be held by a third party institution for the benefit of the Commissioner.

Investments

Colorado State Statutes authorize the District to invest in direct debt securities of the United States, Colorado State and local governmental entities and any United States created agency, corporation or instrumentality. All investments must be held by the District, in their name, or in custody by a third party on behalf of the local government.

Credit Risk

Credit risk is the risk that in issuer or other counter party to an investment will not fulfill its obligation.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The District's deposits are either covered by depository insurance or are collateralized under the Colorado Public Deposits Protection Act and are therefore not deemed to be exposed to custodial credit risk. The District's investments are not deemed to be exposed to custodial credit risk because they are held by the District or by the District's custody agent in the District's name.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The District places money in public entity cash investment pools authorized by Colorado statutes.

The District had invested \$1,045,904 in the Colorado Local Governmental Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. Colotrust records its investments at amortized cost and the District records its investment in Colotrust using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily, and there is no redemption notice period.

The captions on the government-wide statement of net position of the District related to cash and investments are as follows:

Cash and investments	
Government activities	\$ 907,267
Agency fund	126,654
Business-type activities	<u>61,110</u>
Total equity in pooled cash and investments	<u><u>\$1,095,031</u></u>

A reconciliation of the carrying value of deposits and investments reported above to the Statement of Net Position is as follows:

Deposits	\$ 49,027
Petty cash	100
Colotrust	<u>1,045,904</u>
Total equity in pooled cash and investments	<u><u>\$1,095,031</u></u>

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 785,048			\$ 785,048
Total capital assets not being depreciated	785,048	-	-	785,048
Capital assets being depreciated				
Buildings	115,203			115,203
Recreational facilities	127,675			127,675
Machinery and equipment	720,401	15,434	(15,637)	720,198
Roads	266,403			266,403
Total capital assets being depreciated	1,229,682	15,434	(15,637)	1,229,479
Less accumulated depreciation for				
Buildings	54,708	3,841		58,549
Recreational facilities	84,139	2,913		87,052
Machinery and equipment	452,467	38,142	(15,637)	474,972
Roads	163,409	5,328		168,737
Total capital assets being depreciated	754,723	50,224	(15,637)	789,310
Total capital assets being depreciated, net	474,959	(34,790)	-	440,169
Governmental activities capital assets, net	<u>\$ 1,260,007</u>	<u>\$ (34,790)</u>	<u>\$ -</u>	<u>\$ 1,225,217</u>

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities:				
Capital assets not being depreciated				
Water				
Land	\$ 529,309			\$ 529,309
Water rights	86,266			86,266
Water reservoir	247,100			247,100
Sewer				
Land	248,033			248,033
Total capital assets not being depreciated	1,110,708	-	-	1,110,708
Capital assets being depreciated				
Water				
Plant and transmission lines	4,222,248	81,620		4,303,868
Buildings	37,781			37,781
Equipment	370,102		(12,938)	357,164
Sewer				
Plant and transmission lines	2,797,383	13,295		2,810,678
Buildings	37,781			37,781
Equipment	245,387		(12,938)	232,449
Total capital assets being depreciated	7,710,682	94,915	(25,876)	7,779,721
Less accumulated depreciation for:				
Water				
Plant and transmission lines	1,474,144	89,596		1,563,740
Buildings	25,362	1,260		26,622
Equipment	286,155	15,880	(12,938)	289,097
Sewer				
Plant and transmission lines	965,567	61,539		1,027,106
Buildings	25,362	1,260		26,622
Equipment	187,980	11,347	(12,938)	186,389
Total accumulated depreciation	2,964,570	180,882	(25,876)	3,119,576
Total capital assets being depreciated, net	4,746,112	(85,967)	-	4,660,145
Buisness-type activities capital assets, net	\$ 5,856,820	\$ (85,967)	\$ -	\$ 5,770,853

Depreciation expense was charged to functions / programs of the primary government as follows:

Government activities:	
General government	\$ 41,983
Roads	5,328
Recreation	2,913
Total depreciation expense - governmental activities	\$ 50,224
Buisness-type activities:	
Water	\$ 106,736
Sewer	74,146
Total depreciation expense - business-type activities	\$ 180,882

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

LONG-TERM OBLIGATIONS

Long-term obligations activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 37,286	\$ -	\$(12,058)	\$ 25,228	\$ 12,425
Business-type Activities:					
Capital-lease obligation	\$ 37,286	\$ -	\$(12,058)	\$ 25,228	\$ 12,425
Note payable - State of Colorado	10,001	-	(10,001)	-	-
	<u>\$ 47,287</u>	<u>\$ -</u>	<u>\$(22,059)</u>	<u>\$ 25,228</u>	<u>\$ 12,425</u>

Capital Lease Obligation

During 2015, the District entered into a capital lease with John Deere Credit, Inc. to acquire a loader backhoe. The lease requires quarterly payments of \$6,522, including interest at 3%, through November, 2019. The lease provides for a \$1 purchase option at the end of the lease. The asset has been capitalized with a cost of \$135,232 and has accumulated depreciation of \$33,809 at December 31, 2017.

The following is a schedule of future required payments applicable to the capital lease:

<u>Year</u>	
2018	\$ 26,089
2019	26,089
Total required payments	<u>52,178</u>
Less amount representing interest	<u>1,722</u>
	<u>\$ 50,456</u>

Long-Term Notes Payable – DOLA 2002 Loan

During 2002, the District negotiated a loan agreement with the Colorado Department of Local Affairs for the purpose of adding a third lined basin and related equipment to the existing wastewater treatment plant. The original loan is \$109,000 and bears interest at 5% on the unpaid principal. Annual principal and interest payments are due September 1. This note was paid off during 2017.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

PROVISION FOR SERVICES TO NON-DISTRICT USERS

The District provides water and sewer services to the River Ranch Development which is adjacent to, but not included in, the District under a service agreement. Water services are provided to Horseman's Lodge which is also outside of the District. The District charges these properties two times the charges of the District users.

BENEFIT PLANS

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

The District participates in the Local Government Division Trust Fund (LGDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the LGDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. Eligible employees of the District are provided with pensions through the Local Government Division Trust Fund (LGDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the LGDTF.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the District are required to contribute to the LGDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	Rates
Employer Contribution Rate ¹	10.00%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%
Amount Apportioned to the LGDTF ¹	8.98%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	2.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	1.50%
Total Employer Contribution Rate to the LGDTF ¹	12.68%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the LGDTF in the period in which the compensation becomes payable to the member and the District is statutorily committed to pay the contributions to the LGDTF. Employer contributions recognized by the LGDTF from the District were \$57,471 for the year ended December 31, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, the District reported a liability of \$1,130,754 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The District's proportion of the net pension liability was based on its contributions to the LGDTF for the calendar year 2016 relative to the total contributions of participating employers to the LGDTF.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

At December 31, 2016, the District's proportion was .0836 percent, which was an increase from its proportion of .0824 percent measured as of December 31, 2015.

For the year ended December 31, 2017, the District recognized pension expense of \$223,957. At December 31, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 20,089	\$ -
Changes of assumptions and other inputs	80,073	3,265
Net difference between projected and actual earnings on pension plan investments	135,574	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	9,345	-
Contributions subsequent to the measurement date	57,471	-
Total	\$ 302,552	\$ 3,265

\$57,471 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2018	\$ 117,452
2019	109,413
2020	14,951
Total	\$ 241,816

Amounts reported for net pension liability and deferred outflows and inflows of resources related to the pension are allocated to the funds based on each funds proportion of salaries and wages to total salaries and wages for the District.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.85 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA’s Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 10.45 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.

- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the LGDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	100.00%	

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

Based on the above assumptions and methods, the LGDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use the Municipal Bond Index Rate and therefore, the discount rate was 7.50 percent, 0.25 percent higher compared to the current measurement date.

Sensitivity of the District’s proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 1,664,489	\$ 1,130,754	\$ 685,346

Pension plan fiduciary net position. Detailed information about the LGDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Defined Contribution Pension Plans

Voluntary Investment Program

Plan Description - Employees of the District that are also members of the LGDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy - The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The District does not contribute to the plan. Employees are immediately vested in their

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

own contributions and investment earnings. For the year December 31, 2017, program members contributed \$5,792 to the program.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The District contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The District is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the District are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ended December 31, 2015, 2016, and 2017 the District contributions to the HCTF were \$4,772, \$4,944, and \$4,623, respectively, equal to their required contributions for each year.

RISK OF LOSS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and general liability. The District is a member of the Colorado Special District Property and Liability Pool ("Pool") for property and liability insurance.

The Pool was formed by an intergovernmental agreement to provide public officials, property, general and automobile liability coverage for claims up to \$1,000,000, except if the claim falls within the government immunity statute, then the coverage is \$150,000 per person and a \$600,000 aggregate claim. The Pool is reinsured for 80% of the first \$250,000 of all claims and 100% for claims in excess of \$250,000. The District may be required to make additional contributions in the event aggregate losses incurred by the Pool exceed amounts recoverable from reinsurance contracts. 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. Any settled claims are not expected to exceed coverage.

Forest Lakes Metropolitan District
NOTES TO FINANCIAL STATEMENTS

December 31, 2017

A summary of audited statutory basis financial information for the Pool as of and for the year ended December 31, 2016 (the latest audited information available) is as follows:

Assets	<u>\$52,645,796</u>
Liabilities	<u>\$28,757,242</u>
Surplus	<u>23,888,554</u>
	<u>\$52,645,796</u>
Revenues	\$19,338,769
Expenses	<u>14,100,230</u>
Net Income (Loss)	<u>\$ 5,238,539</u>

INTERFUND TRANSACTIONS

During the course of normal operations, the District has transactions between funds, including expenditures and transfers of resources primarily to provide services. The governmental and proprietary type funds financial statements generally reflect such transactions as due to/due from other funds.

TAX, SPENDING, AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitutions, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation.

On May 3, 1994 the voters of the District approved a referendum that authorized the District to collect, retain or expend all revenues and other funds received from any source notwithstanding any restrictions of fiscal year revenue or spending, including, without limitation the restrictions of the TABOR Amendment effective January 1, 1993, provided there shall be no increase in the District's property tax rate unless approved by the voters. In 2002, the District approved the TABOR refinement question presented on the May 1994 ballot for the removal of the 5.5% revenue limit.

The District believes it is in compliance with the requirements of the amendment and the subsequent referendum noted above. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

OPERATING LEASE

The District leases office space in Bayfield, Colorado. The lease requires monthly rent payments of \$1,739. Total lease expense for the year was \$20,868. The lease is currently on a month to month basis.

REQUIRED SUPPLEMENTARY INFORMATION

Forest Lakes Metropolitan District

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

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes				
General property tax	\$ 289,114	\$ 289,114	\$ 286,290	\$ (2,824)
Specific ownership	50,000	50,000	62,642	12,642
Penalties and interest	700	700	507	(193)
Highway users tax	50,000	50,000	58,830	8,830
Intergovernmental				
State lottery proceeds	7,000	7,000	10,016	3,016
Grant revenue	-	-	-	-
Charges for services	235,400	235,400	238,954	3,554
Impact fees	1,000	1,000	4,118	3,118
Culture - recreation	750	750	90	(660)
Interest income	750	750	3,785	3,035
Special assessment fees	1,000	1,000	1,753	753
Miscellaneous revenues	104,110	104,110	13,450	(90,660)
Total revenues	<u>739,824</u>	<u>739,824</u>	<u>680,435</u>	<u>(59,389)</u>
Expenditures				
Current				
Roads	389,678	389,678	253,259	136,419
Recreation	54,736	54,736	37,039	17,697
General and administrative	273,797	273,797	248,745	25,052
Capital outlay	53,000	53,000	15,227	37,773
Debt service				
Principal	12,058	12,058	12,058	-
Interest	986	986	986	-
Contingency	20,000	20,000	-	20,000
Treasurer and paying agent fees	11,081	11,081	8,361	2,720
Total expenditures	<u>815,336</u>	<u>815,336</u>	<u>575,675</u>	<u>239,661</u>
Excess (deficit) of revenues over expenditures	(75,512)	(75,512)	104,760	180,272
Other Financing Sources				
Other	75,700	75,700	-	(75,700)
Excess (deficit) of revenues and other financing sources over expenditures	188	188	104,760	104,572
Fund balance, beginning of year	922,694	922,694	922,694	-
Fund balance, end of year	<u>\$ 922,882</u>	<u>\$ 922,882</u>	<u>\$ 1,027,454</u>	<u>\$ 104,572</u>

Forest Lakes Metropolitan District

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LOCAL GOVERNMENT DIVISION TRUST PENSION PLAN

December 31,

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0836315881%	0.8237650140%
District's proportionate share of the net pension liability	\$ 1,130,754	\$ 907,444
District's covered-employee payroll	\$ 506,909	\$ 467,834
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	223.07%	193.97%
Plan fiduciary net position as a percentage of the total pension liability	76.87%	80.72%

Forest Lakes Metropolitan District

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
LOCAL GOVERNMENT DIVISION TRUST PENSION PLAN

December 31,

	2017	2016
Contractually required contribution	\$ 57,471	\$ 64,276
Contributions in relation to the contractually required contributions	(57,471)	(64,276)
Contribution excess (deficiency)	\$ -	\$ -
District's covered-employee payroll	\$453,241	\$506,909
Contributions as a percentage of covered-employee payroll	12.68%	12.68%

SUPPLEMENTARY INFORMATION
REQUIRED BY OVERSIGHT AGENCY

Forest Lakes Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL - ALL PROPRIETARY FUNDS

For the Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Business-type Activity - Enterprise Funds				
Water Fund				
Operating revenues	\$ 307,500	\$ 307,500	\$ 321,764	\$ 14,264
Operating expenses	(575,234)	(575,234)	(407,774)	167,460
Excess of operating revenues over (under) operating expenses	(267,734)	(267,734)	(86,010)	181,724
Nonoperating revenues	267,242	267,242	154,467	(112,775)
Nonoperating expenses	691	691	(94,505)	(95,196)
Excess of total revenues over (under) total expenses	<u>\$ 199</u>	<u>\$ 199</u>	(26,048)	<u>\$ (26,247)</u>
Reconciliation of change in net position				
Depreciation			(106,736)	
Capital outlay			81,620	
Debt service principal payments			8,441	
Change in net position			<u>\$ (42,723)</u>	
Sewer Fund				
Operating revenues	\$ 177,000	\$ 177,000	\$ 179,187	\$ 2,187
Operating expenses	(425,493)	(425,493)	(325,835)	99,658
Excess of operating revenues over (under) operating expenses	(248,493)	(248,493)	(146,648)	101,845
Nonoperating revenues	256,431	256,431	187,130	(69,301)
Nonoperating expenses	(7,193)	(7,193)	(32,657)	(25,464)
Excess of total revenues over (under) total expenses	<u>\$ 745</u>	<u>\$ 745</u>	7,825	<u>\$ 7,080</u>
Reconciliation of change in net position				
Depreciation			(74,146)	
Capital outlay			13,295	
Debt service principal payments			13,618	
Change in net position			<u>\$ (39,408)</u>	