

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
Jefferson County, Colorado

**FINANCIAL STATEMENTS**  
December 31, 2017

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Office of the State Auditor

July 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Mountain Shadows Metropolitan District  
Jefferson County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Mountain Shadows Metropolitan District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express 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.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Mountain Shadows Metropolitan District, as of December 31, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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 the District's basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Fiscal Focus Partners, LLC*

Lakewood, Colorado  
July 29, 2018

## **BASIC FINANCIAL STATEMENTS**

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**STATEMENT OF NET POSITION**  
**December 31, 2017**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and investments	\$ 1,441
Cash and investments - Restricted	896,956
Receivable from County Treasurer	9,265
Accounts receivable	14,459
Prepaid expense	243
Property taxes receivable	1,151,648
Capital assets, net	1,257,772
Total assets	<u>3,331,784</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Cost of bond refunding, net	319,101
Total deferred outflows of resources	<u>319,101</u>
<b>LIABILITIES</b>	
Accounts payable	59,928
Due to JCMD #2	42,640
Accrued bond interest payable	79,751
Noncurrent liabilities	
Due within one year	225,000
Due in more than one year	35,563,819
Total liabilities	<u>35,971,138</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property tax revenue	1,151,648
Total deferred inflows of resources	<u>1,151,648</u>
<b>NET POSITION</b>	
Restricted for:	
Emergency reserves	8,300
Capital Projects	562,046
Unrestricted	(34,042,247)
Total net position	<u>\$ (33,471,901)</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Government activities:					
General government	\$ 381,493	\$ 14,365	\$ 55,017	\$ -	\$ (312,111)
Conveyance of assets to other entities	28,641,997				(28,641,997)
Interest and related costs on long-term debt	1,433,878	-	229,237	645,309	(559,332)
	<u>\$ 30,457,368</u>	<u>\$ 14,365</u>	<u>\$ 284,254</u>	<u>\$ 645,309</u>	<u>(29,513,440)</u>
General revenues:					
Property taxes					949,058
Specific ownership taxes					122,740
Urban renewal tax					317,972
Net investment income					16,043
Total general revenues					<u>1,405,813</u>
Change in net position					(28,107,627)
Net position - Beginning					(5,364,274)
Net position - Ending					<u>\$ (33,471,901)</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2017**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 1,441	\$ -	\$ -	\$ 1,441
Cash and investments - Restricted	8,300	311,117	577,539	896,956
Receivable from County Treasurer	1,793	7,472	-	9,265
Due from other funds	15,493	1,579	-	17,072
Accounts receivable	-	-	14,459	14,459
Prepaid expense	243	-	-	243
Property taxes receivable	222,893	928,755	-	1,151,648
Total assets	<u>\$ 250,163</u>	<u>\$ 1,248,923</u>	<u>\$ 591,998</u>	<u>\$ 2,091,084</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Accounts payable	\$ 59,928	\$ -	\$ -	\$ 59,928
Due to other funds	1,579	-	15,493	17,072
Due to Jefferson Center District No. 2	42,640	-	-	42,640
Total liabilities	<u>104,147</u>	<u>-</u>	<u>15,493</u>	<u>119,640</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred property tax revenue	222,893	928,755	-	1,151,648
Total deferred inflows of resources	<u>222,893</u>	<u>928,755</u>	<u>-</u>	<u>1,151,648</u>
<b>FUND BALANCES</b>				
Nonspendable				
Prepaid expense	243	-	-	243
Restricted for:				
Emergency reserves	8,300	-	-	8,300
Debt service	-	320,168	-	320,168
Capital projects	-	-	576,505	576,505
Unassigned	(85,420)	-	-	(85,420)
Total fund balances	<u>(76,877)</u>	<u>320,168</u>	<u>576,505</u>	<u>819,796</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 250,163</u>	<u>\$ 1,248,923</u>	<u>\$ 591,998</u>	

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

Capital assets are reported as assets on the Statement of Net Position but are recorded as expenditures in the funds	1,257,772
Capital assets	
Other long-term assets an deferred outflows of resources are not available to pay for current period expenditures and, therefore, are expensed in the funds.	
Cost of refunding, net	319,101
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable	(20,455,000)
Bond premium	(83,708)
Accrued interest on bonds payable	(79,751)
Accrued and unpaid interest on Series 2016B Bonds	(315,005)
Developer advances payable	(14,554,007)
Accrued interest on Developer advances	(381,099)
	<u>\$ (33,471,901)</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
Year Ended December 31, 2017

	General	Debt Service	Capital Projects	Total Governmental Funds
<b>REVENUES</b>				
Property taxes	\$ 183,689	\$ 765,369	\$ -	\$ 949,058
Specific ownership taxes	23,756	98,984	-	122,740
Urban renewal tax - District mill levy	55,017	229,237	-	284,254
Urban renewal tax - TIF	-	317,972	-	317,972
Maintenance fees	11,865	-	-	11,865
Net investment income	472	9,642	5,929	16,043
Other income	2,500	-	-	2,500
TIF - daycare parcel	-	-	76,778	76,778
TIF - prior to 2016	-	-	269,089	269,089
TIF - non pledge	-	-	299,442	299,442
Total revenues	<u>277,299</u>	<u>1,421,204</u>	<u>651,238</u>	<u>2,349,741</u>
<b>EXPENDITURES</b>				
General and administration				
Accounting	36,868	-	3,300	40,168
Audit	4,750	-	-	4,750
County Treasurer's fees	2,756	11,483	-	14,239
Engineering	-	-	3,688	3,688
Facilities management	28,480	-	-	28,480
Insurance and bonds	9,052	-	-	9,052
Legal	68,855	-	8,505	77,360
Miscellaneous	1,455	-	-	1,455
Office supplies	94	-	-	94
Transfer to Jefferson Center District No. 2	42,640	-	-	42,640
Operations and maintenance				
Irrigation repairs	7,974	-	-	7,974
Gas and electric	823	-	-	823
Fence Stain	8,200	-	-	8,200
Landscape maintenance	60,176	-	-	60,176
Miscellaneous Repairs	1,015	-	-	1,015
Mulch to rock replacement	7,750	-	-	7,750
Retention pond maintenance	4,404	-	-	4,404
Site clean up and dog waste	4,099	-	-	4,099
Snow removal	2,845	-	-	2,845
Sod repair	2,106	-	-	2,106
Water and sewer	54,900	-	-	54,900
Debt service				
Paying agent fees	-	5,500	2,000	7,500
Bond interest	-	978,189	-	978,189
Bond principal	-	195,000	-	195,000
Capital outlay	-	-	13,025,350	13,025,350
Total expenditures	<u>349,242</u>	<u>1,190,172</u>	<u>13,042,843</u>	<u>14,582,257</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(71,943)</u>	<u>231,032</u>	<u>(12,391,605)</u>	<u>(12,232,516)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	85,207	-	12,597,921	12,683,128
Repay Developer advances - principal	-	-	(1,137,241)	(1,137,241)
Total other financing sources (uses)	<u>85,207</u>	<u>-</u>	<u>11,460,680</u>	<u>11,545,887</u>
<b>NET CHANGE IN FUND BALANCES</b>	13,264	231,032	(930,925)	(686,629)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>(90,141)</u>	<u>89,136</u>	<u>1,507,430</u>	<u>1,506,425</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ (76,877)</u>	<u>\$ 320,168</u>	<u>\$ 576,505</u>	<u>\$ 819,796</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2017**

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

Net changes in fund balances - Total governmental funds	\$ (686,629)
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Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciation.

Capital outlay	13,025,350
Dedication of assets	(28,641,997)
Depreciation expense	(32,251)

Long-term debt (e.g., bonds, Developer advances) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Developer advances	(12,683,128)
Repayment of developer advance	1,137,241
Principal payment	195,000

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Accrued interest on Developer advances - Change in liability	(279,997)
Accrued interest on bonds - Change in liability	(123,328)
Current year cost of refunding	(22,502)
Current year bond issue premium	4,614

Change in net position of governmental activities	<u>\$ (28,107,627)</u>
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These financial statements should be read only in connection with  
the accompanying notes to financial statements.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
December 31, 2017**

	Budget Amounts		Actual	Variance- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 183,699	\$ 183,699	\$ 183,689	\$ (10)
Specific ownership taxes	19,380	22,971	23,756	785
Urban renewal tax - District mill levy	58,571	58,571	55,017	(3,554)
Maintenance fees	5,650	12,430	11,865	(565)
Net investment income	2,000	2,063	472	(1,591)
Other income	-	2,500	2,500	-
Total revenues	<u>269,300</u>	<u>282,234</u>	<u>277,299</u>	<u>(4,935)</u>
<b>EXPENDITURES</b>				
General and administration				
Accounting	23,000	37,000	36,868	132
Audit	4,800	4,800	4,750	50
County Treasurer's fees	2,755	2,755	2,756	(1)
Facilities management	29,266	28,472	28,480	(8)
Insurance and bonds	8,000	9,052	9,052	-
Legal	30,000	75,000	68,855	6,145
Miscellaneous	1,949	1,000	1,455	(455)
Office supplies	1,125	49	94	(45)
Transfer to Jefferson Center District No. 2	38,271	39,369	42,640	(3,271)
Operations and maintenance				
Irrigation repairs	4,500	7,974	7,974	-
Fence Stain	8,200	8,200	8,200	-
Gas and electric	1,800	893	823	70
Landscape improvements	3,000	-	-	-
Landscape maintenance	47,283	58,600	60,176	(1,576)
Lighting	50	50	-	50
Miscellaneous Repairs	-	705	1,015	(310)
Mulch to rock replacement	44,788	7,750	7,750	-
Retention pond maintenance	4,500	4,404	4,404	-
Site clean up and dog waste	4,600	3,821	4,099	(278)
Snow removal	11,600	3,000	2,845	155
Sod repair	1,913	2,106	2,106	-
Tract conveyance	600	-	-	-
Water and sewer	30,000	55,000	54,900	100
Total expenditures	<u>302,000</u>	<u>350,000</u>	<u>349,242</u>	<u>758</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>				
	<u>(32,700)</u>	<u>(67,766)</u>	<u>(71,943)</u>	<u>(4,177)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Developer advance	-	85,207	85,207	-
Total other financing sources (uses)	<u>-</u>	<u>85,207</u>	<u>85,207</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)</b>				
	<u>(32,700)</u>	<u>17,441</u>	<u>13,264</u>	<u>(4,177)</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>				
	<u>41,895</u>	<u>(90,141)</u>	<u>(90,141)</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>				
	<u>\$ 9,195</u>	<u>\$ (72,700)</u>	<u>\$ (76,877)</u>	<u>\$ (4,177)</u>

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

Mountain Shadows Metropolitan District (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was organized by order and decree of the District Court for the County of Jefferson, Colorado in June 2004 and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes).

The District was organized along with Jefferson Center Metropolitan District No. 1, Jefferson Center Metropolitan District No. 2, Vauxmont Metropolitan District, Cimarron Metropolitan District, and Canyon Pines Metropolitan District (collectively, the Districts) and serves a service area which is located primarily in the City of Arvada, with some portions outside the City in unincorporated Jefferson County. The Districts were established to finance and construct water, sanitary and storm sewer, streets, limited fire protection services, park and recreation, safety protection, mosquito control, television relay and transmission and transportation facilities and services. Jefferson Center Metropolitan District No. 2 (the Service District) is responsible for managing construction, operation and maintenance of certain regional improvements to benefit the service area as well as providing certain administrative services for the Districts. The District is responsible for providing certain funding needed to support the Service District's provision of services as well as providing for its own operations and maintenance and debt service.

The District follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The District is not financially accountable for any other organization, nor is the District a component unit of any other primary governmental entity.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Government-wide and Fund Financial Statements**

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

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Redemption of bonds and developer advances are recorded as a reduction in liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes and specific ownership taxes. All other revenue items are considered to be measurable and available only when cash is received by the District. The District determined that Developer advances are not considered as revenue susceptible to accrual. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is due.

The District reports the following major governmental funds:

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

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

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgets**

In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The appropriation is at the total fund expenditures and other financing uses level and lapses at year end. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The total appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated.

The District has amended its annual budget for the year ended December 31, 2017.

**Pooled Cash and Investments**

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

**Property Taxes**

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

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflow of resources in the year they are levied and measurable. The unearned property tax revenues are recorded as revenue in the year they are available or collected.

**Capital Assets**

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

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

Landscaping	20 years
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**Amortization**

**Original Issue Discount/Premium**

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the new bonds using the effective interest method.

**Cost of Bond Refunding**

In the government-wide financial statements, the deferred cost of bond refunding is being amortized using the interest method over the life of the defeased bonds. The amortization amount is a component of interest expense and the unamortized deferred cost is reflected as a deferred outflow of resources.

**Deferred Inflow/Outflow of Resources**

In addition to assets, the statement of net position reports 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 and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *cost of bond refunding*, is deferred and recognized as an outflow of resources in the period that the amount is incurred.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. Accordingly, the item, *deferred property tax revenue*, is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Equity**

***Net Position***

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

***Fund Balance***

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.
- *Committed fund balance* – The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* – The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the Board of Directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.
- *Unassigned fund balance* – The residual portion of fund balance that does not meet any of the criteria described above.

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

**Deficit Fund Balance**

The General Fund reported a deficit in the fund financial statements as of December 31, 2017. The deficit will be eliminated with the receipt of future property taxes.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS**

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

Statement of net position:	
Cash and investments	\$ 1,441
Cash and investments – Restricted	<u>896,956</u>
Total cash and investments	<u>\$ 898,397</u>

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

Cash	\$ 9,350
Investments	<u>889,047</u>
Total cash and investments	<u>\$ 898,397</u>

**Deposits with Financial Institutions**

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

The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017, the District had a bank balance of \$20,241 and a carrying balance of \$9,350.

**Investments**

The District has not adopted a formal investment policy; however, the District follows state statutes regarding investments.

The District generally limits its concentration of investments to those noted with an asterisk (\*) below, which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, the District is not subject to concentration risk or investment custodial risk disclosure requirements for investments that are in the possession of another party.

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements. Guaranteed investment contracts not purchased with bond proceeds, are limited to maturities of three years or less.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments may invest which include:

- . Obligations of the United States, certain U.S. government agency securities and securities of the World Bank
- . General obligation and revenue bonds of U.S. local government entities
- . Certain certificates of participation
- . Certain securities lending agreements
- . Bankers' acceptances of certain banks
- . Commercial paper
- . Written repurchase agreements and certain reverse repurchase agreements collateralized by certain authorized securities
- . Certain money market funds
- . Guaranteed investment contracts
- \* Local government investment pools

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

<b>Investment</b>	<b>Maturity</b>	<b>Amount</b>
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 660,643
Colorado Local Government Liquid Asset Trust (COLOTRUST)	Weighted average under 60 days	228,404
		<u>\$ 889,047</u>

**CSAFE**

The District invested in the Colorado Surplus Asset Fund Trust (CSAFE) (the Trust), which is an investment vehicle established by state statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. CSAFE may invest in U.S. Treasury securities, repurchase agreements collateralized by U.S. Treasury securities, certain money market funds and highest rated commercial paper. A designated custodial bank serves as custodian for CSAFE's portfolio pursuant to a custodian agreement. The custodian acts as safekeeping agent for CSAFE's investment portfolio and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by CSAFE. CSAFE is rated AAAM by Standard & Poor's. CSAFE records its investments at amortized cost and the District records its investments in CSAFE using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

**COLOTRUST**

The District invested in the Colorado Local Government Liquid Asset Trust (COLOTRUST) (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+. Both portfolios may invest in U.S. Treasury securities and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and any security allowed under CRS 24-75-601. A designated custodial bank serves as custodian for the Trust's portfolios pursuant to a custodian agreement. The custodian acts as safekeeping agent for the Trust's investment portfolios and provides services as the depository in connection with direct investments and withdrawals. The custodian's internal records segregate investments owned by the Trust. COLOTRUST is rated AAAM by Standard & Poor's. COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 4 - CAPITAL ASSETS**

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

	<u>Balance at December 31, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at December 31, 2017</u>
Capital assets, not being depreciated:				
Construction in progress	\$16,906,670	\$13,025,350	\$29,932,020	\$ -
Total capital assets, not being depreciated	<u>16,906,670</u>	<u>13,025,350</u>	<u>29,932,020</u>	<u>-</u>
Capital assets, being depreciated:				
Landscaping	-	1,290,023	-	1,290,023
Total capital assets, being depreciated	<u>-</u>	<u>1,290,023</u>	<u>-</u>	<u>1,290,023</u>
Less accumulated depreciation for:				
Landscaping	-	(32,251)	-	(32,251)
Total accumulated depreciation	<u>-</u>	<u>(32,251)</u>	<u>-</u>	<u>(32,251)</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>1,257,772</u>	<u>-</u>	<u>1,257,772</u>
Governmental activities capital assets, net	<u>\$16,906,670</u>	<u>\$14,283,122</u>	<u>\$29,932,020</u>	<u>\$ 1,257,772</u>

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

General government	<u>\$ 32,251</u>
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Upon completion and acceptance, certain fixed assets are conveyed to other local governments. The District will be responsible for the operation and maintenance of some landscape and park tracts.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 5 - LONG-TERM OBLIGATIONS**

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

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Retirement of Long-Term Obligations</u>	<u>Balance at December 31, 2017</u>	<u>Due Within One Year</u>
G.O. Bonds - Series 2016A	\$ 17,045,000		\$ 195,000	\$ 16,850,000	\$225,000
G.O. Bonds - Series 2016B	3,605,000		-	3,605,000	-
Accrued and unpaid interest -					
Series 2016 B Bonds	191,516	123,489		315,005	-
Bond premium	88,322	-	4,614	83,708	4,573
Developer advances	3,008,120	12,683,128	1,137,241	14,554,007	-
Accrued interest -					
Developer advances	101,102	279,997	-	381,099	-
	<u>\$ 24,039,060</u>	<u>\$ 13,086,614</u>	<u>\$ 1,336,855</u>	<u>\$ 35,788,819</u>	<u>\$229,573</u>

**Series 2016 A & B Bonds**

On March 31, 2016 the District issued \$17,455,000 General Obligation Refunding and Improvement Senior Bonds and \$3,605,000 General Obligation Improvement Subordinate Bonds. The proceeds from the sale of the Senior Bonds were used to: (i) pay the costs of refunding the General Obligation Bonds (Limited Tax Convertible to Unlimited Tax), Series 2007; (ii) finance public improvements related to the Development; and (iii) pay the costs of issuing the Senior Bonds. The proceeds from the sale of the Subordinate Bonds will be used to: (i) finance public improvements related to the Development; and (ii) pay the costs of issuing the Subordinate Bonds.

The Senior Bonds bear interest at 3.25% to 5.00%, payable semi-annually on June 1 and December 1, beginning on June 1, 2016. Annual mandatory sinking fund principal payments are due on December 1, beginning on December 1, 2016. The Senior Bonds mature on December 1, 2046, and are subject to optional redemption on December 1, 2025, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The Senior Bonds are secured by and payable solely from and to the extent of the Senior Pledged Revenue, which includes monies derived from the following, net of costs of collection: (i) the Senior Required Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Senior Required Mill Levy; (iii) the Capital Pledge Agreement Revenue not to exceed \$180,000 in any fiscal year; and (iv) any other legally available amounts that the District may designate, in its sole discretion, held under the Senior Indenture. The Senior Bonds are also secured by amounts accumulated in the Surplus Fund, if any.

Prior to the date the Senior Debt to Assessed Ratio is equal to 50% or less, Senior Pledged Revenue that is not needed to pay debt service on the Senior Bonds in any year will be deposited to and held in the Surplus Fund, up to the Maximum Surplus Amount of \$300,000.

As of December 31, 2017, funds were available for deposit in the Surplus Fund of \$300,428.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

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

The Subordinate Bonds bear interest at 7.5% per annum and payable annually on December 15, but only to the extent of available Subordinate Pledged Revenue. The Subordinate Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal or interest. In the event any amounts due and owing on the Subordinate Bonds remain outstanding on December 15, 2055, such amounts shall be extinguished and no longer be due and outstanding. Unpaid interest on the Subordinate Bonds compounds annually on each December 15.

The Subordinate Bonds are payable solely from and to the extent of the Subordinate Pledged Revenue, which includes monies derived from the following, net of costs of collection: (i) the Required Subordinate Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Subordinate Mill Levy; (iii) the Excess Senior Pledged Revenue; and (iv) any other legally available amounts that the District may designate held under the Subordinate Indenture.

Excess Senior Pledged Revenue is defined as, generally, revenue available for payment of the 2016B Subordinate Bonds that is first pledged to the 2016A Senior Bonds, including Subordinate Capital Pledge Agreement Revenue and amounts released from any surplus funds securing the Senior Bonds. "Subordinate Capital Pledge Agreement Revenue" is defined as, generally, a portion of the tax increment revenues attributable to certain property within the District's boundaries received by the District pursuant to the Capital Pledge Agreement, not to exceed \$180,000 in any fiscal year.

The Senior Indenture provides that a Required Mill Levy (the "Senior Required Mill Levy") be imposed in an amount sufficient, when combined with Capital Pledge Agreement Revenue available or expected to be received before the following December 1st, to pay the principal of, premium if any, and interest on the Senior Bonds, as they become due and payable, but not in excess of 50 mills (subject to adjustment for changes occurring after January 1, 2004, in the method of calculating assessed valuation), and for so long as the Senior Surplus Fund is less than the Maximum Surplus Amount of \$300,000, not less than 40 mills (as adjusted). In the event the minimum mill levy would produce revenue in excess of that required to repay all principal and interest on the Senior Bonds, then such minimum mill levy shall be reduced to a mill levy which will produce revenue sufficient to repay all principal and interest on the Senior Bonds.

Once the Senior Debt to Assessed Ratio is equal to or less than 50%, the Senior Required Mill Levy is defined as a mill levy imposed upon all taxable property of the District each year in an amount, that when combined with Capital Pledge Agreement Revenue available or expected to be received before the following December 1st, will be sufficient to pay the principal of, premium if any, and interest on the Senior Bonds as the same become due and payable, without limitation of rate and in amounts sufficient to make such payments when due. For purposes of the forecast, the current year Senior Debt to Assessed Ratio is calculated based on the outstanding Senior Debt at the end of the current year and the assessed valuation for the subsequent year.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

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

The Subordinate Indenture defines the Required Subordinate Mill Levy as an ad valorem mill levy imposed upon all taxable property of the District in an amount equal to 50 mills (subject to adjustment) less the Senior Required Mill Levy. As a result, the Required Subordinate Mill Levy will be zero for any year in which the Senior Required Mill Levy equals 50 mills (as adjusted).

In 2017 (for 2018 collections), the mill levy was adjusted to 55.277 mills.

The District's long-term obligations relating to the 2016A Senior General Obligation Bonds will mature as follows:

	<b>Governmental Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 225,000	\$ 810,238	\$ 1,035,238
2019	230,000	802,925	1,032,925
2020	260,000	795,450	1,055,450
2021	265,000	787,000	1,052,000
2022	300,000	776,400	1,076,400
2023-2027	1,820,000	3,686,400	5,506,400
2028-2032	2,585,000	3,197,000	5,782,000
2033-2037	3,115,000	2,477,750	5,592,750
2038-2042	3,925,000	1,644,250	5,569,250
2043-2046	4,125,000	531,500	4,656,500
	<u>\$ 16,850,000</u>	<u>\$ 15,508,913</u>	<u>\$ 32,358,913</u>

**Operating Funding Agreement - Alkire Investments, Inc.**

On February 14, 2007, the District and Alkire Investments, Inc. (the Developer) entered into an Operation funding Agreement whereby the Developer will make advances, as necessary and up to an aggregate limit of \$100,000 to fund any anticipated shortfall in revenues available for operations and maintenance expenses from 2007 through 2010. The advances shall be repaid by the District at an interest rate of 7.5% per annum. The term for repayment expires on December 31, 2027. At December 31, 2017, the District owed \$63,714 in principal and \$46,062 in accrued interest.

**Developer Advances Payable - Landscape Maintenance and Operation Funding Agreement**

On January 25, 2011, the District and WCH Investments, LLC entered into a Landscape Maintenance and Operation Funding Agreement effective January 1, 2011. Per the Agreement, WCH Investments, LLC shall make contributions to fund the Annual Landscape Maintenance Shortfall, through the year of stabilization, both as defined in the agreement and will not be reimbursed in the future for these contributions. Per the agreement, the District agrees to collect the Maintenance Fee and beginning in tax year 2011, the District will assess 12 mills on all taxable property in the District for purposes of offsetting WCH Investments, LLC's funding

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

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

obligation thereunder. In addition, WCH Investments, LLC will make advances, as necessary and up to an aggregate limit of \$75,000, to fund any anticipated shortfall in revenues available for operations and maintenance expense from 2011 through 2016. The advances shall be repaid by the District at an interest rate of 7.5% per annum. The term for repayment expires on December 31, 2040. At December 31, 2017, the District owed \$5,748 in principal and \$2,804 in interest.

**Developer Advances Payable - Facilities Acquisition Agreement**

Pursuant to a Facilities Acquisition Agreement dated November 28, 2006, the District has agreed to reimburse Alkire Investments, Inc. for certain infrastructure construction costs within the Mountain Shadows development (aka Wild Grass) up to a maximum of \$18,000,000. Interest accrues until paid at the rate of 7.5% per annum. The term for repayment expires December 31, 2046, unless terminated earlier. As of December 31, 2010, the District had reimbursed \$7,905,505 of a total of \$9,063,286 of these costs, with \$1,152,306 remaining payable and accrued interest of \$127,943. On January 25, 2011, the District and Alkire Investments, Inc. signed a Termination of Facilities Acquisition Agreement effective December 31, 2010, and the remaining amount due will be repaid to WCH Investments, Inc. under the Facilities Funding and Acquisition Agreement explained below.

**Developer Advances Payable - Facilities Funding and Acquisition Agreement - WCH Investments, Inc.**

Pursuant to a Facilities Funding and Acquisition Agreement (WCH FFAA) dated January 25, 2011, effective December 31, 2010, the District has agreed to reimburse WCH Investments, Inc. for the above Alkire Investments, Inc. remaining reimbursable costs, including interest. Also, pursuant to the agreement, WCH Investments, Inc. will fund the cost of construction of improvements paid for by the District for fiscal years 2011 through 2016, up to a maximum of \$100,000. In addition, the District will reimburse WCH Investments, Inc. for certain infrastructure construction costs within the Mountain Shadows development. The District agrees to reimburse WCH Investments, Inc. for all Developer Advances and/or Verified Costs, together with interest thereon up to a maximum amount of \$12,000,000. Interest accrues from the date of the Developer Advances or the date the Verified costs were incurred, until paid at the rate of 7.5% per annum.

Payment under the WCH FFAA has priority over any payments under the WCT FAA described below. The term for repayment expires December 31, 2040, unless terminated earlier. At December 31, 2017, the District owed \$14,399,338 in principal and \$326,910 in accrued interest under this agreement.

**Developer Advances Payable - Operations**

On January 1, 2017, the District and Whisper Creek Two, LLC, (WCT) entered into an operations funding Agreement whereby WCT will make advances, as necessary and up to an aggregate limit of \$91,207 to fund budgeted shortfalls in revenues for operations and maintenance expenses from 2017 through 2018. The advances shall be repaid by the district at an interest rate of 7.5% per annum. The term for repayment expires on December 31, 2056. At December 31, 2017, the District owed \$85,207 in principal and \$5,323 in accrued interest.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

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

**Developer Advances Payable – Facilities Acquisition Agreement – Whisper Creek Two, LLC**

Pursuant to a Facilities Acquisition Agreement (WCT FAA) dated January 25, 2011, effective December 31, 2010, the District has agreed to reimburse Whisper Creek Two, LLC for the reimbursement of verified costs related to the acquisition of improvements up to a maximum amount of \$10,000,000. Interest accrues from the date the Verified Costs were incurred, until paid at the rate of 7.5% per annum. Per the agreement, payments by the District to the Developer shall be applied first to the reimbursement of acquisition of improvements under the WCH FFAA and second under this agreement. The term for repayment expires December 31, 2040, unless terminated earlier. The District has paid off all obligations under this agreement as of December 31, 2017.

**Debt Authorization**

As of December 31, 2016, the District had remaining voted debt authorization of approximately \$19,562,128. Pursuant to the July 26, 2005, Facilities Funding, Construction and Operations Agreement, amended November 28, 2006, December 15, 2009, November 1, 2010, and June 11, 2015 (see Note 8), the District is limited to issuing \$40,000,000 in debt.

In the future, the District may issue a portion or all of the remaining authorized but unissued general obligation debt for purposes of providing public improvements to support development as it occurs within the District's service area.

**NOTE 6 - NET POSITION**

The District has net position consisting of two components: restricted and unrestricted.

The restricted component of net position consists of assets that are 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. The District had a restricted net position as of December 31, 2017, as follows:

	<b>Governmental Activities</b>
Restricted net position:	
Emergencies	\$ 8,300
Capital Projects	562,046
Total	\$ 570,346

The District has a deficit in unrestricted net position. This deficit amount is a result of the District being responsible for the repayment of bonds issued for public improvements, which will be conveyed or were conveyed to other governmental entities.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2017**

**NOTE 7 - RELATED PARTIES**

The Developers of the property which constitutes the District is WCH Investments, LLC and Whisper Creek Two, LLC. The majority of the members of the Board of Directors of the District are owners of or are otherwise associated with the Developers and may have conflicts of interest in dealing with the District.

**NOTE 8 - AGREEMENTS**

**Intergovernmental Agreement**

The Districts entered into a Facilities Funding, Construction and Operations Agreement (FFCOA) on July 26, 2005, as amended on November 28, 2006, December 15, 2009, November 1, 2010, and June 11, 2015, to coordinate the financing, construction, operation and maintenance of the public improvements within the service area of the Districts and to establish the relationship between the respective responsibilities of the Service District and the Financing Districts. The FFCOA provides a framework for the equitable allocation over time among the Districts of the costs of administration of the Districts and the costs of financing, constructing, operating and maintaining the public improvements contemplated therein. The Service District is generally responsible for providing the financing, construction, operations and maintenance of certain primary public infrastructure to serve the entire service area. To the extent none of the financing Districts have elected otherwise, the Service District is also responsible for providing administrative services for the Financing Districts based upon each Financing District's agreement to pay its proportionate share of costs thereof. Effective January 1, 2008, the District elected to perform its own administrative services but shall nonetheless remain obligated to pay their proportionate share of the Service District's direct administrative expenses. Funding for this obligation is provided by the imposition of a maximum general operations mill levy of 3 mills.

The Financing Districts are each generally responsible for financing, constructing, operating, and maintaining the public improvements necessary to serve development within their respective boundaries. The FFCOA provides a limitation on the issuance of indebtedness by the Districts in the amount of \$450 million of total aggregate debt by all of the Districts. Per the FFCOA, the District is limited to issuing \$40,000,000 of debt. The FFCOA is intended to constitute a multiple fiscal year financial obligation of the Districts, and as such, it was submitted to and approved by the electorates of each of the Districts prior to being executed. Per the FFCOA, if on November 1, 2030, the District has not used the full amount of its Debt Allocation by issuing debt in the amounts authorized, the amount of the unissued debt allocation shall automatically revert back to Jefferson Center Metropolitan District No. 1.

**Capital Pledge Agreement**

On November 1, 2010, the District and Jefferson Center Metropolitan District No. 2 (JCMD2) entered into that certain Capital Pledge Agreement (JCMD No. 2/Mountain Shadows – 2010 Capital Pledge Agreement), and amended on May 5, 2015, whereby, in order to facilitate the provision of certain public infrastructure for the benefit of property within the service area of the District and the boundaries of JCMD2, JCMD2 determined to pledge to the District certain tax

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 8 - AGREEMENTS (CONTINUED)**

increment revenues received by JCMD2 pursuant to the Amended and Restated Master Redevelopment Agreement (Amended MRA) dated January 11, 2010, between the City of Arvada, JCMD2 and the Arvada Urban Renewal Authority. Pursuant to the Capital Pledge Agreement, the District is obligated to finance and/or acquire certain facilities described therein and, in exchange for the provision of such facilities, JCMD2 agrees to reimburse the District for the costs associated with such facilities in an amount not to exceed \$7,000,000, plus interest and bond costs.

Interest accrues under the Capital Pledge Agreement at the rate of 8% per annum, computed on the basis of a 365-day year, actual days elapsed. Interest is payable each December 1 and June 1 to the District or its designee.

The reimbursement obligation of JCMD2 under the Capital Pledge Agreement is a limited obligation of JCMD2, payable solely from and to the extent of certain pledged revenues described therein, including 42% of the tax increment revenues received by JCMD2 pursuant to the Amended MRA from certain specifically identified properties within the Northwest Arvada Urban Renewal Area. JCMD2's reimbursement obligation to the District under the Capital Pledge Agreement is further subject to other reimbursement priorities as set forth therein. The Capital Pledge Agreement terminates upon the later of: 1) the date on which reimbursement has been made in full thereunder; or 2) the Northwest Financing Termination Date (as defined in the Amended MRA). As of December 31, 2017, the principal amount of the reimbursement obligation under the Capital Pledge Agreement was \$7,000,000 along with accrued interest in the amount of \$5,503,095.

**NOTE 9 - RISK MANAGEMENT**

Except as provided in the Colorado Governmental Immunity Act, §24-10-101, et seq., C.R.S., the District may be exposed to various risks of loss related to torts; thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees; or acts of God.

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

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.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS**

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

Spending and revenue limits are determined based on the prior year's Fiscal Year Spending adjusted for allowable increases based upon inflation and local growth. Fiscal Year Spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the Fiscal Year Spending limit must be refunded unless the voters approve retention of such revenue.

TABOR requires local governments to establish Emergency Reserves. These reserves must be at least 3% of Fiscal Year Spending (excluding bonded debt service). Local governments are not allowed to use the Emergency Reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases.

On May 4, 2004, the District voters passed an election question allowing the District to increase property taxes up to \$100,000 annually, without limitation of rate, to pay the District's operations, maintenance and other expenses.

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of how to calculate Fiscal Year Spending limits, will require judicial interpretation.

**NOTE 11 - SUBSEQUENT EVENTS**

On March 29, 2018, the District issued its \$1,994,000 Limited Tax Junior Lien Subordinate General Obligation Bonds, Series 2018C-1 (2018C-1 Bonds). The proceeds of the Series 2018C-1 Bonds will be used to: (i) reimburse the Developer or related affiliates for the construction of certain accepted public improvements for the District; (ii) pay the costs of issuing the 2018C-1 Bonds; and (iii) pay the costs of issuing the District's Subordinate Special Revenue Bonds, Series 2018C-2 (2018C-2 Bonds).

The 2018C-1 Bonds bear interest at the rate of 10% per annum, and are payable annually from Junior Lien Pledged Revenue, if any, on December 15, beginning on December 15, 2018, and mature on December 15, 2040. The 2018C-1 Bonds are structured as cash flow bonds meaning that there are no scheduled payments of principal prior to the final maturity date. Unpaid interest on the Series 2018C-1 Bonds compounds annually on each December 15. All of the 2018C-1 Bonds and interest thereon will be deemed to be paid, satisfied and discharged on December 15, 2050 regardless of the amount of principal and interest paid on the 2018C-1 Bonds prior to such Subordinate Termination Date.

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 11 - SUBSEQUENT EVENTS (CONTINUED)**

On March 29, 2018, the District issued its \$3,632,000 Limited Tax Junior Lien Special Revenue Subordinate Bonds, Series 2018C-2 (2018C-2 Bonds). The proceeds of the Series 2018C-2 Bonds will be used to reimburse the Developer or related affiliates for the construction of certain accepted public improvements for the district.

The 2018C-2 Bonds bear interest at the rate of 9% per annum, and are payable annually from all Surplus Capital Pledge Agreement Revenue, and, any other legally available amounts which the District determines, in its absolute discretion, to credit to the 2018C-2 Subordinate Bond Fund on December 15, beginning on December 15, 2018 and maturing on December 15, 2034.

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

**SUPPLEMENTARY INFORMATION**

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2017**

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance- Positive (Negative)</u>
<b>REVENUES</b>			
Property taxes	\$ 765,411	\$ 765,369	\$ (42)
Specific ownership taxes	81,050	98,984	17,934
Urban renewal tax - District mill levy	247,763	229,237	(18,526)
Urban renewal tax - TIF	155,641	317,972	162,331
Net investment income	1,400	9,642	8,242
Total revenues	<u>1,251,265</u>	<u>1,421,204</u>	<u>169,939</u>
<b>EXPENDITURES</b>			
Paying agent fees	3,500	5,500	(2,000)
County Treasurer's fees	11,481	11,483	(2)
Bond interest - Series 2016A	816,575	816,575	-
Bond interest - Series 2016B	173,618	161,614	12,004
Bond principal - Series 2016A	195,000	195,000	-
Contingency	1,160	-	1,160
Total expenditures	<u>1,201,334</u>	<u>1,190,172</u>	<u>11,162</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	49,931	231,032	181,101
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond issuance	-	-	-
Payment to refunding escrow	-	-	-
Transfers from Capital Projects Fund	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)</b>	49,931	231,032	181,101
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>250,069</u>	<u>89,136</u>	<u>(160,933)</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ 300,000</u></u>	<u><u>\$ 320,168</u></u>	<u><u>\$ 20,168</u></u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
Year Ended December 31, 2017**

	Budget Amounts		Actual	Variance- Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Net investment income	\$ -	\$ -	\$ 5,929	\$ 5,929
TIF - daycare parcel	14,000	14,000	76,778	62,778
TIF - prior to 2016	-	-	269,089	269,089
TIF - non pledge	-	-	299,442	299,442
Total revenues	<u>14,000</u>	<u>14,000</u>	<u>651,238</u>	<u>637,238</u>
<b>EXPENDITURES</b>				
Accounting	3,000	3,000	3,300	(300)
Bond issue costs	-	-	-	-
Legal	5,000	5,000	8,505	(3,505)
Capital outlay	-	13,354,759	13,025,350	329,409
Contingency	-	-	-	-
Paying agent fees	-	-	2,000	(2,000)
Engineering	-	-	3,688	(3,688)
Total expenditures	<u>8,000</u>	<u>13,362,759</u>	<u>13,042,843</u>	<u>319,916</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>6,000</u>	<u>(13,348,759)</u>	<u>(12,391,605)</u>	<u>957,154</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond issuance	-	-	-	-
Bond premium	-	-	-	-
Developer advance	-	12,978,570	12,597,921	(380,649)
Repay Developer advances - principal	(2,170,519)	(1,137,241)	(1,137,241)	-
Transfer to Debt Service Fund	-	-	-	-
Total other financing sources (uses)	<u>(2,170,519)</u>	<u>11,841,329</u>	<u>11,460,680</u>	<u>(380,649)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)</b>	<u>(2,164,519)</u>	<u>(1,507,430)</u>	<u>(930,925)</u>	<u>576,505</u>
<b>FUND BALANCES- BEGINNING OF YEAR</b>	<u>2,164,519</u>	<u>1,507,430</u>	<u>1,507,430</u>	<u>-</u>
<b>FUND BALANCES - END OF YEAR</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 576,505</u></u>	<u><u>\$ 576,505</u></u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT**  
**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**  
**December 31, 2017**

**\$17,455,000**

**General Obligation Refunding and Improvement Bonds**  
**(Limited Tax Convertible to Unlimited Tax)**  
**Series 2016A, Dated March 31, 2016**  
**Interest Rate of 3.25% to 5.00%**  
**Payable June 1 and December 1**  
**Principal Due December 1**

<b>Bonds and Interest Maturing in the Year Ending December 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	225,000	810,238	1,035,238
2019	230,000	802,925	1,032,925
2020	260,000	795,450	1,055,450
2021	265,000	787,000	1,052,000
2022	300,000	776,400	1,076,400
2023	310,000	764,400	1,074,400
2024	345,000	752,000	1,097,000
2025	360,000	738,200	1,098,200
2026	395,000	723,800	1,118,800
2027	410,000	708,000	1,118,000
2028	450,000	687,500	1,137,500
2029	475,000	665,000	1,140,000
2030	520,000	641,250	1,161,250
2031	545,000	615,250	1,160,250
2032	595,000	588,000	1,183,000
2033	625,000	558,250	1,183,250
2034	680,000	527,000	1,207,000
2035	560,000	493,000	1,053,000
2036	610,000	465,000	1,075,000
2037	640,000	434,500	1,074,500
2038	695,000	402,500	1,097,500
2039	730,000	367,750	1,097,750
2040	785,000	331,250	1,116,250
2041	825,000	292,000	1,117,000
2042	890,000	250,750	1,140,750
2043	935,000	206,250	1,141,250
2044	1,005,000	159,500	1,164,500
2045	1,055,000	109,250	1,164,250
2046	1,130,000	56,500	1,186,500
	<u>\$ 16,850,000</u>	<u>\$ 15,508,913</u>	<u>\$ 32,358,913</u>

**MOUNTAIN SHADOWS METROPOLITAN DISTRICT  
SCHEDULE OF ASSESSED VALUATION,  
MILL LEVY AND PROPERTY TAXES COLLECTED  
December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Mills Levied</u>		<u>Total Property Taxes</u>		<u>Percentage Collected to Levied</u>
		<u>General</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>	
2013	7,388,417	12.000	50.000	458,082	458,023	99.99%
2014	9,449,247	12.000	50.000	585,853	581,985	99.34%
2015	10,960,598	12.000	50.000	679,557	678,756	99.88%
2016	14,431,147	12.000	50.000	894,731	894,445	99.97%
2017	15,308,226	12.000	50.000	949,110	949,058	99.99%
Estimated for the year ending December 31, 2018	\$ 16,801,826	13.266	55.277	\$ 1,151,648		

**NOTE:**

Property taxes collected in any one year include collection of delinquent property taxes assessed in prior years, as well as reductions for property tax refunds or abatements. Information received from the County Treasurer does not permit identification of specific year of assessment.