

LORSON RANCH METROPOLITAN DISTRICT NO. 1
El Paso County, Colorado

FINANCIAL STATEMENTS
December 31, 2017

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Independent Auditor's Report

Board of Directors
Lorson Ranch Metropolitan District No. 1

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Lorson Ranch Metropolitan District No. 1 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Lorson Ranch Metropolitan District No. 1 as of December 31, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Economic Dependency

The District has not yet established a revenue base sufficient to pay its operational expenditures. As discussed in Note 9, the District is dependent upon the Developer of the District's service area to provide Funds for such expenditures.

Other Matters

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of legal compliance and additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

L. Paul Goedecke P.C.

L. Paul Goedecke, P.C.
September 27, 2018

BASIC FINANCIAL STATEMENTS

LORSON RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF NET POSITION
December 31, 2017

	Governmental Activities
ASSETS	
Cash and investments	\$ 16,326
Cash and investments - Restricted	22,734
Due from other governments	138,846
Due from Developer	44,564
Account receivable - County Treasurer	4
Property taxes receivable	264
Capital assets, not being depreciated	5,517,958
Capital assets, net	1,131,952
Total assets	6,872,648
LIABILITIES	
Accounts payable	20,865
Noncurrent liabilities:	
Due in more than one year	11,035,285
Total liabilities	11,056,150
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	264
Total deferred inflows of resources	264
NET POSITION	
Net investment in capital assets	4,767,393
Restricted for:	
Emergency reserves	9,500
Debt service	24,908
Unrestricted	(8,985,567)
Total net position	\$ (4,183,766)

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

LORSON RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>	
		<u>Charges for</u>	<u>Operating</u>	<u>Capital Grants</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>and</u>	<u>Changes in Net</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Primary government:					
Governmental activities:					
General government	\$ 240,894	\$ -	\$ 551,180	\$ 201,050	\$ 511,336
Interest on long-term debt	1,001,928	-	-	-	(1,001,928)
	<u>\$ 1,242,822</u>	<u>\$ -</u>	<u>\$ 551,180</u>	<u>\$ 201,050</u>	<u>(490,592)</u>
General revenues:					
Property taxes					386
Specific ownership taxes					52
Other					150
Total general revenues					<u>588</u>
Change in net position					(490,004)
Net position - Beginning					<u>(3,693,762)</u>
Net position - Ending					<u>\$ (4,183,766)</u>

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

LORSON RANCH METROPOLITAN DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ -	\$ -	\$ 16,326	\$ 16,326
Cash and investments - Restricted	-	22,734	-	22,734
Due from other governments	136,672	2,174	-	138,846
Due from Developer	44,564	-	-	44,564
Account receivable - County Treasurer	4	-	-	4
Property taxes receivable	264	-	-	264
Total assets	<u>\$ 181,504</u>	<u>\$ 24,908</u>	<u>\$ 16,326</u>	<u>\$ 222,738</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 20,865	\$ -	\$ -	\$ 20,865
DEFERRED INFLOWS OF RESOURCES				
Deferred property tax revenue	264	-	-	264
Total deferred inflows of resources	<u>264</u>	<u>-</u>	<u>-</u>	<u>264</u>
FUND BALANCES				
Restricted for:				
Emergency reserves	9,500	-	-	9,500
Debt service	-	24,908	-	24,908
Assigned to:				
Capital projects	-	-	16,326	16,326
Unassigned	150,875	-	-	150,875
Total fund balances	<u>160,375</u>	<u>24,908</u>	<u>16,326</u>	<u>201,609</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 181,504</u>	<u>\$ 24,908</u>	<u>\$ 16,326</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	6,649,910
Long-term liabilities are not due and payable in the current period and, therefore, are not in the funds.	
Bonds payable	(9,840,166)
Accrued interest on bonds payable	(1,170,856)
Developer advance payable	(21,181)
Accrued interest on Developer advance	(3,082)
Net position of governmental activities	<u>\$ (4,183,766)</u>

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

LORSON RANCH METROPOLITAN DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES				
Intergovernmental revenue - Nos. 2-7	\$ 248,234	\$ 238,239	\$ -	\$ 486,473
Property taxes	386	-	-	386
Specific ownership tax	52	-	-	52
FMIC settlement - Nos. 2-7	62,957	-	-	62,957
Covenant violation fine income	1,750	-	-	1,750
Lien release fee	150	-	-	150
Transportation fees	-	-	151,050	151,050
Park reimbursement fees	-	-	50,000	50,000
Total revenues	<u>313,529</u>	<u>238,239</u>	<u>201,050</u>	<u>752,818</u>
EXPENDITURES				
Accounting	24,711	-	-	24,711
Audit	6,900	-	-	6,900
County Treasurer's fee	6	-	-	6
District management	16,655	-	-	16,655
Dues and subscriptions	969	-	-	969
FMIC payment	95,310	-	-	95,310
Insurance	7,184	-	-	7,184
Landscape maintenance	39,396	-	-	39,396
Legal	29,938	-	-	29,938
Streetlights and entrance electric	38,618	-	-	38,618
Water - landscaping	44,871	-	-	44,871
Bond interest - Series 2012	-	350,000	-	350,000
Paying agent/trustee fees	-	950	-	950
Bond issue costs	-	10,820	-	10,820
Capital outlay	-	-	99,806	99,806
Total expenditures	<u>304,558</u>	<u>361,770</u>	<u>99,806</u>	<u>766,134</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>8,971</u>	<u>(123,531)</u>	<u>101,244</u>	<u>(13,316)</u>
OTHER FINANCING SOURCES (USES)				
Transfer to/from other funds	142,637	-	(142,637)	-
Total other financing sources (uses)	<u>142,637</u>	<u>-</u>	<u>(142,637)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	151,608	(123,531)	(41,393)	(13,316)
FUND BALANCES - BEGINNING OF YEAR	<u>8,767</u>	<u>148,439</u>	<u>57,719</u>	<u>214,925</u>
FUND BALANCES - END OF YEAR	<u>\$ 160,375</u>	<u>\$ 24,908</u>	<u>\$ 16,326</u>	<u>\$ 201,609</u>

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

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

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

Net changes in fund balances - Total governmental funds	\$ (13,316)
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Governmental funds report capital outlays as expenditures. In the statement of activities capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense the allocation of the cost of any depreciable asset over the estimated useful life of the asset. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Capital outlay	99,806
Depreciation	(31,646)

Long-term debt (e.g., bonds, notes, 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.

Accrued interest on bonds - Change in liability	(636,750)
FMIC settlement - Change in liability	93,597

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 advance	<u>(1,695)</u>
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Change in net position of governmental activities	<u><u>\$ (490,004)</u></u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

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

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Intergovernmental revenue - Nos. 2-7	\$ 230,624	248,234	\$ 17,610
Property taxes	386	386	-
Specific ownership tax	39	52	13
FMIC settlement - Nos. 2-7	98,025	62,957	(35,068)
Covenant violation fine income	1,500	1,750	250
Lien release fee	-	150	150
Total revenues	<u>330,574</u>	<u>313,529</u>	<u>(17,045)</u>
EXPENDITURES			
Accounting	25,000	24,711	289
Audit	7,000	6,900	100
County Treasurer's fee	4	6	(2)
District management	20,000	16,655	3,345
Dues and subscriptions	2,000	969	1,031
FMIC payment	98,150	95,310	2,840
Miscellaneous	4,000	-	4,000
Insurance	7,000	7,184	(184)
Landscape maintenance	50,000	39,396	10,604
Legal	25,000	29,938	(4,938)
Repairs and maintenance	5,000	-	5,000
Streetlights and entrance electric	35,000	38,618	(3,618)
Water - landscaping	50,000	44,871	5,129
Total expenditures	<u>328,154</u>	<u>304,558</u>	<u>23,596</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,420</u>	<u>8,971</u>	<u>6,551</u>
OTHER FINANCING SOURCES (USES)			
Transfers to/from other fund	-	142,637	142,637
Total other financing sources (uses)	<u>-</u>	<u>142,637</u>	<u>142,637</u>
NET CHANGE IN FUND BALANCES	2,420	151,608	149,188
FUND BALANCES - BEGINNING OF YEAR	<u>11,925</u>	<u>8,767</u>	<u>(3,158)</u>
FUND BALANCES - END OF YEAR	<u>\$ 14,345</u>	<u>160,375</u>	<u>\$ 146,030</u>

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

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - DEFINITION OF REPORTING ENTITY

Lorson Ranch Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado, was formed on December 2, 2004, and is governed pursuant to provisions of the Colorado Special District Act (Title 32, Article 1, Colorado Revised Statutes). The District's service area is located in El Paso County, Colorado. The District was established to provide financing for the acquisition, construction and installation of streets, traffic and safety controls, parks and recreational facilities, water, storm drainage, sanitation, fire protection, and mosquito control. Under the Consolidated Service Plan, the District is the Service District related to Lorson Ranch Metropolitan District Nos. 2-7 (Districts) as the Financing Districts to serve a new community to be known as Lorson Ranch.

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

The District is not financially accountable for any other organization (including District Nos. 2-7), nor is the District a component unit of any other primary governmental entity.

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.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
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 and indirect expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major sources of revenue susceptible to accrual are property taxes, intergovernmental revenue 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 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets

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

Pooled Cash and Investments

The District follows the practice of pooling cash and investments of all funds to maximize investment earnings. Except when required by trust or other agreements, all cash is deposited to and disbursed from a single 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 and investments.

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 activities column 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.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
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 include in the calculation of the net investment in capital assets component of the District's net position.

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

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

Parks and recreation	
Monumentation and landscaping	40 years

Deferred Inflows of Resources

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

Equity

Net Position

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

Fund Balance

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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.

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	\$ 16,326
Cash and investments - Restricted	<u>22,734</u>
Total cash and investments	<u><u>\$ 39,060</u></u>

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

Deposits with financial institutions	\$ <u><u>39,060</u></u>
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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.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

At December 31, 2017, the District's cash deposits had a bank balance of \$39,141 and a carrying balance of \$39,060.

Investments

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

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

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors. Such actions are generally associated with a debt service reserve or sinking fund requirements.

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

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

As of December 31, 2017, the District had no investments.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
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>
Governmental Activities:				
Capital assets, not being depreciated:				
Land improvements				
Drainage - JCC Channel	\$ 5,517,958	\$ -	\$ -	\$ 5,517,958
Total capital assets, not being depreciated	<u>5,517,958</u>	<u>-</u>	<u>-</u>	<u>5,517,958</u>
Capital assets, being depreciated:				
Parks and recreation	466,765	93,073	-	559,838
Entrance and landscaping	751,389	6,733	-	758,122
Total capital assets, being depreciated	<u>1,218,154</u>	<u>99,806</u>	<u>-</u>	<u>1,317,960</u>
Less accumulated depreciation for:				
Parks and recreation	(38,147)	(12,833)	-	(50,980)
Entrance and landscaping	(116,215)	(18,813)	-	(135,028)
Total accumulated depreciation	<u>(154,362)</u>	<u>(31,646)</u>	<u>-</u>	<u>(186,008)</u>
Total capital assets, being depreciated, net	<u>1,063,792</u>	<u>68,160</u>	<u>-</u>	<u>1,131,952</u>
Governmental activities capital assets, net	<u>\$ 6,581,750</u>	<u>\$ 68,160</u>	<u>\$ -</u>	<u>\$ 6,649,910</u>

The costs of all capital assets transferred to other governmental entities were removed from the District's financial records. There is a two year warranty period on the capital assets conveyed. The District anticipates that the costs associated with the warranty, if any, will be insignificant, and these costs are normally paid by the subcontractors that constructed the agreement.

Depreciation expense for the year ended December 31, 2017, was charged to general government activities.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS

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

	<u>Balance at December 31, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at December 31, 2017</u>	<u>Due Within One Year</u>
Bonds					
Series 2012	\$ 9,840,166	\$ -	\$ -	\$ 9,840,166	-
Accrued interest on Series 2012 bonds	534,106	986,750	350,000	1,170,856	-
FMIC settlement	93,597	1,713	95,310	-	-
Developer advance - Operations:					
Developer advance	11,174	-	-	11,174	-
Accrued interest on Developer advance	479	894	-	1,373	-
Developer advance - Capital:					
Developer advance	10,007	-	-	10,007	-
Accrued interest on Developer advance	908	801	-	1,709	-
	<u>\$ 10,490,437</u>	<u>\$ 990,158</u>	<u>\$ 445,310</u>	<u>\$ 11,035,285</u>	<u>\$ -</u>

\$13,929,164 Limited Tax General Obligation Bonds, Series 2012, dated June 1, 2012, with an annual interest rate of 10%, maturing July 1, 2041, for the purpose of financing and refinancing the public infrastructure. The bonds are payable January 2 and July 1, commencing on January 2, 2013. The bonds are subject to redemption prior to maturity, at the option of the District, on any date upon payment of par and accrued interest, with no redemption premium. The principal and interest on the bonds are payable solely from and to the extent of Pledged Revenues, which may or may not be sufficient to pay the principal and interest on the bonds. The bonds have no set principal payment schedule. The proceeds were used to repay developer advances for operations and maintenance costs and capital costs.

FMIC Settlement

On February 15, 2011, the District Court of El Paso County, Colorado, awarded judgment to Fountain Mutual Irrigation Company (FMIC) in the amount of \$200,672 for damages and \$279,328 for legal, engineering and other costs for a total of \$480,000. The judgment bears interest from November 24, 2010, at the rate of 8% per annum compounded annually. By resolution, the District has resolved to repay the judgment by annually levying a tax, not to exceed 10 mills, until the judgment is discharged. The tax levy commenced with the fiscal year 2012. In 2017, a payment of \$95,310 was made on the judgment which paid off the remaining balance. At December 31, 2017, there was no outstanding balance.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Developer Advances

The District has entered into Funding and Reimbursement Agreements with the Developer as follows:

Funding and Reimbursement Agreement for Operations and Maintenance Costs

On February 10, 2005, the District entered into an agreement with the Lorson North Development Corporation (Developer). The Developer has agreed to advance up to \$290,000 through December 31, 2005, to fund the costs of operations and maintenance. The agreement is subject to renewal on an annual basis as deemed appropriate by the Developer. Such advances include an interest rate of 8.0% and are to be reimbursed by the District with the proceeds of any future bond issues or any other available revenues of the District. Any reimbursement is subject to annual appropriation by the District and is contingent upon the District's ability to generate sufficient revenues, after payment of annual operating expenditures and debt service requirements. On February 13, 2014, the agreement was extended through December 31, 2018. As of December 31, 2017, outstanding principal was \$11,174 and accrued interest due to the Developer was \$1,373.

Funding and Reimbursement Agreement for Capital Costs

On February 10, 2005, the District entered into an agreement with the Lorson North Development Corporation (Developer). The Developer has agreed to advance up to \$9,300,000 through December 31, 2005, to fund the costs of capital projects. The agreement is subject to renewal on an annual basis as deemed appropriate by the Developer. Such advances include an interest rate of 8.0% and are to be reimbursed by the District with the proceeds of any future bond issues or any other available revenues of the District. Any reimbursement is subject to annual appropriation by the District and is contingent upon the District's ability to generate sufficient revenues, after payment of annual operating expenditures and debt service requirements. On February 13, 2014, the agreement was extended through December 31, 2018. As of December 31, 2017, outstanding principal was \$10,007 and accrued interest due to the Developer was \$1,709.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

Authorized Debt

According to the District's Consolidated Service Plan, the District is authorized to issue General Obligation Debt in an amount not to exceed \$300,000,000.

On November 2, 2004, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$2,400,000,000 at an interest rate not to exceed 18% per annum. \$22,589,855 was utilized to issue the bond anticipation notes and \$32,120,309 was utilized to issue Series 2011 and 2012 Bonds. At December 31, 2016, the District had remaining authorized but unissued indebtedness from this election of \$2,345,289,836 for street improvements, traffic controls, parks and recreation, water supply, sanitation, mosquito control, operations and maintenance and debt refunding as follows:

	Amount Authorized on November 2, 2004	Series 2006A BANS	Series 2007 BANS	Series 2011 Bonds	Series 2012 Bonds	Authorized But Unissued
Street improvements	\$ 300,000,000	\$ 2,369,569	\$ 4,581,663	\$ -	\$ 6,856,728	\$ 286,192,040
Traffic controls	300,000,000	-	-	-	-	300,000,000
Parks and recreation	300,000,000	-	90,429	-	602,566	299,307,005
Water supply	300,000,000	2,271,986	1,719,499	-	3,457,201	292,551,314
Sanitation	300,000,000	4,285,518	6,843,427	-	2,432,308	286,438,747
Mosquito control	300,000,000	-	-	-	-	300,000,000
Operations/maintenance	300,000,000	-	427,764	-	580,361	298,991,875
Debt refunding	300,000,000	-	-	18,191,145	-	281,808,855
	<u>\$ 2,400,000,000</u>	<u>\$ 8,927,073</u>	<u>\$ 13,662,782</u>	<u>\$ 18,191,145</u>	<u>\$ 13,929,164</u>	<u>\$ 2,345,289,836</u>

NOTE 6 - NET POSITION

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

Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balance of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of assets. As of December 31, 2017, the District had net investment in capital assets calculated as follows:

Net investment in capital assets:

Capital assets, net	\$ 6,649,910
Noncurrent portion of outstanding long-term obligations	(1,882,517)
Net investment in capital assets	<u>\$ 4,767,393</u>

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - NET POSITION (CONTINUED)

Restricted assets include net position that is restricted for use either externally by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. As of December 31, 2017, the District had restricted net position as follows:

Restricted net position:

Emergencies	\$ 9,500
Debt service	<u>24,908</u>
Total restricted net position	<u><u>\$ 34,408</u></u>

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

NOTE 7 - RELATED PARTIES

The members of the Board of Directors of the District are employees, owners of, or otherwise associated with Lorson North Development Corporation (Developer), the Landhuis Company, Saint Aubyn Homes, LLC and Lorson Investment, LLC, holders of the District's outstanding bonds, and may have conflicts of interest in dealing with the District. See Note 5 concerning advances made by the Developer and Note 2 concerning the receipt of district fees.

The Developer has entered into various construction contracts on behalf of the District. Payments on the contracts are made when progress billings are received.

NOTE 8 - INTERGOVERNMENTAL AGREEMENT

District Facilities Construction and Service Agreement

On January 27, 2005, the District entered into a District Facilities Construction and Service Agreement (Master IGA) with Lorson Ranch Metropolitan District Nos. 2-7 (Financing Districts). Under the terms of the agreement, the Financing Districts will, over a period of years, levy sufficient taxes to pay to the District the costs of construction, acquisition, and equipping of certain public facilities and services and the related operations and maintenance costs.

In return, the District has agreed to acquire, construct, and equip the facilities, provide for their operations and maintenance, and provide service to the property within the District or convey facilities to other entities that will provide the service.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - ECONOMIC DEPENDENCY

The District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, continuation of operations in the District will be dependent upon funding by the Developer.

NOTE 10 - RISK MANAGEMENT

The District is 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, public officials' liability and workers compensation coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS

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

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

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

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.

LORSON RANCH METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 11 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

On November 2, 2004, a majority of the District's electors authorized the District to collect, retain, and spend any revenue from sources other than ad valorem taxes annually without regard to any limitations imposed by TABOR. Additionally, the District is authorized to increase ad valorem taxes annually, up to \$1,000,000 or a lesser amount, as may be needed to pay the District's operations, maintenance, and other expenses, without limitation contained within Article X, Section 20 of the Colorado Constitution.

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

SUPPLEMENTARY INFORMATION

LORSON RANCH METROPOLITAN DISTRICT NO. 1
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 Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Intergovernmental revenue - No. 3	\$ -	\$ 238,239	\$ 238,239
Total revenues	<u>-</u>	<u>238,239</u>	<u>238,239</u>
EXPENDITURES			
Bond interest - Series 2012	1,317,288	350,000	967,288
Paying agent/trustee fees	-	950	(950)
Bond issue costs	-	10,820	(10,820)
Total expenditures	<u>1,317,288</u>	<u>361,770</u>	<u>955,518</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,317,288)</u>	<u>(123,531)</u>	<u>1,193,757</u>
OTHER FINANCING SOURCES (USES)			
Transfers from District No. 3 - Bonds	1,068,487	-	(1,068,487)
Total other financing sources (uses)	<u>1,068,487</u>	<u>-</u>	<u>(1,068,487)</u>
NET CHANGE IN FUND BALANCES	(248,801)	(123,531)	125,270
FUND BALANCES - BEGINNING OF YEAR	<u>248,801</u>	<u>148,439</u>	<u>(100,362)</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 24,908</u>	<u>\$ 24,908</u>

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

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Transporation fees	\$ -	\$ 151,050	\$ 151,050
Park reimbursement fees	145,000	50,000	(95,000)
Bridge fees	5,000	-	(5,000)
Total revenues	<u>150,000</u>	<u>201,050</u>	<u>51,050</u>
EXPENDITURES			
Capital outlay			
Drainage	1,624,000	-	1,624,000
Parks and landscaping	300,000	99,806	200,194
Sanitary sewer	2,030,000	-	2,030,000
Streets	2,436,000	-	2,436,000
Water	2,030,000	-	2,030,000
Total expenditures	<u>8,420,000</u>	<u>99,806</u>	<u>8,320,194</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,270,000)</u>	<u>101,244</u>	<u>8,371,244</u>
OTHER FINANCING SOURCES (USES)			
Transfers from District No. 3 - Bonds	8,420,000	-	(8,420,000)
Transfers to other funds	-	(142,637)	(142,637)
Total other financing sources (uses)	<u>8,420,000</u>	<u>(142,637)</u>	<u>(8,562,637)</u>
NET CHANGE IN FUND BALANCES	150,000	(41,393)	(191,393)
FUND BALANCES - BEGINNING OF YEAR	<u>(50,796)</u>	<u>57,719</u>	<u>108,515</u>
FUND BALANCES - END OF YEAR	<u>\$ 99,204</u>	<u>\$ 16,326</u>	<u>\$ (82,878)</u>