

Mount Carbon Metropolitan District

Financial Statements

Year Ended December 31, 2017

with

Independent Auditors' Report



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Office of the State Auditor

July 30, 2018

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Board of Directors
Mount Carbon Metropolitan District
Jefferson County, Colorado

Independent Auditors' Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Mount Carbon 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general 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 Mount Carbon Metropolitan District 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted the management's discussion and analysis that accounting principles general 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.

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

Stratagem PC
Certified Public Accountants
Lakewood, Colorado

July 26, 2018

Mount Carbon Metropolitan District

BALANCE SHEET/STATEMENT OF NET POSITION GOVERNMENTAL FUNDS December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS						
Cash and investments	\$ 25,041	\$ -	\$ -	\$ 25,041	\$ -	\$ 25,041
Cash and investments - restricted	8,043	461,012	28,005	497,060	-	497,060
Receivable County Treasurer	44	7,498	-	7,542	-	7,542
Property taxes receivable	7,410	1,268,186	-	1,275,596	-	1,275,596
Receivable Developer	136,590	-	24,286	160,876	(160,876)	-
Accounts receivable other	-	1,672	-	1,672	-	1,672
Prepaid expenses	6,024	-	-	6,024	-	6,024
Capital assets, net of depreciation	-	-	-	-	5,281,694	5,281,694
Total Assets	<u>\$ 183,152</u>	<u>\$ 1,738,368</u>	<u>\$ 52,291</u>	<u>\$ 1,973,811</u>	<u>5,120,818</u>	<u>7,094,629</u>
LIABILITIES						
Accounts payable	\$ 43,428	\$ -	\$ 24,286	\$ 67,714	-	67,714
Accounts payable/Town of Morrison	78,953	-	-	78,953	-	78,953
Deposit on Water	26,250	-	-	26,250	-	26,250
Accrued interest	-	-	-	-	21,830,802	21,830,802
Long-term liabilities						
Due within one year	-	-	-	-	580,000	580,000
Due in more than one year	-	-	-	-	16,842,427	16,842,427
Total Liabilities	<u>148,631</u>	<u>-</u>	<u>24,286</u>	<u>172,917</u>	<u>39,253,229</u>	<u>39,426,146</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred property taxes	<u>7,410</u>	<u>1,268,186</u>	<u>-</u>	<u>1,275,596</u>	<u>-</u>	<u>1,275,596</u>
Total Deferred Inflows of Resources	<u>7,410</u>	<u>1,268,186</u>	<u>-</u>	<u>1,275,596</u>	<u>-</u>	<u>1,275,596</u>
FUND BALANCE						
Non-Spendable	6,024	-	-	6,024	(6,024)	-
Restricted:						
Emergencies	8,043	-	-	8,043	(8,043)	-
Debt service	-	470,182	-	470,182	(470,182)	-
Capital projects	-	-	28,005	28,005	(28,005)	-
Unassigned	<u>13,044</u>	<u>-</u>	<u>-</u>	<u>13,044</u>	<u>(13,044)</u>	<u>-</u>
Total Fund Balances	<u>27,111</u>	<u>470,182</u>	<u>28,005</u>	<u>525,298</u>	<u>(525,298)</u>	<u>-</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 183,152</u>	<u>\$ 1,738,368</u>	<u>\$ 52,291</u>	<u>\$ 1,973,811</u>		
NET POSITION						
Restricted for:						
Emergencies					8,043	8,043
Debt service					470,182	470,182
Capital projects					28,005	28,005
Unrestricted					<u>(34,113,343)</u>	<u>(34,113,343)</u>
Total Net Position (Deficit)					<u>\$ (33,607,113)</u>	<u>\$ (33,607,113)</u>

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

Mount Carbon Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES GOVERNMENTAL FUNDS For the Year Ended December 31, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES						
Accounting and audit	\$ 14,100	\$ -	\$ 3,050	\$ 17,150	\$ (3,050)	\$ 14,100
Engineering	17,461	-	16,983	34,444	(16,983)	17,461
Insurance	6,324	-	-	6,324	-	6,324
Legal	9,357	-	10,969	20,326	(10,969)	9,357
Planning and Engineering-Jr Wtr	-	-	25,225	25,225	(25,225)	-
Legal- Water	-	-	16,957	16,957	(16,957)	-
Management	17,982	12	1,557	19,551	(1,557)	17,994
Maintenance & Repairs	15,518	-	-	15,518	-	15,518
Miscellaneous expenses	445	-	233	678	(233)	445
Treasurer's fees	89	15,235	-	15,324	-	15,324
Utilities	6,402	-	-	6,402	-	6,402
Directors fees	1,100	-	-	1,100	-	1,100
Water taps	-	-	50,000	50,000	(50,000)	-
Water/Sewer Ops	1,612	-	-	1,612	-	1,612
Sewer Plant Operations Costs	165,517	-	-	165,517	-	165,517
Tap Fee Extension Payment	50,000	-	-	50,000	-	50,000
Interest on developer advance	-	-	-	-	66,735	66,735
Bond principal	-	340,000	-	340,000	(340,000)	-
Bond interest expense	-	439,460	-	439,460	2,193,721	2,633,181
Trustee and other fees	-	5,775	-	5,775	-	5,775
Depreciation	-	-	-	-	162,898	162,898
Total Expenditures	<u>305,907</u>	<u>800,482</u>	<u>124,974</u>	<u>1,231,363</u>	<u>1,958,380</u>	<u>3,189,743</u>
GENERAL REVENUES						
Property taxes	5,912	1,015,124	-	1,021,036	-	1,021,036
Specific ownership taxes	578	99,188	-	99,766	-	99,766
Other income	12,000	-	-	12,000	-	12,000
Interest income	<u>506</u>	<u>1,948</u>	<u>-</u>	<u>2,454</u>	<u>-</u>	<u>2,454</u>
Total General Revenues	<u>18,996</u>	<u>1,116,260</u>	<u>-</u>	<u>1,135,256</u>	<u>-</u>	<u>1,135,256</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
	(286,911)	315,778	(124,974)	(96,107)	(96,107)	-
OTHER FINANCING SOURCES						
Developer advance	<u>291,234</u>	<u>-</u>	<u>125,865</u>	<u>417,099</u>	<u>(417,099)</u>	<u>-</u>
Total Other Financing Sources	<u>291,234</u>	<u>-</u>	<u>125,865</u>	<u>417,099</u>	<u>(417,099)</u>	<u>-</u>
CHANGE IN FUND BALANCE	4,323	315,778	891	320,992	(320,992)	
CHANGE IN NET POSITION					(2,054,487)	(2,054,487)
FUND BALANCE/NET POSITION						
BEGINNING OF YEAR	<u>22,788</u>	<u>154,404</u>	<u>27,114</u>	<u>204,306</u>	<u>(31,756,932)</u>	<u>(31,552,626)</u>
END OF YEAR	<u>\$ 27,111</u>	<u>\$ 470,182</u>	<u>\$ 28,005</u>	<u>\$ 525,298</u>	<u>\$ (34,132,411)</u>	<u>\$ (33,607,113)</u>

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

Mount Carbon Metropolitan District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND For the Year Ended December 31, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 5,763	\$ 5,760	\$ 5,912	\$ 152
Specific ownership taxes	405	500	578	78
Service agreement	12,000	12,000	12,000	-
Interest income	<u>-</u>	<u>500</u>	<u>506</u>	<u>6</u>
Total Revenues	<u>18,168</u>	<u>18,760</u>	<u>18,996</u>	<u>236</u>
EXPENDITURES				
## Accounting and audit	15,000	15,000	14,100	900
Engineering	20,000	18,000	17,461	539
Insurance	5,000	6,324	6,324	-
Legal	20,000	10,000	9,357	643
Maintenance & Repairs	500	10,000	15,518	(5,518)
Management	25,000	20,000	17,982	2,018
Miscellaneous expenses	-	1,000	445	555
Water/Sewer Ops	1,500	1,500	1,612	(112)
Sewer Plant Operations Costs	125,000	135,000	165,517	(30,517)
Tap Fee Extension Payment	-	50,000	50,000	-
Treasurer's fees	86	86	89	(3)
Utilities	5,000	8,000	6,402	1,598
Directors fees	1,000	1,000	1,100	(100)
Contingency	10,000	34,090	-	34,090
Emergency reserve	<u>6,543</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>234,629</u>	<u>310,000</u>	<u>305,907</u>	<u>4,093</u>
CHANGE IN FUND BALANCE	(216,461)	(291,240)	(286,911)	4,329
OTHER FINANCING SOURCES				
Developer advance	<u>216,461</u>	<u>268,452</u>	<u>291,234</u>	<u>22,782</u>
Total Other Financing Sources	<u>216,461</u>	<u>268,452</u>	<u>291,234</u>	<u>22,782</u>
CHANGE IN FUND BALANCE	-	(22,788)	4,323	27,111
FUND BALANCE - BEGINNING OF YEAR	<u>-</u>	<u>22,788</u>	<u>22,788</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,111</u>	<u>\$ 27,111</u>

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

Mount Carbon Metropolitan District

Notes to Financial Statements December 31, 2017

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Mount Carbon Metropolitan District, located in Jefferson County, Colorado, conform to the accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies consistently applied in the preparation of financial statements.

Definition of Reporting Entity

The District was organized on September 14, 1976 as the Mount Carbon Water and Sanitation District and on October 4, 1982, the Service Plan was amended and the District renamed as the Mount Carbon Metropolitan District. The District is a quasi-municipal corporation and political subdivision of the State of Colorado operating under Colorado Special District Act. The District was originally established to provide several services, but these have since been limited to water and sewer facilities, services and programs. The District's primary revenues are property taxes. The District is governed by an elected Board of Directors.

As required by GAAP, these financial statements present the activities of the District, which is legally separate and financially independent of other state and local governments. The District follows the GASB pronouncements which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB sets forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency. The pronouncements also require including a possible component unit if it would be misleading to exclude it.

The District is not financially accountable for any other organization. The District has no component units as defined by the GASB.

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

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

Basis of Presentation

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

The government-wide financial statements (i.e. the statement of net position and the statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities) report information on all of the governmental activities of the District. The statement of net position reports all financial and capital resources of the District. The difference between the (a) assets and deferred outflows of resources and the (b) liabilities and deferred inflows of resources of the District is reported as net position. The statement of activities demonstrates the degree to which expenditures/expenses of the governmental funds are supported by general revenues. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are collected.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The material sources of revenue subject to accrual are property taxes and interest. Expenditures, other than interest on long-term obligations, are recorded when the liability is incurred or the long-term obligation is paid.

Mount Carbon Metropolitan District

Notes to Financial Statements December 31, 2017

The District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources not accounted for and reported in another fund.

Debt Service Fund – The Debt Service Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for principal, interest and other debt related costs.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other assets.

As a general rule, the effect of interfund activity has been eliminated from the statements of net assets.

Budgetary Accounting

Budgets are adopted on a non-GAAP basis for the governmental funds. In accordance with the State Budget Law of Colorado, the District's Board of Directors holds public hearings in the fall of each year to approve the budget and appropriate the funds for the ensuing year. The District's Board of Directors can modify the budget by line item within the total appropriation without notification. The appropriation can only be modified upon completion of notification and publication requirements. The budget includes each fund on its basis of accounting unless otherwise indicated. The appropriation is at the total fund expenditures level and lapses at year end. The District amended its total appropriations in the General Fund from \$234,629 to \$310,000 due to increased Sewer Plant Operations Costs.

Assets, Liabilities and Net Position

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The District estimates that the fair value of all financial instruments at December 31, 2017, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Mount Carbon Metropolitan District

Notes to Financial Statements December 31, 2017

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and short-term investments with maturities of three months or less from the date of acquisition. Investments for the government are reported at fair value.

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

Estimates

The preparation of these financial statements in conformity with GAAP requires the District management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. Deferred property taxes are deferred and recognized as an inflow of resources in the period that the amounts become available.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

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 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 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets 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 using the straight-line method. Depreciation on property that will remain assets of the District is reported on the Statement of Activities as a current charge. Improvements that will be conveyed to other governmental entities are classified as construction in progress and are not depreciated. Land and certain landscaping improvements are not depreciated. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Water distribution system	40 years
Sewage disposal system	40 years
Office equipment	5-10 years

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 30 or if in equal installments, at the taxpayers' election, in February and June. Delinquent taxpayers are notified in July or August and the sales of the resultant tax liens on delinquent properties are generally held in November or December. The County Treasurer remits the taxes collected monthly to the District.

Property taxes, net of estimated uncollectible taxes, are recorded initially as deferred inflows in the year they are levied and measurable since they are not normally available nor are they budgeted as a resource until the subsequent year. The deferred property taxes are recorded as revenue in the subsequent year when they are available or collected.

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

Fund Equity

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Because circumstances differ among governments, not every government or every governmental fund will present all of these components. The following classifications make the nature and extent of the constraints placed on a government's fund balance more transparent:

Nonspendable Fund Balance

Nonspendable fund balance includes amounts that cannot be spent because they are either not spendable in form (such as inventory or prepaids) or are legally or contractually required to be maintained intact. The nonspendable fund balance in the General Fund in the amount of \$6,024 represents prepaid expenditures.

Restricted Fund Balance

The restricted fund balance includes amounts restricted for a specific purpose by external parties such as grantors, bondholders, constitutional provisions or enabling legislation.

The restricted fund balance in the General Fund represents Emergency Reserves that have been provided as required by Article X, Section 20 of the Constitution of the State of Colorado. A total of \$8,043 of the General Fund balance has been restricted in compliance with this requirement.

The restricted fund balance in the Capital Projects Fund in the amount of \$28,005 is restricted for the payment of the costs for capital improvements within the District.

The restricted fund balance in the Debt Service Fund in the amount of \$470,182 is restricted for the payment of long-term debt.

Assigned Fund Balance

Assigned fund balance includes amounts the District intends to use for a specific purpose. Intent can be expressed by the District's Board of Directors or by an official or body to which the Board of Directors delegates the authority.

Committed Fund Balance

The portion of fund balance that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority, the Board of Directors. The constraint may be removed or changed only through formal action of the Board of Directors.

Unassigned Fund Balance

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

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. The District reports three categories of net position, as follows:

Net investment in capital assets – consists of net capital assets, reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets and increased by balances of deferred outflows or resources related to those assets.

Restricted net position – net position is considered restricted if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as federal or state laws. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets.

Unrestricted net position – consists of all other net position that does not meet the definition of the above two components and is available for general use by the District.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District will use the most restrictive net position first.

Note 2: Cash and Investments

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

Statement of Net Position:

Cash and investments	\$ 25,041
Cash and investments – restricted	<u>497,060</u>
Total	\$ <u>522,101</u>

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

Deposits with financial institutions	\$ 16,817
Investment - First American Prime Obligation	466,820
Investments – COLOTRUST	<u>38,464</u>
	\$ <u>522,101</u>

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

Deposits

Custodial Credit Risk

The Colorado Public Deposit Protection Act, (PDPA) requires that all units of local government deposit cash in eligible public depositories. State regulators determine eligibility. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the aggregate uninsured deposits. The State Commissioners for banks and financial services are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools.

The District does not have a formal policy for deposits. None of the District's deposits were exposed to custodial credit risk.

Investments

Investment Valuation

Certain investments are measured at fair value within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are not required to be categorized within the fair value hierarchy. The COLOTRUST investment's value is calculated using the net asset value method (NAV) per share and the investment value of the First American Prime Obligation Fund is calculated using the amortized cost method.

Credit Risk

The District has not adopted a formal investment policy; however the District follows state statutes regarding investments. Colorado statutes specify the types of investments meeting defined rating and risk criteria in which local governments may invest. These investments include obligations of the United States and certain U.S. Government agency entities, certain money market funds, guaranteed investment contracts, and local government investment pools.

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

COLOTRUST

The local government investment pool, Colorado Local Government Liquid Asset Trust (“COLOTRUST”) is rated AAAm by Standard & Poor’s with a weighted average maturity of under 60 days. COLOTRUST is an investment trust/joint ventures established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust.

COLOTRUST records its investments at fair value and the District records its investment in COLOTRUST using the net asset value method. The trusts operate similarly to a money market fund with each share maintaining a value of \$1.00. The Trust offers shares in two portfolios, COLOTRUST PRIME and COLOTRUST PLUS+.

Both investments consist of U.S. Treasury bills and notes and repurchase agreements collateralized by U.S. Treasury securities. COLOTRUST PLUS+ may also invest in certain obligations of U.S. government agencies, highest rated commercial paper and repurchase agreements collateralized by certain obligations of U.S. government agencies.

Designated custodian banks provide safekeeping and depository services to the trusts. Substantially all securities owned by the trusts are held by the Federal Reserve Bank in the accounts maintained for the custodian banks. The custodians’ internal records identify the investments owned by COLOTRUST. At December 31, 2017, the District had \$38,464 invested in COLOTRUST.

First American Prime Obligation Fund

First American Prime Obligation Fund is a money market fund which invests in U. S. Treasury obligations and Corporate Securities. The First American Prime Obligation Fund is rated AAAm by Standard & Poor’s. The average maturity of the underlying securities is 60 days or less. As of December 31, 2017, the District had \$466,820 invested in this fund.

Custodial and Concentration of Credit Risk

None of the District’s investments are subject to custodial or concentration of credit risk.

Interest Rate Risk

Colorado revised statutes limit investment maturities to five years or less unless formally approved by the Board of Directors.

Mount Carbon Metropolitan District

Notes to Financial Statements
December 31, 2017

Note 3: Capital Assets

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

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017
<u>Governmental Type Activities:</u>				
<u>Capital assets not being depreciated:</u>				
Water rights	\$ 1,453,659	\$ 16,957	\$ -	\$ 1,470,616
Water taps	1,478,000	50,000	-	1,528,000
Work in progress	909,020	58,017	-	967,037
Total capital assets not being depreciated:	<u>3,840,679</u>	<u>124,974</u>	<u>-</u>	<u>3,965,653</u>
<u>Capital assets being depreciated:</u>				
Sewer	2,645,023	-	-	2,645,023
Water	3,870,912	-	-	3,870,912
Equipment	<u>6,494</u>	<u>-</u>	<u>-</u>	<u>6,494</u>
Total capital assets:	6,522,429	-	-	6,522,429
Accumulated Depreciation	<u>(5,043,490)</u>	<u>(162,898)</u>	<u>-</u>	<u>(5,206,388)</u>
Net capital assets being depreciated:	<u>1,478,939</u>	<u>(162,898)</u>	<u>-</u>	<u>1,316,041</u>
Government type assets, net	<u><u>\$5,319,618</u></u>	<u><u>\$ (37,924)</u></u>	<u><u>\$ -</u></u>	<u><u>\$5,281,694</u></u>

Note 4: Long Term Debt

A description of the long-term obligations as of December 31, 2017, is as follows:

Limited Tax Revenue Refunding Bonds Series 2004A and Series 2004B - \$4,000,000

In 2004 the District issued \$2,000,000 and \$2,000,000 in Limited Tax Refunding Bonds Series 2004A and Series 2004B, respectively. The Bonds bear interest at 7%, payable semi-annually on June 1 and December 1 through June 1, 2033. From June 1, 2033 through June 1, 2043, the Bonds and any unpaid interest on the Bonds do not accrue interest. Principal not paid by June 2, 2043 shall be deemed to be cancelled.

The 2004A and 2004B Bonds will be subject to mandatory sinking fund redemption on June 1, 2008 and each June 1 thereafter prior to the maturity date of the Bonds, in accordance with the debt service requirements. No principal payments are allowed prior to repayment of draws on the letter of credit and any accrued interest on the Series 2004A, Series 2004B, Series 2004C and Series 2004D Bonds.

Due to the uncertainty of the timing of the principal and interest on the Series 2004A and Series 2004B Bonds, a schedule of the estimated timing of these payments is not available.

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

Limited Tax Revenue Refunding Bonds Series 2004C and Series 2004D - \$12,000,000

In 2004 the District issued \$9,000,000 and \$3,000,000 in Limited Tax Refunding Bonds Series 2004C and Series 2004D, respectively. The Bonds bear interest from 8 % to 9%, payable semi-annually on June 1 and December 1 through June 1, 2033. From June 1, 2033 through June 1, 2043, the Bonds and any unpaid interest on the Bonds do not accrue interest. Principal not paid by June 2, 2043 shall be deemed to be cancelled.

The Series 2004C and Series 2004D Bond payments are subordinate to the right of the holders of the District's Series 2004A and Series 2004B Bonds. The Series 2004C and Series 2004D Bonds were each issued in two separate classes, Superior and Subordinate with different payment terms.

The Series 2004C and Series 2004D Bonds are callable for redemption after the mandatory sinking fund requirements of the Series 2004A and the Series 2004B Bonds have been met and an additional \$900,000 of principal has been redeemed for the Series 2004A and Series 2004B Bonds.

Due to the uncertainty of the timing of the principal and interest on the Series 2004C and Series 2004D Bonds, a schedule of the estimated timing of these payments is not available. In accordance with the Trust Indenture, the District will not be in default in its obligations by reason of failure to pay interest or principal when due if there is insufficient bond tap revenue and ad valorem tax revenue to make such payments.

Reimbursement Agreements

On May 1, 2012, the District entered into a Reimbursement Agreement with Tharaldson Ethanol Plant LLC ("Company"), whereby Company agreed to advance funds to the District based upon a schedule of anticipated funding needs through December 31, 2013 for operating and maintenance costs. The District agreed to reimburse Company the advances plus interest at the Prime Rate plus 1% per annum up to a maximum of 9%. Repayment is subject to annual appropriation, from proceeds received from the sale of District assets or its tax and fee imposition power. In no event shall this Agreement be construed as or constitute a "debt" of the District in such a manner as would violate the Constitution or other laws of the State of Colorado, but shall in all other events constitute a valid and legally binding obligation of the District.

Mount Carbon Metropolitan District
Notes to Financial Statements
December 31, 2017

On May 1, 2012, the District entered into a Reimbursement Agreement with Company, whereby Company agreed to advance funds to the District based upon a schedule of anticipated funding needs through December 31, 2013 for the costs associated with special projects such as water storage protection or sale. The District agreed to reimburse Company the advances plus interest at the Prime Rate plus 1% per annum up to a maximum of 9%. Repayment is subject to annual appropriation, from proceeds received from the sale of District assets or its tax and fee imposition power. In no event shall this Agreement be construed as or constitute a “debt” of the District in such a manner as would violate the Constitution or other laws of the State of Colorado, but shall in all other events constitute a valid and legally binding obligation of the District.

On May 1, 2012, the District entered into a Reimbursement Agreement with Company, whereby Company agreed to advance funds to the District based upon a schedule of anticipated funding needs through December 31, 2013 for the costs associated with the Morrison Wastewater Reclamation Facility. (Note 5) The District agreed to reimburse Company the advances plus interest at the Prime Rate plus 1% per annum up to a maximum of 9%. Repayment is subject to annual appropriation, from proceeds received from the sale of District assets or its tax and fee imposition power. In no event shall this Agreement be construed as or constitute a “debt” of the District in such a manner as would violate the Constitution or other laws of the State of Colorado, but shall in all other events constitute a valid and legally binding obligation of the District.

The Reimbursement Agreements described in this Note 4 have been renewed to provide for the reimbursement of additional developer advances after May 1, 2012 and December 31, 2013 respectively, and on terms that maintain the obligations as not “debt” of the District as described above. The District has also approved a Resolution stating that the payment of the above Reimbursement Agreements has priority over payment of any subsequent reimbursement agreements.

The District has also entered into a Tap Purchase Agreement with Tharaldson Ethanol Plant II wherein the District has sold the rights to acquire water and sewer taps to the company.

Mount Carbon Metropolitan District

Notes to Financial Statements December 31, 2017

The following is an analysis of changes in long-term debt for the period ending December 31, 2017:

	Balance 1/1/2017	Additions	Deletions	Balance 12/31/2017	Current Portion
Series 2004A	\$ 2,000,000	\$ -	\$ 170,000	\$ 1,830,000	\$ 290,000
Series 2004B	2,000,000	-	170,000	1,830,000	290,000
Series 2004C - Superior	368,464	-	-	368,464	-
Series 2004D - Superior	122,822	-	-	122,822	-
Series 2004C - Subordinate	8,631,536	-	-	8,631,536	-
Series 2004D - Subordinate	2,877,178	-	-	2,877,178	-
Developer advances	1,239,388	523,039	-	1,762,427	-
	<u>\$ 17,239,388</u>	<u>\$ 523,039</u>	<u>340,000</u>	<u>\$ 17,422,427</u>	<u>\$ 580,000</u>

As of December 31, 2017, the District had remaining general obligation debt authorization of \$0. The District had voted authority for revenue obligations of up to \$18 million for water purposes and \$18 million for sewer purposes from its November 4, 2008 election. However, the current Service Plan of the District limits the total authority for revenue obligations that may be issued by the District for water and sewer purposes combined to \$18 million. In the future, the District may issue a portion or all of the remaining authorized, but unissued revenue obligations for purposes of providing public improvements to support development of the District's service area, however, as of the date of the financial statement, the amount and timing of any debt issuances is not determinable.

Note 5: Agreements

On October 27, 2008, the District entered into an Intergovernmental Agreement ("IGA") with the Town of Morrison ("Town") for the purchase of up to 2,800 EQR's (Equivalent Residential Units) of water and sewer connections to provide water and sewer service to the property within the District, and the construction of a new Waste Water Treatment Plant ("WWTP").

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

The purchase price of the water consists of two components, the Water Resource Fee and the System Development Fee. The Water Resource Fee will be the lower of, 1.) The prevailing lowest price charged for a single EQR by the Town, but not lower than \$6,500 or 2.) The current Water Resource Fee of \$6,500 adjusted annually by the change in the Consumer Price Index – Denver-Boulder, Colorado Average – All Urban Consumers CPI-U. Except for the purchase of the Aggregate Industries water taps and the Town's existing water taps, the System Development Fee Component will be paid by the District paying 100% of the costs associated with the design and construction of improvements necessary to serve the Property by an increase in the Town's water service capabilities and capacity from 630 EQRs to 3185 EQR's. The 102 Aggregate Industries water taps were purchased on or before November 1, 2009 at a price of \$14,000 per EQR. The Town's existing water taps will be purchased by the District within 90 days of the completion of the WWTP (timing later amended as noted below). The agreement also outlines the design and construction criteria of these improvements.

The District agreed to commence the process of planning for, designing and securing necessary governmental approvals and permits for and constructing a new .35MGD wastewater treatment plant. The District agreed to share the capacity of the facility with the Town who would be entitled to use 150,000 gallons per day of capacity and the District the remaining 200,000 gallons per day of capacity. If the District purchases EQRs from the Town as outlined above, the District will be reimbursed in the form of Water Resource Fee credits equal to the cost and expenses paid for a portion of the new WWTP. The District will receive a credit of \$1,500 against the Water Resource Fee until such time as the total amount of credits equals the portion to be reimbursed.

On April 21, 2009 the IGA was amended to include the Town's right to terminate the agreement if specific EQR purchases and development milestones are not met. On November 1, 2009, the District purchased the 102 water taps from the Town as required.

On April 18, 2012, the District and the Town approved the Second Amendment to the IGA ("Second Amendment"). The Second Amendment includes the following, 1. changes the timing of the purchase by the District of the remaining Town water taps, 2. allows for five one year options to further extend the time period for that purchase, 3. allows the District to use the "design-build" procedure for the construction of the wastewater treatment plant, and 4. requires the District enter into an escrow agreement and deposit \$4,100,000 into a Construction Escrow to be used exclusively for costs of the Morrison Water Reclamation Facility.

On April 30, 2012, the District entered into a contract with Garney Construction for the construction of the Morrison Water Reclamation Facility in the amount of \$3,951,000. The contract is a design-build contract at a firm-fixed price. Funds were subsequently placed in an escrow account with UMB Bank, N.A. for the payment.

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

On May 9, 2012, the District and UMB Bank, N.A. entered into an Escrow Agreement as required by the Second Amendment to the IGA and the District funded \$4,100,000 into the escrow. The escrow agreement outlines the method of withdrawing funds for the payment of costs associated with the Morrison Water Reclamation Facility.

The Town and the District have agreed that the WWTP was completed as of September 4, 2015

Note 6: Bankruptcy Plan

On July 14, 1997, the District filed a voluntary petition for relief under Chapter 9 of the Federal Bankruptcy Code. An order for relief was entered on September 23, 1997. On June 18, 2003 the court issued a confirmation order for the District's Seventh Amended Plan for the Adjustments of Debts. On April 22, 2004, the District's Seventh Amended Plan for the Adjustments of Debts was funded by the plan funder.

The District's plan for the adjustment of debts provided for the treatment of the classes of impaired claims. These claims included payment in cash of 90% of the claims of pre-petition vendors, the payment of principal and interest on the Aurora National Bank note, settlement included the issuance of Series 2004A-D Limited Tax and Refunding Bonds (Note 4).

Proceeds from Series 2004A and 2004B Bonds were used to pay pre-petition vendor claims, principal and interest on the Aurora National Bank note, claims by the Series 1985A Bond trustee and Series 1985A Bondholders who elected a cash out option. Series 2004C and 2004D Bonds were issued to Series 1985A Bond holders who elected to receive pro-rata share based on their Series 1985A Bonds.

Note 7: Economic Dependency

The District has not yet established a revenue base sufficient to pay the District's capital improvement requirements and operational expenditures. Until an independent revenue base is established, continuation of operations in the District and the payment of capital improvement obligations will be dependent upon funding by the developer and or additional revenues from current taxpayers.

Note 8: Tax, Spending and Debt Limitations

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

Mount Carbon Metropolitan District

Notes to Financial Statements December 31, 2017

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.

During the November 1997 election a majority of the District's electors authorized the District to collect and spend or retain in a reserve all currently levied taxes and fees of the District without regard to any limitations under Article X, Section 20 of the Colorado Constitution.

Note 9: Risk Management

Except as provided in the Colorado Governmental Immunity Act, 24-10-101, et seq., CRS, the District may be exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors or omissions; injuries to agents; and natural disasters. The Colorado Special Districts Property and Liability Pool (the Pool) is an organization created by intergovernmental agreement to provide common liability and casualty insurance coverage to its members at a cost that is considered economically appropriate. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District pays annual premiums to the Pool for auto, public official's liability, and property and general liability coverage. In the event aggregated losses incurred by the Pool exceed its amounts recoverable from reinsurance contracts and its accumulated reserves, the District may be called upon to make additional contributions to the Pool on the basis proportionate to other members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

Mount Carbon Metropolitan District

Notes to Financial Statements

December 31, 2017

Note 10: Reconciliation of Government-Wide Financial Statements and Fund Financial Statements

The Government Funds Balance Sheet/Statement of Net Position includes an adjustments column. The adjustments have the following elements:

- 1) Capital improvements used in government activities are not financial resources and, therefore are not reported in the funds; and
- 2) long-term liabilities such as bonds payable, accrued bond interest payable, are not due and payable in the current period and, therefore, are not in the funds.

The Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities includes an adjustments column. The adjustments have the following elements:

- 1) Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of those assets are held as construction in process pending transfer to other governmental entities;
- 2) governmental funds report interest expense on the modified accrual basis; however, interest expense is reported on the full accrual method on the Statement of Activities; and,
- 3) governmental funds report developer advances as revenue.

SUPPLEMENTAL INFORMATION

Mount Carbon Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - DEBT SERVICE FUND For the Year Ended December 31, 2017

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES				
Property taxes	\$ 1,016,508	\$ 1,016,508	\$ 1,015,124	\$ (1,384)
Specific ownership taxes	77,102	97,788	99,188	1,400
Water tap fees	15,000	-	-	-
Interest income	<u>10</u>	<u>1,300</u>	<u>1,948</u>	<u>648</u>
Total Revenues	<u>1,108,620</u>	<u>1,115,596</u>	<u>1,116,260</u>	<u>664</u>
EXPENDITURES				
Trustee fee and other	8,600	8,600	5,775	2,825
Bond interest expense	1,092,496	445,802	439,460	6,342
Bond principal	-	800,000	340,000	460,000
Management	-	350	12	338
Treasurer's fees	<u>15,250</u>	<u>15,248</u>	<u>15,235</u>	<u>13</u>
Total Expenditures	<u>1,116,346</u>	<u>1,270,000</u>	<u>800,482</u>	<u>469,518</u>
CHANGE IN FUND BALANCE	(7,726)	(154,404)	315,778	470,182
FUND BALANCE - BEGINNING OF YEAR	<u>7,726</u>	<u>154,404</u>	<u>154,404</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 470,182</u>	<u>\$ 470,182</u>

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

Mount Carbon Metropolitan District

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND For the Year Ended December 31, 2017

	Original & Final <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Other income	\$ -	\$ -	\$ -
Total Revenues	-	-	-
EXPENDITURES			
Accounting and audit	-	3,050	(3,050)
Engineering	-	16,983	(16,983)
Planning and Engineering-Jr Wtr	50,000	25,225	24,775
Legal	-	10,969	(10,969)
Legal- Water	50,000	16,957	33,043
Management	-	1,557	(1,557)
Miscellaneous expenses	-	233	(233)
Water taps	-	50,000	(50,000)
Capital Improvements	5,000,000	-	5,000,000
Total Expenditures	5,100,000	124,974	4,975,026
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,100,000)	(124,974)	4,975,026
OTHER FINANCING SOURCES			
Developer advance	5,100,000	125,865	(4,974,135)
Total Other Financing Sources	5,100,000	125,865	(4,974,135)
CHANGE IN FUND BALANCE	-	891	891
FUND BALANCE - BEGINNING OF YEAR	-	27,114	27,114
FUND BALANCE - END OF YEAR	\$ -	\$ 28,005	\$ 28,005

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