

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1
City of Aurora, Arapahoe County, Colorado**

**FINANCIAL STATEMENTS
December 31, 2017**

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June 6, 2018

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Dazzio & Associates, PC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southlands Metropolitan District No. 1
City of Aurora, Arapahoe County, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of the Southlands Metropolitan District No. 1 as of and for the year December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

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

Other Matters

Required Supplementary Information

Management has omitted 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 opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Southlands Metropolitan District No. 1's basic financial statements. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, for the Debt Service and Capital Projects Funds (the Supplementary Information) and the Schedule of Outstanding Bonded Debt Service Requirements to Maturity, Summary of Assessed Valuation, Mill Levy and Property Taxes Collected, Assessed Valuation of Classes of Property of the District, Taxpayers in the District for 2016, and the Estimated Overlapping General Obligation Debt (the Other Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Other Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Dussio & Associates, P.C.

May 10, 2018

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities
ASSETS	
Cash and investments	\$ 1,279,428
Cash and investments - Restricted	2,595,755
Accounts receivable	87,036
General operations fee receivable	20,025
Prepaid expenses	33,388
Receivable from County Treasurer	28,748
Property taxes receivable	2,918,678
Capital assets, net	
Streets	7,516,409
Park and recreation improvements	3,950,375
Capital assets, not being depreciated	3,652,510
Total assets	22,082,352
DEFERRED OUTFLOWS OF RESOURCES	
Cost of refunding	3,078,593
Total deferred outflows of resources	3,078,593
LIABILITIES	
Accounts payable	156,697
Unearned general operations fee	61,196
Tenant operations fee refund payable	82,312
Retainage payable	161,368
Accrued interest payable	193,227
Noncurrent liabilities:	
Due within one year	612,131
Due in more than one year	51,167,450
Total liabilities	52,434,381
DEFERRED INFLOWS OF RESOURCES	
Property tax revenue	2,918,678
Total deferred inflows of resources	2,918,678
NET POSITION	
Net investment in capital assets	(16,917,616)
Restricted for:	
Emergency reserves	68,200
Debt service	147,927
Capital projects	137,963
Unrestricted	(13,628,588)
Total net position	\$ (30,192,114)

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

SOUTHLANDS 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 (Expenses)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenues and Changes in Net Position</u>
					<u>Governmental Activities</u>
Primary government:					
Government activities:					
General government	\$ 3,414,457	\$ 2,021,284	\$ 98,970	\$ -	\$ (1,294,203)
Interest and related costs on long-term debt	3,191,997	-	-	-	(3,191,997)
	<u>\$ 6,606,454</u>	<u>\$ 2,021,284</u>	<u>\$ 98,970</u>	<u>\$ -</u>	<u>(4,486,200)</u>
General revenues:					
Property taxes					4,111,210
Specific ownership taxes					356,841
Net investment income					57,817
Miscellaneous income					1,456
Total general revenues					<u>4,527,324</u>
Change in net position					41,124
Net position - Beginning					<u>(30,233,238)</u>
Net position - Ending					<u>\$ (30,192,114)</u>

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

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

	General	General Operations Fee	Debt Service	Capital Projects	Total Governmental Funds
ASSETS					
Cash and investments	\$ 941,599	\$ 337,829	\$ -	\$ -	\$ 1,279,428
Cash and investments - Restricted	7,500	60,700	2,205,825	321,730	2,595,755
Accounts receivable	-	87,036	-	-	87,036
General operations fee receivable	-	20,025	-	-	20,025
Prepaid expenses	33,388	-	-	-	33,388
Due from other fund	6,023	-	-	-	6,023
Receivable from County Treasurer	1,587	-	27,161	-	28,748
Property taxes receivable	212,094	-	2,706,584	-	2,918,678
TOTAL ASSETS	<u>\$ 1,202,191</u>	<u>\$ 505,590</u>	<u>\$ 4,939,570</u>	<u>\$ 321,730</u>	<u>\$ 6,969,081</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 15,757	\$ 110,541	\$ 8,000	\$ 22,399	\$ 156,697
Retainage payable	-	-	-	161,368	161,368
Due to other funds	-	-	6,023	-	6,023
Tenant operations fee refund payable	-	82,312	-	-	82,312
Unearned general operations fee	-	61,196	-	-	61,196
Total liabilities	<u>15,757</u>	<u>254,049</u>	<u>14,023</u>	<u>183,767</u>	<u>467,596</u>
DEFERRED INFLOWS OF RESOURCES					
Property tax revenue	<u>212,094</u>	<u>-</u>	<u>2,706,584</u>	<u>-</u>	<u>2,918,678</u>
Total deferred inflows of resources	<u>212,094</u>	<u>-</u>	<u>2,706,584</u>	<u>-</u>	<u>2,918,678</u>
FUND BALANCES					
Nonspendable:					
Prepaid expenses	33,388	-	-	-	33,388
Restricted for:					
Emergency reserves	7,500	60,700	-	-	68,200
Debt service	-	-	2,218,963	-	2,218,963
Capital projects	-	-	-	137,963	137,963
Assigned to:					
Operating reserves	-	190,841	-	-	190,841
Unassigned	933,452	-	-	-	933,452
Total fund balances	<u>974,340</u>	<u>251,541</u>	<u>2,218,963</u>	<u>137,963</u>	<u>3,582,807</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 1,202,191</u>	<u>\$ 505,590</u>	<u>\$ 4,939,570</u>	<u>\$ 321,730</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.

Capital assets, net

15,119,294

Long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported in the funds.

Bonds payable and bond premium

(51,779,581)

Cost of refunding

3,078,593

Accrued interest on bonds payable

(193,227)

Net position of governmental activities

\$ (30,192,114)

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

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

	General	General Operations Fee	Debt Service	Capital Projects	Total Governmental Funds
REVENUES					
Property taxes	\$ 226,946	\$ -	\$ 3,884,264	\$ -	\$ 4,111,210
Specific ownership taxes	19,697	-	337,144	-	356,841
General operations fee	-	2,017,688	-	-	2,017,688
General operations fee - penalty	-	3,596	-	-	3,596
Reimbursed expenditures	-	98,970	-	-	98,970
Net investment income	128	-	56,602	1,087	57,817
Miscellaneous income	1,456	-	-	-	1,456
Total revenues	<u>248,227</u>	<u>2,120,254</u>	<u>4,278,010</u>	<u>1,087</u>	<u>6,647,578</u>
EXPENDITURES					
General					
Accounting	55,426	-	-	-	55,426
Audit	5,100	-	-	-	5,100
County Treasurer's fees	3,399	-	58,171	-	61,570
Billing Services	6,000	-	-	-	6,000
District management	59,351	-	-	-	59,351
Dues and membership	419	-	-	-	419
Insurance and bonds	31,040	-	-	-	31,040
Legal	31,924	-	-	-	31,924
Miscellaneous	552	-	-	-	552
Operations					
Floral	-	410,642	-	-	410,642
Landscape maintenance & irrigation repair	-	189,134	-	-	189,134
Monthly cleaning	-	213,202	-	-	213,202
Pest control	-	1,310	-	-	1,310
Property maintenance	-	114,961	-	-	114,961
Property management	-	35,320	-	-	35,320
Repairs and maintenance	-	178,196	-	-	178,196
Security	-	51,719	-	-	51,719
Signage and décor	-	58,783	-	-	58,783
Snow removal	-	173,078	-	-	173,078
Street lighting/stripping	-	73,154	-	-	73,154
Street repair/ sidewalk	-	173,946	-	-	173,946
Street sweeping	-	22,200	-	-	22,200
Traffic signal maintenance	-	242	-	-	242
Utilities	-	172,826	-	-	172,826
Debt service					
Bond interest - Series 2007	-	-	2,602,363	-	2,602,363
Bond principal - Series 2007	-	-	1,365,000	-	1,365,000
Paying agent fees	-	-	1,500	-	1,500
Bond issue costs	-	-	445,698	-	445,698
Loan interest - Series 2016	-	-	244,956	-	244,956
Contingency	-	-	8,348	-	8,348
Bond refunded - Series 2007	-	-	49,770,000	-	49,770,000
Loan refunded - Series 2016	-	-	4,250,000	-	4,250,000
Capital Outlay	-	-	-	3,581,317	3,581,317
Total expenditures	<u>193,211</u>	<u>1,868,713</u>	<u>58,746,036</u>	<u>3,581,317</u>	<u>64,389,277</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>55,016</u>	<u>251,541</u>	<u>(54,468,026)</u>	<u>(3,580,230)</u>	<u>(57,741,699)</u>
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	-	48,635,000	-	48,635,000
Bond premiums	-	-	3,144,581	-	3,144,581
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>51,779,581</u>	<u>-</u>	<u>51,779,581</u>
NET CHANGE IN FUND BALANCES	55,016	251,541	(2,688,445)	(3,580,230)	(5,962,118)
FUND BALANCES - BEGINNING OF YEAR	919,324	-	4,907,408	3,718,193	9,544,925
FUND BALANCES - END OF YEAR	<u>\$ 974,340</u>	<u>\$ 251,541</u>	<u>\$ 2,218,963</u>	<u>\$ 137,963</u>	<u>\$ 3,582,807</u>

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

**SOUTHLANDS 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 change in fund balances - Total governmental funds	\$ (5,962,118)
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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.

Depreciation expense	(1,352,533)
Capital outlay	3,581,317

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

Bond principal refunded - Series 2007	51,135,000
Loan principal refunded - Series 2016	4,250,000
Unamortized premium - Series 2007	299,671
Unamortized cost of refunding - Series 2007	(3,282,639)
Bond issuance	(48,635,000)
Bond premiums	(3,144,581)
Cost of refunding	3,078,593

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 bonds - Change in liability	73,414
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Changes in net position of governmental activities	\$ <u>41,124</u>
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These financial statements should be read only in connection with
the accompanying notes to financial statements.

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

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 230,040	\$ 230,040	\$ 226,946	\$ (3,094)
Specific ownership taxes	18,403	19,500	19,697	197
Net investment income	-	200	128	(72)
Miscellaneous income	-	1,456	1,456	-
Total revenues	<u>248,443</u>	<u>251,196</u>	<u>248,227</u>	<u>(2,969)</u>
EXPENDITURES				
Accounting	45,000	57,000	55,426	1,574
Audit	5,500	5,100	5,100	-
Billing Services	6,000	6,000	6,000	-
Contingency	11,549	3,990	-	3,990
County Treasurer's fees	3,451	3,451	3,399	52
District management	45,000	57,000	59,351	(2,351)
Dues and membership	1,500	419	419	-
Insurance and bonds	33,000	31,040	31,040	-
Legal	35,000	35,000	31,924	3,076
Miscellaneous	2,000	1,000	552	448
Total expenditures	<u>188,000</u>	<u>200,000</u>	<u>193,211</u>	<u>6,789</u>
NET CHANGE IN FUND BALANCES	60,443	51,196	55,016	3,820
FUND BALANCES - BEGINNING OF YEAR	822,195	919,324	919,324	-
FUND BALANCES - END OF YEAR	<u>\$ 882,638</u>	<u>\$ 970,520</u>	<u>\$ 974,340</u>	<u>\$ 3,820</u>

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

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
GENERAL OPERATIONS FEE FUND
STATEMENT 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			
General operations fee	\$ 2,100,000	\$ 2,017,688	\$ (82,312)
General operations fee - penalty	-	3,596	3,596
Reimbursed expenditures	-	98,970	98,970
Total revenues	<u>2,100,000</u>	<u>2,120,254</u>	<u>20,254</u>
EXPENDITURES			
Contingency	3,020	-	3,020
Floral	118,000	410,642	(292,642)
Landscape maintenance & irrigation repair	180,000	189,134	(9,134)
Monthly cleaning	224,000	213,202	10,798
Pest control	10,000	1,310	8,690
Property maintenance	103,000	114,961	(11,961)
Property management	40,000	35,320	4,680
Repairs and maintenance	233,000	178,196	54,804
Security	53,780	51,719	2,061
Signage and décor	90,000	58,783	31,217
Snow removal	625,000	173,078	451,922
Street repair/ sidewalk	130,000	173,946	(43,946)
Street lighting/stripping	115,000	73,154	41,846
Street sweeping	22,200	22,200	-
Traffic signal maintenance	3,000	242	2,758
Utilities	150,000	172,826	(22,826)
Total expenditures	<u>2,100,000</u>	<u>1,868,713</u>	<u>231,287</u>
NET CHANGE IN FUND BALANCES	-	251,541	251,541
FUND BALANCES - BEGINNING OF YEAR	-	-	-
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 251,541</u>	<u>\$ 251,541</u>

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

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

NOTE 1 - DEFINITION OF REPORTING ENTITY

Southlands Metropolitan District No. 1 (District), a quasi-municipal corporation and political subdivision of the State of Colorado was organized on November 18, 2002, and is governed pursuant to provisions of the Colorado Special District Act. The District's service area is located in the City of Aurora, Arapahoe County, Colorado. The District was established to provide financing for the design, acquisition, construction and installation of public facilities such as water, streets, traffic and safety controls, parks, open space and recreation, sewer and drainage facilities and the operations and maintenance of the District.

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 organizations, 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.

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.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Depreciation is computed and recorded as a functional expense on the statement of activities. Expenditures for property, plant and equipment are shown as increases in assets and redemption of bonds and notes are recorded as a reduction in liabilities.

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

The District reports the following major governmental funds:

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

The General Operations Fee Fund accounts for general operations fees collected from property owners and payments for operations and maintenance expenses.

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.

SOUTHLANDS 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.

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

Pooled Cash and Investments

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

Property Taxes

Property taxes are levied by the District's Board of Directors. The levy is based on assessed valuations determined by the County Assessor generally as of January 1 of each year. The levy is normally set by December 15 by certification to the County Commissioners to put the tax lien on the individual properties as of January 1 of the following year. The County Treasurer collects the determined taxes during the ensuing calendar year. The taxes are payable by April or 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 a deferred inflow of resources in the year they are levied and measurable. The deferred 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 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.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Streets	20 years
Park and recreation improvements	20 years

Accounts Receivable

In the government-wide financial statements, receivables are reported at their gross value and, when appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Resolution Concerning the Imposition of a General Operations Fee

On August 4, 2011, the District adopted the Resolution Concerning the Imposition of a General Operations Fee whereby the District fixed and imposed fees, rates, tolls, charges and penalties for services or facilities provided by the District. Any fee that is not paid in full within fifteen days after the scheduled due date is assessed a late fee of fifteen dollars or up to five percent per month, or a fraction thereof, not to exceed a total of twenty-five percent of the amount due. Interest accrues on any outstanding fee, exclusive of assessed late fees and interest, at the rate of eighteen percent per year.

On March 13, 2014, the District amended the above named resolution to clarify the funding of an operations reserve and capital reserve, and capital replacement costs, as well as costs associated with providing the services, in order that the public facilities may be properly provided and maintained and that the health, safety, and welfare of the District and its inhabitants may be safeguarded.

Amortization

Bond Premium

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Cost of Bond Refunding

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows/Outflows of Resources

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

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

Equity

Net Position

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

Fund Balance

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

- *Nonspendable fund balance* – The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid amounts or inventory) or legally or contractually required to be maintained intact.
- *Restricted fund balance* – The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *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	\$ 1,279,428
Cash and investments - Restricted	<u>2,595,755</u>
	<u>\$ 3,875,183</u>

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

Deposits with financial institutions	\$ 1,670,510
Investments	<u>2,204,673</u>
	<u>\$ 3,875,183</u>

Cash Deposits

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

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

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

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

At December 31, 2017, the District's cash deposits had a bank balance of \$2,241,832 and a carrying balance of \$1,670,510.

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 the following investments:

Investment	Maturity	Amount
Colorado Surplus Asset Fund Trust (CSAFE)	Weighted average under 60 days	\$ 17,408
Fidelity Treasury Fund Class III	Weighted average under 60 day	2,187,265
		<u>\$ 2,204,673</u>

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

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

CSAFE

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

Fidelity Investments

Debt service monies included in the trust accounts at UMB were invested in the Fidelity Treasury Fund Class III (the Fund). This portfolio is a money market mutual fund which invests in U.S. Government Securities, which are fully guaranteed as to principal and interest by the United States, with maturities of 38 days or less and repurchase agreements collateralized by U.S. Government Securities. The Fund is rated AAA-mf by Moody's and AAAM by Standard & Poor's. The Fund records its investments at amortized cost and the District records its investments in the Fund using the amortized cost method. There are no unfunded commitments, the redemption frequency is daily and there is no redemption notice period.

SOUTHLANDS 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>Primary Government</u>	<u>Balance December 31, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2017</u>
Capital assets, not being depreciated:				
Construction in progress	\$ 71,193	\$ 3,581,317	\$ -	\$ 3,652,510
Total capital assets, not being depreciated	<u>71,193</u>	<u>3,581,317</u>	<u>-</u>	<u>3,652,510</u>
Capital assets, being depreciated:				
Streets	18,527,117	-	-	18,527,117
Park and recreation improvements	8,523,542	-	-	8,523,542
Total capital assets, being depreciated	<u>27,050,659</u>	<u>-</u>	<u>-</u>	<u>27,050,659</u>
Less accumulated depreciation for:				
Streets	(10,084,352)	(926,356)	-	(11,010,708)
Park and recreation improvements	(4,146,990)	(426,177)	-	(4,573,167)
Total accumulated depreciation	<u>(14,231,342)</u>	<u>(1,352,533)</u>	<u>-</u>	<u>(15,583,875)</u>
Total capital assets, being depreciated, net	<u>12,819,317</u>	<u>(1,352,533)</u>	<u>-</u>	<u>11,466,784</u>
Capital assets, net	<u>\$ 12,890,510</u>	<u>\$ 2,228,784</u>	<u>\$ -</u>	<u>\$ 15,119,294</u>

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

General government	<u>\$ 1,352,533</u>
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SOUTHLANDS METROPOLITAN DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - LONG-TERM OBLIGATIONS

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

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017	Due Within One Year
G.O. Refunding Bonds - Series 2007	\$ 51,135,000	\$ -	\$ 51,135,000	\$ -	\$ -
G.O. Loan - Series 2016	4,250,000	-	4,250,000	-	-
Unamortized bond premium Series 2007	299,671	-	299,671	-	-
G.O. Refunding Bonds - Series 2017 A-1	-	44,690,000	-	44,690,000	430,000
G.O. Refunding Bonds - Series 2017 A-2	-	3,945,000	-	3,945,000	35,000
Unamortized bond premium Series 2017 A-1	-	2,888,911	-	2,888,911	135,178
Unamortized bond premium Series 2017 A-2	-	255,670	-	255,670	11,953
Total	<u>\$ 55,684,671</u>	<u>\$ 51,779,581</u>	<u>\$ 55,684,671</u>	<u>\$ 51,779,581</u>	<u>\$ 612,131</u>

The details of the District's long-term obligations are as follows:

General Obligation Bonds – Series 2007

\$58,940,000 General Obligation Refunding and Improvement Bonds, Series 2007, with interest of 4.000% to 5.000% consisting of term bonds issued in the amounts of \$8,600,000, \$3,700,000, \$2,000,000, and \$35,470,000 due December 1, 2022, 2027, 2027, and 2034. A portion of the bond proceeds were used to refund the \$35,225,000 2004 Bonds. The bonds maturing on and before December 1, 2017, are not subject to redemption prior to their respective maturity dates. The bonds maturing on and after December 1, 2022, are subject to redemption prior to maturity, at the option of the District, as a whole or in integral multiples of \$1,000, in any order of maturity and in whole or partial maturities, on December 1, 2017, and on any date thereafter, upon payment of par and accrued interest, without redemption premium.

The bonds due December 1, 2022, are subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2018.

The bonds due December 1, 2027, and bearing interest at 4.750% per annum also are subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2023, and on each December 1 thereafter prior to the maturity date of such bonds.

The bonds due December 1, 2027, and bearing interest at 5.000% per annum also are subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2023, and on each December 1 thereafter prior to the maturity date of such bonds.

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

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The bonds due December 1, 2034, are also subject to mandatory sinking fund redemption, in part, by lot, commencing on December 1, 2023, and each December 1 thereafter prior to the maturity date of such bonds.

The bonds are secured by and payable from the Pledged Revenue consisting of monies derived by the District from the following sources, net of any collection costs: 1) the Required Mill Levy, 2) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Required Mill Levy, and 3) any other legally available monies which the District determines to be treated as Pledged Revenue. The bonds are also secured by amounts held by the Trustee in the Reserve Fund. Required Mill Levy means an ad valorem mill levy imposed upon all taxable property of the District each year in an amount sufficient to pay the principal, premium if any, and interest on the bonds as the same become due and payable and to make up any deficiencies in the Reserve Fund. For collection year 2017, the District levied 3.548 mills for the General Fund and 58.000 mills for the Debt Service Fund.

General Obligation Loan – Series 2016

On July 13, 2016, the District entered into a loan agreement with CoBiz Public Finance, Inc. (the “Lender”) regarding its General Obligation Loan Series 2016 (the “Loan”) in the principal amount of \$4,250,000, with an interest rate of 2.54%. The Loan matures on July 13, 2023. Interest payments on the Loan shall be due and payable semi-annually on June 1 and December 1 each year, commencing June 1, 2017. Interest not paid when due shall remain outstanding until paid and shall not compound. Principal payments on the Loan shall be due and payable on December 1 each year, commencing December 1, 2018. Principal not paid when due shall remain outstanding and shall bear interest at the default rate of 5.54%.

The Loan shall not be subject to prepayment by the District, in whole or in part, prior to July 13, 2018. The District may, at its option, prepay the Loan, in whole or part, on July 13, 2018 and on any date thereafter, with 30 days prior written notice to the Lender, at a prepayment price equal to the sum of the outstanding principal with accrued and unpaid interest to the date of prepayment, plus a prepayment premium of 1.0%.

The Loan represents first priority security interest in and to the Pledged Revenue and other collateral to secure the payment of the principal and interest when due on parity with the first priority security interest thereon of the Series 2007 Bonds (the “Bonds”). The Loan constitutes an unlimited tax general obligation of the District secured by full faith and credit of the District and neither the Loan nor the Bonds shall have any priority over each other.

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

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

General Obligation Bonds – Series 2017

On December 1, 2017, the District refunded its General Obligation Refunding and Improvement Bonds, Series 2007 (the 2007 Bonds) and General Obligation Loan, Series 2016 (the 2016 Loan) by the issuance of \$44,690,000 General Obligation Refunding Bonds, Series 2017A-1, and \$3,945,000 General Obligation Refunding Bonds, Series 2017A-2, respectively (the 2017 Bonds). The proceeds were used for the purposes of (i) refunding the 2007 Bonds and 2016 Loan, (ii) funding the debt service reserve requirement (the 2017A-1 Reserve Fund in the amount of \$1,687,625 and the 2017A-2 Reserve Fund in the amount of \$149,750); and (iii) paying costs of issuance of the 2017 Bonds.

The District refunded the 2007 Bonds and 2016 Loan to reduce its debt service mill levy by extending the financing period by another 13 years and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,432,426. The 2007 Bonds and the 2016 Loan were both fully redeemed on December 1, 2017.

The 2017 Bonds, mature on December 1, 2047 with interest rates of 3.000% - 5.000%, are payable semi-annually on June 1 and December 1. The 2017 Bonds maturing on or after December 1, 2037 are subject to redemption prior to maturity, at the option of the District, as whole or in integral multiples of \$5,000, in any order of maturity and in whole or partial maturities, on December 1, 2027 and on any date thereafter, at a redemption price equal to the par amount thereof plus accrued interest to the redemption date.

The 2017 Bonds are general obligations of the District secured by and payable from the Pledged Revenue consisting of moneys derived by the District from the following sources, net of any costs of collection: (i) the Unlimited Mill Levy; (ii) the portion of the Specific Ownership Tax which is collected as a result of the imposition of the Unlimited Mill Levy; and (iii) any other legally available moneys of the District deposited in the Bond Fund or the Reserve Fund.

Approximately 11.5 acres, generally encompassing the Lowe's Home Improvement Warehouse, were excluded from the boundaries of the District on November 7, 2007 (the Excluded Property). Accordingly, the Excluded Property is subject to ad valorem taxes by the District to pay the Series 2017A-1 Bonds but will not be subject to ad valorem taxes to pay the Series 2017A-2 Bonds.

For the purposes of paying the principal and interest on the Bonds, the Board is to annually determine and certify to the County each year in which the 2017 Bonds remain outstanding, in addition to all other taxes, the Unlimited Mill Levy. The 2017 Bonds are not secured by property lying within the District, but rather by, among other things, the District's obligation to annually determine and certify a rate of levy for ad valorem property taxes in an amount sufficient to pay, along with other legally available revenues, the principal and interest on the 2017 Bonds.

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

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

The District's Series 2017A-1 Bonds principal and interest will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 430,000	\$ 2,130,500	\$ 2,560,500
2019	445,000	2,117,600	2,562,600
2020	510,000	2,104,250	2,614,250
2021	525,000	2,088,950	2,613,950
2022	590,000	2,073,200	2,663,200
2023-2027	3,600,000	10,043,350	13,643,350
2028-2032	5,190,000	9,168,000	14,358,000
2033-2037	7,390,000	7,661,750	15,051,750
2038-2042	10,315,000	5,536,500	15,851,500
2043-2047	15,695,000	2,607,000	18,302,000
	<u>\$ 44,690,000</u>	<u>\$ 45,531,100</u>	<u>\$ 90,221,100</u>

The District's Series 2017A-2 Bonds principal and interest will mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 35,000	\$ 188,225	\$ 223,225
2019	40,000	187,175	227,175
2020	45,000	185,975	230,975
2021	45,000	184,625	229,625
2022	50,000	183,275	233,275
2023-2027	315,000	887,875	1,202,875
2028-2032	460,000	810,750	1,270,750
2033-2037	655,000	678,000	1,333,000
2038-2042	910,000	489,500	1,399,500
2043-2047	1,390,000	230,500	1,620,500
	<u>\$ 3,945,000</u>	<u>\$ 4,025,900</u>	<u>\$ 7,970,900</u>

Authorized Debt

On July 16, 2007, the City Council approved an amendment to the service plan, which permits the District to impose an unlimited mill levy and to increase its debt limit to \$60,000,000. On January 11, 2016, the City Council approved a second amendment to the service plan which increases the debt issuance limitation to \$125,000,000.

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

NOTE 5 - LONG-TERM OBLIGATIONS (CONTINUED)

In November 2002, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$113,000,000 at an interest rate not to exceed 18% per annum. In November 2008, a majority of the qualified electors of the District authorized the issuance of indebtedness in an amount not to exceed \$560,000,000 at an interest rate not to exceed 18% per annum. At December 31, 2017, the District had authorized but unissued indebtedness in the following amount for the following purposes:

	Amount Authorized on November 5, 2002	Amount Authorized on November 4, 2008	Authorization Used				Authorized But Unissued
			Series 2004 Bonds	Series 2007 Bonds	Series 2016 Loan	Series 2017 Bonds	
Street improvements	\$ 41,400,000	\$ 40,000,000	\$ 27,310,000	\$ 12,679,958	\$ 4,250,000	\$ -	\$ 37,160,042
Sewer improvements	4,885,000	40,000,000	1,494,000	210,000	-	-	43,181,000
Park and recreation improvements	7,625,000	40,000,000	6,150,000	897,000	-	-	40,578,000
Traffic and safety protection improvements	1,995,000	40,000,000	285,000	-	-	-	41,710,000
Public transportation	2,505,000	40,000,000	-	-	-	-	42,505,000
Water improvements	4,590,000	40,000,000	1,270,000	-	-	-	43,320,000
Mosquito control	-	40,000,000	-	-	-	-	40,000,000
Fire protection	-	40,000,000	-	-	-	-	40,000,000
Television relay and transmission	-	40,000,000	-	-	-	-	40,000,000
Security services	-	40,000,000	-	-	-	-	40,000,000
Operations and maintenance	1,000,000	40,000,000	-	-	-	-	41,000,000
Intergovernmental contracts	-	40,000,000	-	-	-	-	40,000,000
Public improvements operations and maintenance	-	40,000,000	-	-	-	-	40,000,000
Debt refunding	49,000,000	40,000,000	-	8,644,042	-	3,945,000	76,410,958
	<u>\$ 113,000,000</u>	<u>\$ 560,000,000</u>	<u>\$ 36,509,000</u>	<u>\$ 22,431,000</u>	<u>\$ 4,250,000</u>	<u>\$ 3,945,000</u>	<u>\$ 605,865,000</u>

Pursuant to the Service Plan, the District is permitted to issue bond indebtedness of up to \$125,000,000.

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

The 2017A-1 Bonds do not consume any authorized amount because they were issued at a lower interest rate than the Bonds they refunded.

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

NOTE 6 - NET POSITION

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

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

	Governmental Activities
Net investment in capital assets:	
Capital assets, net	\$ 15,119,294
Current portion of long-term obligations	(395,549)
Noncurrent portion of long-term obligations	(33,063,606)
Portion of debt related to restricted cash and investments	<u>1,422,245</u>
	<u>\$ (16,917,616)</u>

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

Restricted net position	
Emergencies	\$ 68,200
Debt service	147,927
Capital projects	<u>137,963</u>
Total restricted net position	<u>\$ 354,090</u>

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

NOTE 7 - RELATED PARTY

Four members of the Board of Directors are employees or contractors directly hired by Northwood Retail LLC. Northwood Retail LLC is the property management company for Northwood Investors. Northwood Investors owns property at Southlands under the following entities: NWSL Town Center LLC, NWSL Power Center LLC, NWSL Developer Parcel LLC, and NWSL Outparcel LLC. Northwood Retail is affiliated with Northwood Investors. These entities and their affiliates may have conflicts of interest in dealing with the District.

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

NOTE 8 - AGREEMENTS

District IGA

The District and Southlands Metropolitan District No. 2 (District No. 2) entered into an Intergovernmental Agreement dated June 30, 2004, and amended pursuant to a first amendment dated December 7, 2004, and second amendment dated August 24, 2007 (the District IGA), concerning the manner in which the Districts are to coordinate the financing, construction, operation and maintenance of certain Regional Improvements contemplated in the Service Plans. The District IGA sets forth the agreement of the Districts with respect to the equitable allocation of costs associated with certain regional improvements, including improvements to Aurora Parkway, Smoky Hill Road, and certain bridge widening and landscape improvements (Regional Improvements). The District IGA indicates that the District and District No. 2 (collectively, the Districts) made a determination that, because development had not yet commenced in District No. 2, the District shall undertake the construction of the Regional Improvements and it is District No. 2's intent to reimburse the District for District No. 2's equitable share of the costs associated with the Regional Improvements upon District No. 2's issuance of bonds in an amount sufficient to reimburse the District, and the Districts agree that it is appropriate to utilize all or a portion of net bond proceeds for reimbursement.

NOTE 9 - 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 and public officials' liability coverage. In the event aggregated losses incurred by the Pool exceed amounts recoverable from reinsurance contracts and funds accumulated by the Pool, the Pool may require additional contributions from the Pool members. Any excess funds which the Pool determines are not needed for purposes of the Pool may be returned to the members pursuant to a distribution formula.

NOTE 10 - 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 that 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.

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

NOTE 10 - TAX, SPENDING AND DEBT LIMITATIONS (CONTINUED)

In November 2002, 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 limitation under TABOR. At the November 2008 election, the District's electors authorized the District to collect, retain, and spend the full amount of taxes, tax increment revenues, tap fees, park fees, facility fees, service charges, inspection charges, administrative charges, grants or any other fees collected or received by the District prior to, through and during 2008 and each fiscal year thereafter, without regard to any limitation under TABOR.

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.

NOTE 11 - SUBSEQUENT EVENT

On April 11, 2017, M & J Wilkow Properties, LLC purchased property at Southlands and has become the new property management company. All members of the Board of Directors are employees or contractors directly hired by M & J Wilkow Properties, LLC.

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

SUPPLEMENTARY INFORMATION

SOUTHLANDS 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>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 3,937,212	\$ 3,937,212	\$ 3,884,264	\$ (52,948)
Specific ownership taxes	314,977	334,300	337,144	2,844
Net investment income	35,000	45,000	56,602	11,602
Total revenues	<u>4,287,189</u>	<u>4,316,512</u>	<u>4,278,010</u>	<u>(38,502)</u>
EXPENDITURES				
Bond interest - Series 2007	2,602,363	2,602,363	2,602,363	-
Bond principal - Series 2007	1,365,000	1,365,000	1,365,000	-
Contingency	4,748	34,014	8,348	25,666
Bond issue costs	-	472,109	445,698	26,411
Loan interest - Series 2016	149,331	244,956	244,956	-
County Treasurer's fees	59,058	59,058	58,171	887
Paying agent fees	2,500	2,500	1,500	1,000
Bond refunded - Series 2007	-	49,770,000	49,770,000	-
Loan refunded - Series 2016	-	4,250,000	4,250,000	-
Total expenditures	<u>4,183,000</u>	<u>58,800,000</u>	<u>58,746,036</u>	<u>53,964</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>104,189</u>	<u>(54,483,488)</u>	<u>(54,468,026)</u>	<u>15,462</u>
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	48,635,000	48,635,000	-
Bond premiums	-	3,144,580	3,144,581	1
Total other financing sources (uses)	<u>-</u>	<u>51,779,580</u>	<u>51,779,581</u>	<u>1</u>
NET CHANGE IN FUND BALANCES	104,189	(2,703,908)	(2,688,445)	15,463
FUND BALANCES -				
BEGINNING OF YEAR	4,989,638	4,907,408	4,907,408	-
FUND BALANCES - END OF YEAR	<u>\$ 5,093,827</u>	<u>\$ 2,203,500</u>	<u>\$ 2,218,963</u>	<u>\$ 15,463</u>

**SOUTHLANDS 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>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Net investment income	\$ -	\$ -	\$ 1,087	\$ 1,087
Total revenues	<u>-</u>	<u>-</u>	<u>1,087</u>	<u>1,087</u>
EXPENDITURES				
Capital outlay	<u>3,489,386</u>	<u>3,700,000</u>	<u>3,581,317</u>	<u>118,683</u>
Total expenditures	<u>3,489,386</u>	<u>3,700,000</u>	<u>3,581,317</u>	<u>118,683</u>
NET CHANGE IN FUND BALANCES	(3,489,386)	(3,700,000)	(3,580,230)	119,770
FUND BALANCES - BEGINNING OF YEAR	<u>3,489,386</u>	<u>3,718,193</u>	<u>3,718,193</u>	<u>-</u>
FUND BALANCES - END OF YEAR	<u>\$ -</u>	<u>\$ 18,193</u>	<u>\$ 137,963</u>	<u>\$ 119,770</u>

OTHER INFORMATION

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF OUTSTANDING BONDED DEBT SERVICE
REQUIREMENTS TO MATURITY
December 31, 2017

\$44,690,000 General Obligation Refunding Bonds
Series 2017 A-1
Dated December 1, 2017
Interest at 3.000%-5.000%
Payable June 1 and December 1
Principal Due December 1

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 430,000	\$ 2,130,500	\$ 2,560,500
2019	445,000	2,117,600	2,562,600
2020	510,000	2,104,250	2,614,250
2021	525,000	2,088,950	2,613,950
2022	590,000	2,073,200	2,663,200
2023	610,000	2,055,500	2,665,500
2024	685,000	2,034,150	2,719,150
2025	705,000	2,010,175	2,715,175
2026	785,000	1,985,500	2,770,500
2027	815,000	1,958,025	2,773,025
2028	895,000	1,929,500	2,824,500
2029	940,000	1,884,750	2,824,750
2030	1,045,000	1,837,750	2,882,750
2031	1,100,000	1,785,500	2,885,500
2032	1,210,000	1,730,500	2,940,500
2033	1,270,000	1,670,000	2,940,000
2034	1,390,000	1,606,500	2,996,500
2035	1,460,000	1,537,000	2,997,000
2036	1,595,000	1,464,000	3,059,000
2037	1,675,000	1,384,250	3,059,250
2038	1,820,000	1,300,500	3,120,500
2039	1,910,000	1,209,500	3,119,500
2040	2,070,000	1,114,000	3,184,000
2041	2,170,000	1,010,500	3,180,500
2042	2,345,000	902,000	3,247,000
2043	2,460,000	784,750	3,244,750
2044	2,650,000	661,750	3,311,750
2045	2,780,000	529,250	3,309,250
2046	2,985,000	390,250	3,375,250
2047	4,820,000	241,000	5,061,000
	<u>\$ 44,690,000</u>	<u>\$ 45,531,100</u>	<u>\$ 90,221,100</u>

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF OUTSTANDING BONDED DEBT SERVICE
REQUIREMENTS TO MATURITY
December 31, 2017

\$3,945,000 General Obligation Refunding Bonds
Series 2017 A-2
Dated December 1, 2017
Interest at 3.000%-5.000%
Payable June 1 and December 1
Principal Due December 1

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 35,000	\$ 188,225	223,225
2019	40,000	187,175	227,175
2020	45,000	185,975	230,975
2021	45,000	184,625	229,625
2022	50,000	183,275	233,275
2023	55,000	181,775	236,775
2024	60,000	179,850	239,850
2025	65,000	177,750	242,750
2026	70,000	175,475	245,475
2027	65,000	173,025	238,025
2028	80,000	170,750	250,750
2029	85,000	166,750	251,750
2030	95,000	162,500	257,500
2031	95,000	157,750	252,750
2032	105,000	153,000	258,000
2033	110,000	147,750	257,750
2034	125,000	142,250	267,250
2035	130,000	136,000	266,000
2036	140,000	129,500	269,500
2037	150,000	122,500	272,500
2038	160,000	115,000	275,000
2039	170,000	107,000	277,000
2040	185,000	98,500	283,500
2041	190,000	89,250	279,250
2042	205,000	79,750	284,750
2043	220,000	69,500	289,500
2044	235,000	58,500	293,500
2045	245,000	46,750	291,750
2046	265,000	34,500	299,500
2047	425,000	21,250	446,250
	<u>\$ 3,945,000</u>	<u>\$ 4,025,900</u>	<u>\$ 7,970,900</u>

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
SCHEDULE OF OUTSTANDING BONDED DEBT SERVICE
REQUIREMENTS TO MATURITY
December 31, 2017

<u>Year</u>	<u>Totals</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 465,000	\$ 2,318,725	\$ 2,783,725
2019	485,000	2,304,775	2,789,775
2020	555,000	2,290,225	2,845,225
2021	570,000	2,273,575	2,843,575
2022	640,000	2,256,475	2,896,475
2023	665,000	2,237,275	2,902,275
2024	745,000	2,214,000	2,959,000
2025	770,000	2,187,925	2,957,925
2026	855,000	2,160,975	3,015,975
2027	880,000	2,131,050	3,011,050
2028	975,000	2,100,250	3,075,250
2029	1,025,000	2,051,500	3,076,500
2030	1,140,000	2,000,250	3,140,250
2031	1,195,000	1,943,250	3,138,250
2032	1,315,000	1,883,500	3,198,500
2033	1,380,000	1,817,750	3,197,750
2034	1,515,000	1,748,750	3,263,750
2035	1,590,000	1,673,000	3,263,000
2036	1,735,000	1,593,500	3,328,500
2037	1,825,000	1,506,750	3,331,750
2038	1,980,000	1,415,500	3,395,500
2039	2,080,000	1,316,500	3,396,500
2040	2,255,000	1,212,500	3,467,500
2041	2,360,000	1,099,750	3,459,750
2042	2,550,000	981,750	3,531,750
2043	2,680,000	854,250	3,534,250
2044	2,885,000	720,250	3,605,250
2045	3,025,000	576,000	3,601,000
2046	3,250,000	424,750	3,674,750
2047	5,245,000	262,250	5,507,250
	<u>\$ 48,635,000</u>	<u>\$ 49,557,000</u>	<u>\$ 98,192,000</u>

**SOUTHLANDS METROPOLITAN DISTRICT NO. 1
SUMMARY OF ASSESSED VALUATION, MILL LEVY
AND PROPERTY TAXES COLLECTED
December 31, 2017**

<u>Year Ended December 31,</u>	<u>Prior Year Assessed Valuation for Current Year Property Tax Levy</u>	<u>Total Mills Levied</u>			<u>Total Property Taxes</u>		<u>Percent Collected to Levied</u>
		<u>General Oper- ations</u>	<u>Debt Service</u>	<u>Levied</u>	<u>Collected</u>		
2013	\$ 69,829,470 (a)	4.190	53.500	\$ 4,015,014	\$ 3,719,378	92.64%	
2014	\$ 62,253,640 (b)	4.314	62.034	\$ 4,103,561	\$ 4,058,128	98.89%	
2015	\$ 61,508,754 (c)	6.348	60.000	\$ 4,062,298	\$ 4,033,456	99.29%	
2016	\$ 71,722,499 (d)	7.548	53.000	\$ 4,319,296	\$ 3,958,189	91.64%	
2017	\$ 67,882,968 (e)	3.548	58.000	\$ 4,167,252	\$ 4,111,210	98.66%	
Estimated for year ending December 31, 2018	\$ 73,934,787 (f)	3.000	36.750	\$ 2,918,678			

NOTE:

Property taxes shown as collected in any one year include collection of delinquent property taxes or abatements of property taxes assessed in prior years. This presentation does not attempt to identify specific years of assessment.

- (a) - Certified Assessed Value of \$3,209,390 is for Arapahoe County debt only.
- (b) - Certified Assessed Value of \$3,033,760 is for Arapahoe County debt only.
- (c) - Certified Assessed Value of \$2,943,457 is for Arapahoe County debt only.
- (d) - Certified Assessed Value of \$3,094,513 is for Arapahoe County debt only.
- (e) - Certified Assessed Value of \$3,046,494 is for Arapahoe County debt only.
- (f) - Certified Assessed Value of \$3,236,755 is for Arapahoe County debt only.

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
ASSESSED VALUATION OF CLASSES OF PROPERTY OF THE DISTRICT
December 31, 2017
(Unaudited)

<u>Class</u>	<u>Total Assessed Valuation</u>	<u>Percent of Total Assessed Valuation</u>
Commercial	\$ 66,191,496	89.53%
Vacant land	392,964	0.53%
Personal property	6,454,187	8.73%
State assessed	896,140	1.21%
	<u>\$ 73,934,787</u>	<u>100.00%</u>

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
TAXPAYERS IN THE DISTRICT
December 31, 2017
(Unaudited)

<u>Taxpayer Name</u>	<u>2017 Assessed Valuation</u>	<u>Percent of Total Assessed Valuation (1)</u>
NWSL TOWN CENTER LLC	\$ 21,525,541	29.11%
WAL-MART REAL ESTATE BUSINESS	6,038,385	8.17%
NWSL POWER CENTER LLC	5,210,140	7.05%
SAM'S CLUB REAL ESTATE	3,756,862	5.08%
LOWES HOME IMPROVEMENT WAREHOUSE *	3,223,130	4.36%
J.C. PENNEY PROPERTIES INC	3,006,710	4.07%
QWEST CORPORATION	785,700	1.06%
AMERICAN MULTI - CINEMA	517,030	0.70%
HEALTH IMAGES AT SOUTHLANDS	201,217	0.27%
PUBLIC SERVICE COLORADO OF COLORADO	97,830	0.13%
	<u>\$ 44,362,545</u>	<u>60.00%</u>

(1) Based on a 2017 certified assessed valuation of \$73,934,787.

SOUTHLANDS METROPOLITAN DISTRICT NO. 1
ESTIMATED OVERLAPPING GENERAL OBLIGATION DEBT
December 31, 2017
(Unaudited)

<u>Entity</u>	<u>2017 Assessed Valuation</u>	<u>Outstanding General Obligation Debt</u>	<u>Outstanding General Obligation Debt Attributed to the District</u>	
			<u>Percent</u>	<u>Debt</u>
City of Aurora	\$ 4,312,984,354	None	1.71%	None
Cherry Creek School District #5	\$ 6,109,584,818	\$ 573,185,000	1.21%	\$ 6,936,365
				<u>\$ 6,936,365</u>