

STETSON RIDGE METROPOLITAN DISTRICT #1

FINANCIAL STATEMENTS

DECEMBER 31, 2017

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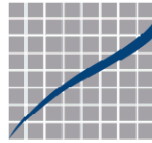
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Office of the State Auditor

July 25, 2018

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BiggsKofford

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Stetson Ridge Metropolitan District #1

Colorado Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Stetson Ridge Metropolitan District #1 ("District") as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2017, 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

Required Supplementary Information

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

BiggsKofford, P.C.

Colorado Springs, Colorado
July 24, 2018

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BASIC FINANCIAL STATEMENTS

STETSON RIDGE METROPOLITAN DISTRICT #1
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities
<u>ASSETS</u>	
Cash and investments	\$ 132,172
Other receivables	13,431
Prepaid expenses	13,846
Capital assets:	
Capital assets, net	898,411
 Total assets	 <u>1,057,860</u>
<u>LIABILITIES</u>	
Accounts payable	21,264
Accrued interest payable	114,158
 Total liabilities	 <u>135,422</u>
<u>NET POSITION</u>	
Net investment in capital assets	784,253
Restricted for:	
Emergency reserve	18,485
Unrestricted	119,700
 Total net position	 <u><u>\$ 922,438</u></u>

The accompanying notes and independent auditor's report
should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #1
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	<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>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT:					
General government	\$ 633,137	\$ -	\$ -	\$ -	\$ (633,137)
Intergovernmental	19,428	-	750,604	-	731,176
Total primary government	\$ 652,565	\$ -	\$ 750,604	\$ -	98,039
GENERAL REVENUES:					
Investment earnings					431
Insurance proceeds					6,826
Total general revenues					7,257
Changes in net position					105,296
Net position, beginning of year					817,142
Net position, end of year					\$ 922,438

The accompanying notes and independent auditor's report should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2017

	General Fund
<u>ASSETS</u>	
Cash and investments	\$ 132,172
Other receivables	13,431
Prepaid expenses	13,846
Total assets	159,449
<u>LIABILITIES</u>	
Accounts payable	21,264
Total liabilities	21,264
<u>FUND BALANCE</u>	
Nonspendable:	
Prepaid expenses	13,846
Restricted for:	
Emergency reserve	18,485
Unassigned:	
General government	105,854
Total fund balances	138,185
Amounts reported in 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	898,411
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:	
Accrued interest payable	(114,158)
Net position of governmental activities	\$ 922,438

The accompanying notes and independent auditor's report should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #1
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUND
YEAR ENDED DECEMBER 31, 2017

	General Fund
<u>REVENUES</u>	
Intergovernmental revenues	\$ 750,604
Net investment income	431
Total revenues	751,035
<u>EXPENDITURES</u>	
Current:	
Repairs and maintenance	255,296
Utilities	232,635
Interest expense	80,604
Intergovernmental expenses	19,428
Insurance	11,714
Management	5,605
Accounting	5,300
Legal	4,817
Dues and agent fees	728
Postage	13
Total expenditures	616,140
Excess of revenues over expenditures	134,895
<u>OTHER FINANCING SOURCES (USES)</u>	
Insurance proceeds	6,826
Total other financing sources	6,826
Net change in fund balances	141,721
Fund balances, beginning of year	(3,536)
Fund balances, end of year	\$ 138,185

The accompanying notes and independent auditor's report
should be read with this financial statement.

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STETSON RIDGE METROPOLITAN DISTRICT #1
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND 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	\$	141,721
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Governmental funds report capital outlays as expenditures. In the statements of activities, capital outlay is not reported as an expenditure. However, the statement of activities will report as depreciation expense, the allocations of the cost of any depreciable assets over the estimated useful lives of the assets. Capital outlay, the conveyance of capital assets to other governments and depreciation expense in the current period are as follows:

Depreciation expense		(117,029)
Costs dedicated to the City of Colorado Springs		-

The issuance of long-term debt (e.g., bonds) provides current financial resources 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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences is the treatment of long-term debt and related items as follows:

Accrued interest on developer advances - change in liability		80,604
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Changes in net position of governmental activities	\$	105,296
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The accompanying notes and independent auditor's report should be read with this financial statement.

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STETSON RIDGE METROPOLITAN DISTRICT #1
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2017

	<u>Budgets</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Intergovernmental revenues	\$ 738,316	\$ 750,604	\$ 750,604	\$ -
Insurance proceeds	-	6,829	-	(6,829)
Net investment income	2	431	431	-
Total revenues	738,318	757,864	751,035	(6,829)
<u>EXPENDITURES</u>				
Repairs and maintenance	318,800	255,296	255,296	-
Utilities	295,600	246,066	232,635	13,431
Interest expense	80,604	80,604	80,604	-
Intergovernmental expenses	19,427	19,428	19,428	-
Insurance	11,717	11,714	11,714	-
Management	6,060	5,605	5,605	-
Accounting	5,300	5,300	5,300	-
Legal	5,995	4,817	4,817	-
Dues and agent fees	750	728	728	-
Postage	-	13	13	-
Total expenditures	744,253	629,571	616,140	13,431
Excess of revenues over (under) expenditures	(5,935)	128,293	134,895	6,602
<u>OTHER FINANCING SOURCES</u>				
Insurance proceeds	-	-	6,826	6,826
Total other financing sources	-	-	6,826	6,826
Net change in fund balance	\$ (5,935)	\$ 128,293	141,721	\$ 13,428
Fund balance, beginning of year			(3,536)	
Fund balance, end of year			\$ 138,185	

The accompanying notes and independent auditor's report
should be read with this financial statement.

STETSON RIDGE METROPOLITAN DISTRICT #1

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

1. DEFINITION OF REPORTING ENTITY

Stetson Ridge Metropolitan District #1 ("District #1"), a quasi-municipal corporation and a political subdivision of the State of Colorado created pursuant to the Colorado Special District Act, was formed in 2000 to manage the construction of all facilities and improvements and for the operation and maintenance of all improvements not dedicated to the City of Colorado Springs, to include providing infrastructure of water, wastewater, streets, landscaping and other improvements for residents and businesses located within District #1's service area. District #1's service area is located in El Paso County, Colorado.

District #1 entered into an intergovernmental agreement with Stetson Ridge Metropolitan District #2 ("District #2") and Stetson Ridge Metropolitan District #3 ("District #3"). District #1 was formed in conjunction with District #2 and District #3 to serve the needs of the Indigo Ranch development for the purpose of financing, construction and operation of improvements and infrastructure serving the districts. District #2 and District #3 are responsible for providing the funding and tax base needed to support the financing plan for capital improvements and to fund ongoing operations. District #2 and District #3 are not component units of District #1.

District #1 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.

District #1 is not financially accountable for any other organization nor is District #1 a component unit of any other primary governmental entity.

District #1 has no employees and all operational and administrative functions are contracted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 District #1. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and fund financial statements (continued)

The statement of net position reports all financial and capital resources of District #1. The difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources of District #1 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.

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 position

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectable within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, District #1 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 intergovernmental revenues. All other revenue items are considered to be measurable and available only when cash is received by District #1. District #1 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.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus, basis of accounting and financial statement position (continued)

District #1 reports the following major governmental funds:

General fund - The general fund is used to account for all financial resources of District #1 except those required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is District #1's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets

In accordance with state budget law, District #1'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. District #1'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.

District #1 amended its annual budget for the year ended December 31, 2017.

Pooled cash and investments

District #1 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.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

Capital assets are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by District #1 as assets with initial individual cost of more than \$5,000 and estimated useful lives in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred. At the time of retirement or disposition of depreciable assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in revenues or expenses.

Depreciation expense has been computed on the landscaping and perimeter fencing using the straight-line method over the estimated economic useful lives of twenty years.

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 balances

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 is legally or contractually required to be maintained intact.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity (continued)

Fund balances (continued)

Restricted fund balance - The portion of fund balance that is constrained to being used for a specific purpose by external parties (such as bondholders), constitutional provisions, or enabling legislation.

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

Assigned fund balance - The portion of fund balance that is constrained by the government's intent to be used for specific purposes, but is neither restricted nor committed. Intent is expressed by the board of directors to be used for a specific purpose. Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned fund balance - The residual portion of fund balance that does not meet any of the criteria described above.

If more than one classification of fund balance is available for use when an expenditure is incurred, it is District #1's policy to use the most restrictive classification first.

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	<u>\$ 132,172</u>
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Cash and investments as of December 31, 2017 consist of the following:

Deposits with financial institutions	<u>\$ 132,172</u>
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See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. CASH AND INVESTMENTS (CONTINUED)

Deposits with financial institutions

The Colorado Public Deposit Protection Act ("PDPA") requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. The 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 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.

As of December 31, 2017, the District's cash deposits had a bank balance of \$198,611 and a carrying balance of \$132,172.

Investments

District #1 has not adopted a formal investment policy; however, District #1 follows state statutes regarding investments.

District #1 generally limits its concentration of investments to those which are believed to have minimal credit risk, minimal interest rate risk and no foreign currency risk. Additionally, District #1 is not subject to concentration risk disclosure requirements or subject to investment custodial credit risk for investments that are in the possession of another party.

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

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

3. CASH AND INVESTMENTS (CONTINUED)

Investments (continued)

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

- Obligations of the United States and certain United States government agency securities
- Certain international agency securities
- General obligation and revenue bonds of United States local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certificates of deposit in Colorado PDPA approved banks or savings banks
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

Fair value measurement and application

The District categorizes its fair value measurements 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; and Level 3 inputs are significant unobservable inputs.

As of December 31, 2017, District #1 had no investments.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

4. CAPITAL ASSETS

Capital assets consist of landscaping and perimeter fencing. Capital asset activity for the year ended December 31, 2017 is as follows:

	<u>Balance 01/01/17</u>	<u>Additions/ Reclass- ifications</u>	<u>Dispositions/ Reclass- ifications</u>	<u>Balance 12/31/17</u>
Landscaping and perimeter fencing	\$ 2,340,578	\$ -	\$ -	\$ 2,340,578
Less: accumulated depreciation	<u>(1,325,138)</u>	<u>(117,029)</u>	<u>-</u>	<u>(1,442,167)</u>
Capital assets, net	<u>\$ 1,015,440</u>	<u>\$ (117,029)</u>	<u>\$ -</u>	<u>\$ 898,411</u>

Depreciation expense for the year ended December 31, 2017 totaled \$117,029.

5. DEVELOPER LINES OF CREDIT

District #1 has entered into line of credit agreements with a Colorado limited liability company. The proceeds from these lines of credit were used primarily to fund the expenditures related to establishing infrastructure. The lines of credit, which accrued interest at 6% per annum, have been repaid in full. As of December 31, 2017 accrued interest related to the developer lines of credit totaled \$114,158.

Activity for the year ended December 31, 2017 is as follows:

	<u>Balance 01/01/17</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance 12/31/17</u>
Accrued interest payable	<u>\$ 194,762</u>	<u>\$ -</u>	<u>\$ (80,604)</u>	<u>\$ 114,158</u>

6. NET POSITION

District #1 has net position consisting of three components - invested in capital assets, net of related debt; restricted; and unrestricted.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

6. NET POSITION (CONTINUED)

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balance of debt that is attributable to the acquisition, construction, or improvement of those assets.

As of December 31, 2017, District #1 had balances of invested in capital assets, net of related debt as follows:

Invested in capital assets, net of related debt:

Capital assets, net	\$ 898,411
Accrued interest payable	<u>(114,158)</u>

Invested in capital assets, net of related debt	<u><u>\$ 784,253</u></u>
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Restricted position include net positions that are restricted for use either by external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. District #1 had restricted net position of as of December 31, 2017 as follows:

Restricted net position:

Emergencies (see Note 9)	<u><u>\$ 18,485</u></u>
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District #1's unrestricted net position as of December 31, 2017 totaled \$119,700.

7. RELATED PARTIES

Some members of the board of directors are officers, employees or associated with the developers of the property within District #1, District #2 and District #3 and may have conflicts of interest in dealing with District #1.

8. RISK MANAGEMENT

District #1 is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to contractors; or acts of God.

District #1 is a member of the Colorado Special Districts Property and Liability Pool ("Pool") as of December 31, 2017. 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.

See independent auditor's report

STETSON RIDGE METROPOLITAN DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

8. RISK MANAGEMENT (CONTINUED)

District #1 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.

9. TAX, SPENDING AND DEBT LIMITATIONS

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

Spending and revenue limits are determined based on the prior 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. Revenues in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenues. District #1's voters approved a ballot issue allowing District #1 to retain all revenues.

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.

District #1'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 likely require judicial interpretation.

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See independent auditor's report